



Investing In Our Future

An Overview of Nebraska's Education Funding System

Updated September 2018



POLICY INSTITUTE



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Our mission is to improve opportunities for every Nebraskan by providing impartial and precise research, analysis, education and leadership.

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Introduction



Nebraskans are proud of their K-12 education system, and rightly so.

Nebraska students consistently score above the national average on college entrance tests. And the state boasts one of the highest high school graduation rates (86% in the nation, according to the most recent U.S. Department of Education data.¹

Nebraskans view spending on public education justifiably as a long-term investment in the state's future.

It is documented that well-educated workers earn better wages and contribute more to the overall good of the state through taxes they pay on those higher wages. A strong K-12 education system not only expands economic opportunities for all, it helps strengthen the overall economy.

Nebraska's Constitution says the "Legislature shall provide for the free instruction in the common schools of this state," but it does not define how it should be done or how to pay for it.

And while the pride and ownership felt by Nebraskans toward public education have been consistent, so has the debate over how to pay for it in an equitable fashion that affords all students equal educational opportunities.

As the education funding system has evolved, Nebraska has relied more heavily on local sources of revenue such as property taxes to fund its public education. In 2015/16, Nebraska schools were the second most reliant on property taxes as a source of revenue in the country.² That reliance has created problems in trying to make state funding equitable between districts that have high property values on which to draw for tax purposes and those that don't.

Today, the dialogue about how the state can best use education funding to provide adequately for the education of all students is shaped by Nebraska's changing demographics – a declining rural population, skyrocketing agricultural land values and increased student needs in many areas.

Meeting the educational needs of everyone in a large, diverse state like Nebraska will always require vigorous debate and periodic reform.

And while the state must remain committed to local solutions to local issues, those debates and reforms will come easier if there is a shared statewide vision for an adequate, equitable education for all Nebraskans.

This primer is meant to be another tool to help legislators, policymakers and citizens better understand the education finance system in Nebraska with a clear, precise explanation of how Nebraska has paid for K-12 education in the past and how it does so now, and promote a vibrant debate on the vital issues surrounding school funding.

Chapter 1 of this report goes over the history of school funding in Nebraska. Chapter 2 examines how schools are funded today with local, state and federal sources. Chapter 3 looks at spending and tax rate lids the Legislature has set for school districts. Chapter 4 evaluates Nebraska's current school funding system.

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- 1 U.S. Department of Education, Consolidated State Performance Report: Parts I and II for State Formula Grant Programs under the Elementary and Secondary Education Act, as amended in 2001, for reporting on School Year 2015-16, <https://www2.ed.gov/admins/lead/account/consolidated/sy15-16part2/ne.pdf> (accessed April 12, 2018).
 - 2 U.S. Census Bureau, 2016 Public Elementary-Secondary Education Finance Data, <https://www.census.gov/data/tables/2016/econ/school-finances/secondary-education-finance.html> (accessed August 16, 2018).

Chapter 1: History of School Funding

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The primary source of funding Nebraska's schools has always been local property taxes.

And until 1965, the primary means of financing state government came from a general state property tax. That's when the Legislature created the first state income tax, which triggered an existing constitutional mechanism to automatically eliminate the state property tax – and led to a political battle between the state's most powerful economic interests.³

In 1966, the business community convinced voters to repeal the state income tax. The agricultural community countered with its own ballot measure to eliminate the state property tax, which also passed. That left the state without any real source of revenue.

As a compromise in 1967, the Legislature established a state income tax and a state sales tax as sources of revenue for Nebraska. The Legislature also established the state's first comprehensive school funding reform measure – known as the School Foundation and Equalization Act.

The three components of school funding under the new law were:

- **Foundation aid** – Funding based on the number of students attending a school district
- **Equalization aid** – Funding based on property valuation, meant to equalize funding between school districts with different levels of property wealth
- **Incentive aid** – Funding provided to school districts that offered summer school programs, employed teachers with advanced degrees or both

At the time, lawmakers intended to have the state cover 40% of the cost of K-12 education through the School Foundation and Equalization Act. However, the most the state ever covered was 13%, despite several legislative efforts to correct the underfunding of the overall state aid formula.⁴ As a result, schools continued to rely on local property taxes for the bulk of their funding.

Another concern at the time was some districts being seen as "tax havens," where property taxes were lower because the districts included only elementary schools. As a result, a property owner in an elementary-only school district paid significantly less in property taxes than someone in the adjoining K-12 district.

In one of its most controversial attempts to bring more equity to school funding, the Legislature in 1986 passed a measure (LB662) that would have increased the sales tax rate to generate more state revenue for education. It also would have required more than 1,000 school districts to consolidate to address the tax-haven issue. However, since consolidation was seen by many Nebraskans as a potential loss of local control over their schools, voters rejected the measure in a 1986 referendum, leaving the tax haven issue unresolved until 1990.⁵

By the 1988/89 school year, there were significant tax and spending disparities between school districts across the state.

School district property tax levies ranged from \$0.75 to \$3.25 per \$100 of property valuation – with the highest rates in districts with low property wealth. That meant the owner of property valued at \$100,000 for tax purposes would have been paying anywhere from \$750 to \$3,250 a year in property taxes to the local school district, depending on the location of the property.

Even with the much higher tax levies in low-wealth districts, property tax disparities were so large – and state support did so little to address them – that the districts with the most property wealth had more than five times as much total funding per student (\$7,120) as the lowest-wealth district (\$1,313).⁶

The ongoing debate both inside and outside the Legislature over improving school district organization and financing prompted the Legislature to create a 16-member School Finance Review Commission in 1988.

After 18 months of public meetings, public hearings and presentations from staff and outside experts, the commission made five recommendations for a new school finance system:

- Dedicate 20% of all state income-tax revenues to public schools.
- Increase the level of state support to 45% of schools' operating costs, with the goal of reducing the property taxes used to support schools by 20%.
- Implement an equalization-based school aid formula designed to ensure that all school districts have enough money to provide for the needs of their students. The system should measure a school district's wealth by its available state income tax resources and local property tax resources.
- Limit how much public school budgets can grow each year.
- Fund school finance on an ongoing and sustainable basis using increases in the state sales tax, income taxes or both.

In its final report, the commission concluded that "the burden on property for school support is excessive by any standard of measurement, resulting in inequities to taxpayers and a narrow and unstable tax base for schools." It also found that the flawed financing system "does not assure that all students in the state will have equitable access to appropriate and necessary school services."⁷

Around the time the commission issued its recommendations, a group of landowners in Lancaster County filed a lawsuit in district court (*Gould v. Orr*), arguing that the school finance system deprived some students of equal and adequate educational opportunities and failed to provide a uniform, proportionate tax system to help fund schools.

Meanwhile, a group of anti-tax activists launched a ballot initiative to limit increases in overall state and local government spending to 2% a year – which would have kept school spending below what lawmakers had determined was necessary.

The specter of the *Gould* lawsuit and the spending cap initiative prompted the Legislature to pass LB1059 in 1990, a comprehensive education and revenue reform measure known as the Tax Equity and Educational Opportunities Support Act (TEEOSA). The measure increased state support for school districts by attempting to shift a significant portion of K-12 funding from property taxes to state income and sales taxes. It also limited annual growth in school district spending to a range of 4% to 6.5%, which the Legislature can – and has – adjusted periodically.

Also in 1990, the Legislature took a less controversial approach to mandatory school consolidation, requiring each elementary-only district to affiliate with a K-12 district for tax purposes – without forcing them to consolidate physically. It required tax levies in both districts to be identical. Students in elementary-only districts would remain in their local elementary school and then go to high school in the affiliated district.

In 1993, the Nebraska Supreme Court upheld a lower court's dismissal of the *Gould* case, ruling that the state Constitution does not guarantee equal funding of schools. It also ruled that the plaintiffs failed to prove that unequal funding of schools affected the quality of the education students were receiving. However, some observers felt a dissenting opinion in the case left open the possibility for another lawsuit challenging the "adequacy" of education.⁸

Two subsequent events left the issue of educational adequacy to the discretion of the Legislature: the voters' rejection in 1996 of Initiative 411, which would have made a "quality education" a constitutional right; and a 1997 Nebraska Supreme Court decision ruling that questions of what constitutes an "adequate" and "quality" education were political questions that could not be decided by a court of law.⁹

The Cornerstone of Nebraska's Education Funding System: LB1059

LB1059 set the basis for the present state aid formula and replaced the School Foundation and Equalization Act that had been in place since 1967.

While the overall goals of LB1059 mirrored the goals and recommendations of the School Finance Review Commission, its overriding focus was on lowering property taxes.

A member of the commission testified at a legislative hearing that more than 70% of the aggregate cost of running public schools in Nebraska came from local support – such as property taxes – compared to a national average of less than 45%, saying: "While state governments across the United States have assumed a greater responsibility for public education, Nebraska in recent years has gone the other direction ... ".¹⁰

LB1059 raised state sales and income tax rates to broaden the available financial support for public schools, attempting to lessen the reliance on local property taxes, and created the basic concept for the present state aid formula.

That concept (**Needs — Resources = Equalization Aid**) is meant to provide enough state aid to a school district to help make up some of the difference between its needs and the local resources it can tap, such as taxable property. This difference is called "equalization aid."

- **Needs** are what it costs the school district to educate its students.
- **Resources** are the revenue sources – such as taxable property – a school district may access to generate money for educating its students.
- **Equalization Aid** is distributed by the state to help make up the difference between the needs of a school district and its resources.

Following passage of LB1059, Nebraska's business community made an attempt to repeal the legislation by ballot measure in the 1990 general election. Also on the ballot was an attempt to limit overall government spending. Some 56% of the voters supported retaining LB1059, while about 70% rejected the spending cap.

While the basic concept of LB1059 has not changed since 1990, the statutes governing state aid have been tweaked several times. Many of those changes were made to try to direct equalization aid to districts with needs such as high transportation costs, high demand for special education or a large number of students living in poverty.

In addition, the formula used to determine equalization aid has been changed regularly during legislative negotiations to balance the state budget, which often results in less state aid to schools. For example, LB235 (2011) made multiple changes to the formula that reduced state funding an estimated \$189 million in 2011/12 and \$222 million in 2012/13 as part of efforts to reduce the state budget in the wake of the Great Recession. Overall, state aid has declined 8% since 1992/93 as a share of the economy.¹¹

One of the more significant changes since the enactment of LB1059 was the formation of a “Learning Community” in the Omaha area in 2006.¹² It is a group of school districts designed to share and equalize resources while also addressing the challenges of urban education on a broader basis than just one district. It allows school districts to create specialty programs to attract students from across the Learning Community so that each district does not have to offer such programs to a limited student population.

The Learning Community is governed by a coordinating council and had a common property tax levy until 2017. Beginning in 2018/19, the Learning Community districts will receive equalization aid based on their own needs and resources in the formula as opposed to their share of the Learning Community’s collective needs. However, the additional \$0.015 levy the Learning Community can levy for elementary sites and early childhood education programs remains.¹³

3 Michael S. Dulaney, *The History of the Nebraska Tax Equity and Educational Opportunities Support Act* (Dissertation Presented to University of Nebraska), p. 28, March 2007.

4 Id. at 34.

5 2014-2015 Nebraska Blue Book, “Nebraska State Government: Statistics on Constitutional Amendments, Initiated and Referred Measures,” p. 258, October 2016, <http://nebraskalegislature.gov/about/blue-book.php> (accessed August 16, 2018).

6 *Gould v. Orr*, 244 Neb 163, 506 N.W.2d 349 (1993).

7 Nebraska School Financing Review Commission, “Funding Nebraska’s Schools: Toward a More Rational and Equitable School Finance System for the 1990s,” 1990.

8 National Education Access Network, “School Funding Cases in Nebraska,” May 2012.

9 *Nebraska Coalition for Educational Equity and Adequacy Coalition v. Heineman*, 273 Neb. 531, 731 N.W.2d 164 (2007).

10 Nebraska Council of School Administrators, *LB 1059 Committee Hearing Transcripts, January 23, 1990*, p. 22, November 2016, <http://schoolfinance.ncsa.org/teeosa-document-archive> (accessed August 16, 2018).

11 Nebraska Department of Education, *Annual Financial Reports* and US Bureau of Economic Analysis Personal Income data, FY1993-FY2017.

12 The Learning Community of Douglas and Sarpy Counties consists of 11 school districts (Omaha, Elkhorn, Douglas County West, Millard, Ralston, Bennington, Westside, Bellevue, Papillion, Gretna, and South Sarpy).

13 LB 1067. See appendix E for a more detailed explanation of the legislative changes.

Chapter 2: A Closer Look at the Components of School Funding

School districts in Nebraska get revenue from local, state and federal sources.

From all revenue sources combined, Nebraska school districts received \$3.76 billion to finance their general fund operating expenditures¹⁴ in 2016/17.¹⁵

Despite ongoing efforts to increase state support for education and reduce reliance on local property taxes, Nebraska continues to rely heavily on property taxes and other local sources to fund K-12 education.

Over 56% of total school funding came from local sources in 2016/17, as shown in Figure 1.¹⁶ Of that total, 89% came from property taxes collected by school districts – about \$1.87 billion in 2016/17.¹⁷

Figure 1: How Nebraska's Schools are Funded

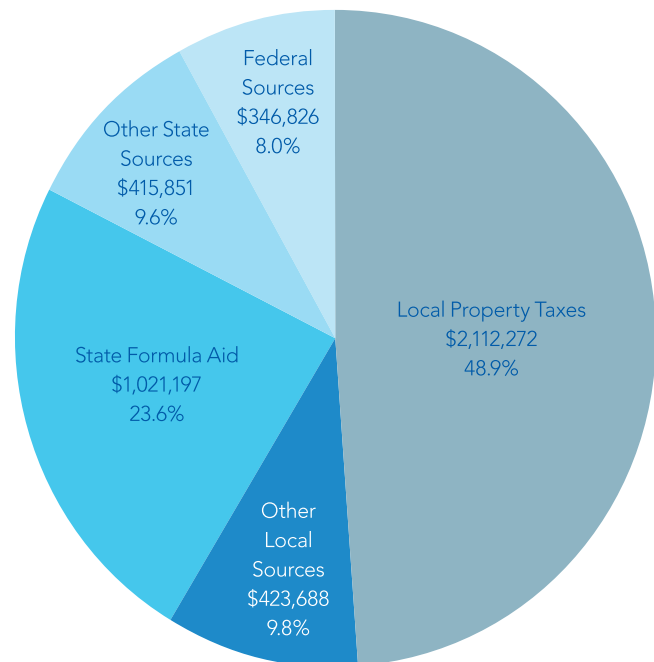
Local Sources

Local property taxes are generated from a school district's tax levy and the amount of value placed upon homes, businesses and agricultural property for tax purposes in its jurisdiction.

School districts are among the 35 types of political subdivisions that rely on property tax dollars in Nebraska.¹⁸ Among these are cities, counties, community colleges, natural resource districts and sanitary improvement districts.

School districts used 54.3% of all property taxes collected in the state in 2017, according to the Nebraska Department of Revenue's Property Assessment Division.¹⁹

Other local sources of school revenue include public power district sales taxes, motor vehicle taxes, tuition/fees and transportation.



Percentages do not sum to 100% due to rounding.

State Sources

All Nebraska school districts receive state funding, although not every district will receive funding from every possible state source of revenue. State sources accounted collectively for \$1.41 billion of funding in 2016/17, or about 37% of general school district operating revenues.²⁰

Key definitions used in Nebraska's school finance system:

- **State Support** – All funds provided to districts by the state for the general support of elementary and secondary education
- **State Formula Aid** (also called TEEOSA Aid) – A component of state support paid to a district under the state aid formula
- **Equalization Aid** – A component of state aid, which is meant to help schools make up the difference between the money they can raise through local sources, such as taxable property value, and what they need to educate their students

State Support

This is the largest source of state funding for schools, accounting for \$979 million – or 26% – of the total revenue for school districts in 2016/17.²¹

Equalization Aid

All school districts are guaranteed at least some state aid through the TEEOSA formula as of the 2017-18 school year, due to legislative changes in 2016.²² However, not all districts are guaranteed equalization aid.

Equalization aid is a component of state aid meant to help schools make up differences in the money they are able to raise through local sources. A school district may be equalized or non-equalized within the state aid formula, meaning they either do or do not receive equalization aid.²³ Such aid accounted for \$979 million – 70% — of total state aid for 2016/17.²⁴

The State Aid Formula

The intent of LB1059 was to reduce school districts' heavy reliance on local property taxes and create a more equitable tax load among taxpayers in school districts of similar size with significant disparities in property wealth.

The formula is complex because it must account for the unique needs of and differences between Nebraska's 241 school districts, which include schools large and small, urban and rural and with high and low property wealth.²⁵ The state aid formula establishes the components of need and the components of resources for the calculation of state aid.²⁶

The aid calculation requires several steps (shown in Figure 2 on page 12).

Step 1 – Determining Needs

Needs are the costs a school district incurs to educate its students. The needs calculation includes a number of components (17 in 2018/19), such as the number of students in poverty and transportation costs.²⁷

Basic Funding is the largest component of the needs calculation (83% in 2018/19) and is used to determine how much a district should theoretically spend compared to school districts with similar numbers of students. This helps smooth out spending between districts to make sure that all students have educational opportunities that are as equal as possible. (All of the components are listed in Appendix A.)

Step 2 – Calculating Resources

The formula uses another set of components to determine how much revenue a school district has to fund its needs.

The largest component is the **Yield from Local Effort Rate**. The “local effort rate”¹³ is a theoretical property tax rate set by statute to determine how much a school district could potentially collect (the “yield”) at the local level.²⁸ The yield from the local effort rate does not determine the actual local property tax dollars a school district will receive. For 2017/18 and 2018/19, the rate was the maximum levy minus “two and ninety-seven hundredths cents,” as set by statute.²⁹

Other components of the resource calculation include:

- A portion of state income taxes paid by taxpayers in the school district, collected by the state and remitted to school districts (known as the **Allocated Income Tax**).
- Specific local and state sources of revenue set in statute, such as interest earned on investments and tuition received from other districts.³⁰
- State funding for districts educating students who exercise the option to attend a school outside their home district (known as **Net Option Funding**).³¹

(A detailed explanation of the components of the resource calculation is in Appendix B.)

Step 3 – Setting Equalization Aid

Equalization aid is meant to bridge the difference between what a district needs to educate its students and its available resources.

A school district receives equalization aid only if its needs exceed its resources. In 1990/91, nearly 90% of the state’s K-12 schools (250 of 278) received equalization aid. About 31% of the state’s school districts (75 of 245) received equalization aid in 2016/17.

Step 4 – Adding Additional Items

The amount of state aid that is calculated for a school district is the sum of the following:

- **Equalization Aid**
- **Net Option Funding**
- **Allocated Income Tax**
- **Prior Year Correction** (Any under-payment or over-payment of state aid from the prior year after data estimates are reconciled with actual data.)³²

Figure 2 shows the basic concept of state aid (Needs — Resources = Equalization Aid). Net option funding, allocated income tax and retirement aid are components of available resources and are added back to equalization aid to determine the total state aid amount. The prior year correction is not part of the resources calculation; it is only added to equalization aid to determine total state aid.

Figure 2: How 2018/19 Total State Aid is Calculated³⁴

Step 1	Step 2	Step 3	Step 4	
NEEDS	– RESOURCES	= EQUALIZATION AID	+ ADDITIONAL ITEMS	= TOTAL STATE AID
The sum of: Basic Funding Poverty Allowance Limited English Proficiency (LEP) Allowance Focus School & Program Allowance Summer School Allowance Special Receipts Allowance Transportation Allowance Elementary Site Allowance Distance Education Allowance Averaging Adjustment New School Adjustment Student Growth Adjustment Student Growth Adjustment Correction Community Achievement Plan Adjustment Poverty Allowance Correction LEP Allowance Correction Non-Qualified LEP Adjustment	The sum of: Yield from Local Effort Rate Net Option Funding Allocated Income Tax Learning Community Transition Aid Community Achievement Plan Aid Other Receipts Actually Received by the District		The sum of: Net Option Funding Allocated Income Tax Learning Community Transition Aid Community Achievement Plan Aid Prior Year State Aid Correction	

The Cost Growth Factor³³ – which adjusts two-year-old expenditure data to help set a basic funding level for school districts for the current year – and the Local Effort Rate – the theoretical property tax rate used in the calculation of resources – are the main pieces of the state aid formula that affect the total amount of state aid. When the Legislature determines that the total amount of state aid to be distributed should be adjusted because of overall state revenue shortfalls, it will typically adjust the cost growth factor and/or the local effort rate.

- Increasing the local effort rate and/or decreasing the cost growth factor reduces the amount of state funding required by the state aid formula. This increases pressure on local property taxes.
- Decreasing the local effort rate and/or increasing the cost growth factor increases the amount of state funding required by the state aid formula. This reduces pressure on local property taxes.

Other Sources of State Revenue

The state also provides funding to schools – that is not part of the state formula aid – for other expenses, such as special education costs. This funding accounted for \$427 million – or about 11% – of the \$3.76 billion in total revenue for school district operating expenses in 2016/17.

Table 1: Other State Revenue³⁵

SOURCE OF STATE REVENUE	AMOUNT	SHARE OF TOTAL DISTRICT REVENUE
Special Education	\$212 million	5.6%
Property Tax Credit	\$105 million	2.8%
State Appointment	\$47 million	1.3%
Homestead Exemption	\$36 million	1.0%
State Categorical Programs	\$2 million	0.05%
Other State Receipts	\$26 million	0.7%

Federal Sources

School districts also receive funds from a number of federal sources. One is the 2015 Every Student Succeeds Act (ESSA), which is the federal government's main program helping disadvantaged students. Another is the Individuals with Disabilities Education Act (IDEA), which provides funding and governs how states provide services and education to children with disabilities.

In 2016/17 federal dollars provided \$209 million in general operating revenue for Nebraska school districts – or about 5.57% of total revenue for school district operating expenses (Table 2).

Table 2: Other Federal Revenue³⁶

SOURCE OF FEDERAL REVENUE	AMOUNT	SHARE OF TOTAL DISTRICT REVENUE
ESSA	\$82 million	2.18%
Individuals with Disabilities Education Act (IDEA) Grants	\$67 million	1.78%
Federal Impact Aid	\$19 million	0.51%
Medicaid and Medicaid Administrative Activities (MAAPS)	\$11 million	0.29%
Head Start	\$8 million	0.21%
Rural Education Achievement Program Grants	\$4 million	0.11%
21st Century Community Learning Centers Grants	\$4 million	0.11%
Universal Broadband for Schools and Libraries (E-Rate)	\$3 million	0.08%
Perkins IV Career and Technological Education Grants	\$3 million	0.08%
Indian Education Formula Grants	\$1 million	0.03%
Other Federal Receipts	\$6 million	0.16%

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- 14 All K-12 districts are required to maintain a general fund for all operating expenses related to providing education. Other school funds through which districts can raise revenue include: Activities Funds, School Nutrition Funds, Special Building Funds, and Qualified Capital Purpose Undertaking Funds. Nebraska Department of Education School Finance and Organizational Services. 2017/2018 Budget Text for Nebraska Public School Districts. <https://www.education.ne.gov/fos/budgeting-school-district/> (accessed August 16, 2018).
- 15 Nebraska Department of Education. School Finance and Organizational Services, 2016/17 Statewide Annual Financial Report. <https://www.education.ne.gov/fos/> (accessed August 16, 2018). This total value includes numbers coded as 'non-revenue' receipts such as the sale of property by the district or insurance adjustments.
- 16 Id.
- 17 Nebraska Department of Education. School Finance and Organizational Services, 2016/17 Statewide Annual Financial Report. <https://www.education.ne.gov/fos/> (accessed May 31, 2018).
- 18 A complete list of the types of political subdivisions may be found in Nebraska Revised Statutes §13-503(1).
- 19 Nebraska Department of Revenue, Property Assessment Division. "2017 Value & Taxes Levied by Taxing Subdivision & by Property Type." http://www.revenue.nebraska.gov/PAD/research/valuation_excel.html (accessed May 31, 2018). Property taxes collected in 2017 were used for school districts' 2017/18 budget and the certification of state aid in FY18/19.
- 20 Nebraska Department of Education. Finance and Organizational Services, 2016/17 Statewide Annual Financial Report. <https://www.education.ne.gov/fos/> (accessed May 31, 2018).
- 21 Nebraska Department of Education. Finance and Organizational Services, 2016/17 Statewide Annual Financial Report. <https://www.education.ne.gov/fos/> (accessed May 31, 2018).
- 22 With the elimination of the Minimum Levy Adjustment beginning in FY18 (LB 959, 2016), districts are now guaranteed to receive state aid in the form of the Allocated Income Tax. Before non-equalized districts not levying at 95 cents or higher were penalized an amount that could equal as high as their total share of the allocated income tax. See Appendix B for more detailed explanations of these components.
- 23 A school district is equalized in the TEEOSA formula when its "needs" exceed its "resources". This means the school district receives equalization aid. A school district is non-equalized in the TEEOSA formula when its "needs" are less than its "resources". This means the school district receives no equalization aid.
- 24 Nebraska Department of Education. Finance and Organizational Services, "Description of Revenue to School Districts." <https://www.education.ne.gov/fos/annual-financial-report-school-district/statewide-information/> (accessed May 31, 2018).
- 25 The number of school districts during the 2017-2018 school year. This number has been shrinking historically due to school district consolidation.
- 26 The number of school districts during the 2016-2017 school year. This number has been shrinking historically due to school district consolidation.
- 27 Nebraska Revised Statute § 79-1007.11. Nebraska Department of Education. Finance and Organizational Services, "Tax Equity and Educational Opportunities Support Act Certification of 2016/17 State Aid." <https://www.education.ne.gov/fos/state-aid/> (accessed August 16, 2018).
- 28 The local effort rate (LER) is set by §79-1015.01(3). For 2016/17 the LER was certified at \$1.00.
- 29 Nebraska Revised Statute § 79-1015.01.
- 30 Nebraska Revised Statute §79-1018.01.
- 31 Through the 2016/17 year, a district's resources also included a Minimum Levy Adjustment, which was meant to ensure school districts raise resources locally before receiving state support by raising the resources of any district that levies below 95 cents. However, many felt it instead incentivized districts to levy at 95 cents unnecessarily to avoid the penalty. The Minimum Levy Adjustment was eliminated beginning in the 2017/18 year.
- 32 Prior to FY18, when the elimination of the minimum levy adjustment (LB 959, 2016) takes effect, non-equalized districts receiving the minimum levy adjustment also received an equivalent reduction in state aid up to the total amount of allocated income tax received. This resulted in some districts receiving no state aid.
- 33 The cost growth factor is used to increase the actual expenditures used to calculate basic funding. The cost growth factor is 1 + the basic allowable growth rate for the year in which aid is to be distributed and the immediately preceding fiscal year. The basic allowable growth rate is equal to the base limitation rate established by Nebraska Revised Statute § 77-3446 which is 2.5% each year unless otherwise adjusted by the Legislature.
- 34 See Appendices A and B for complete descriptions of the components listed. Source: Nebraska Department of Education, "Tax Equity and Educational Opportunities Support Act: Certification of 2016/17 State Aid," <https://www.education.ne.gov/fos/SchoolFinance/StateAid/Downloads/1617/TEEOSADocument.pdf> (accessed August 16, 2018).
- 35 Nebraska Department of Education, Finance and Organizational Services, "Description of Revenue to School Districts," <https://www.education.ne.gov/fos/annual-financial-report-school-district/statewide-information/> (accessed May 31, 2018).
- 36 Nebraska Department of Education, Finance and Organizational Services, 2016/17 Statewide Annual Financial Report, <https://www.education.ne.gov/fos/> (accessed May 31, 2018).

Chapter 3: Spending and Tax Restrictions

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The School Finance Review Commission concluded in 1990 that some limits on school district budget growth should be a necessary part of the school funding system to ensure a portion of new state aid money to school districts would be used to keep local property taxes low, rather than just be added to existing budgets. Lawmakers correspondingly set limits on the growth of local school spending in LB1059.

In 1996, the Legislature added a property tax levy limit – now at \$1.05 for each \$100 of a property’s taxable value – to the restrictions on school district budgeting. The levy limit is discussed further below.

School districts are the only Nebraska political subdivisions with both a spending limit and a property tax levy limit. A school district must consider multiple factors when balancing its budget – trying to provide the best education for its students while staying within the spending limit and the property tax limit.

Spending Limit

The spending limit works by applying a rate of growth (Basic Allowable Growth Rate) to the main portion of each district’s budget, based on the prior year’s budget.

The amount a school’s budget can grow from year to year is limited currently to 2.5%, although the Legislature may change the growth rate annually. For example, lawmakers dropped the growth rate, which had ranged from 4 to 6%, to 0.5% for 2012/13.³⁷

Expenditure Exclusions & Overrides

Expenditure exclusions are items in a district’s budget that are not subject to the spending limit. The two largest are special education expenditures and special grant fund expenditures, including money given to a school district that must be used for a specific purpose, like purchasing distance learning equipment. (All expenditure exclusions are listed in Appendix C.)

A school district that cannot meet its needs without exceeding the spending limit can hold a special election to ask voters to approve an override to spend more money. If the voters approve the additional spending, it is only in effect for one year. Such elections are rare.

Limitation on Cash Reserves

The amount of money that school districts can hold in reserve from year to year is also limited. That is to ensure additional state dollars sent to a district are used for local property tax reductions, not increased spending.

Property Tax Limit

Since the passage of LB1059, the Legislature has tried other ways to curb schools’ reliance on local property taxes, including the property tax limit passed in 1996.

By law, the maximum property tax levy is currently \$1.05 per \$100 of property value. There are some exceptions to this limit, which are discussed below.

Levy Exclusions & Overrides

Levy exclusions allow a school district to exceed the \$1.05 maximum levy without voter approval. The most common exclusion is for expenditures on early retirement payouts or other employee buy-out arrangements.³⁸

A school district that cannot generate the property tax dollars it needs – even after using all available levy exclusions – may ask the district’s taxpayers to approve a higher levy through a levy override.

A levy override is only good for a maximum of five consecutive years. In 2016/17, levy overrides were in effect in 7 school districts.³⁹

A vote to override the levy is different than a vote to issue bonds. A vote to issue bonds gives the school district the money to build new facilities or renovate current facilities. This vote does not provide additional money for the general operation and maintenance of a school district. However, a taxpayer may see their total taxes increase if the vote to issue bonds is successful.

The Combined Impact of Spending and Property Tax Limits

The combination of spending and property tax limits can constrain a school district’s budget flexibility.

For example, a school district with an \$0.85 levy would have room to increase its levy to \$1.05 without voter approval but may not be able to spend the extra money raised because of the spending limit.

Conversely, a school district with a \$1.05 levy may be allowed to spend more money under the spending limit, but could not raise the funds to do so because of the property tax limit.

All of this fuels the debate over local control of schools and the state’s effort to control property taxes and spending while at the same time trying to provide adequate amounts of state support.

37 The basic allowable growth rate for 2017/18 and 2018/2019 is 1.5%. Nebraska Revised Statute § 77-3446.

38 Nebraska Revised Statute § 77-3442.

39 Based on levy data from Nebraska Department of Education, “Statistical Information for Public School Districts 2016/17,” <https://www.education.ne.gov/fos/statistical-information-for-public-school-districts-levy-and-valuation-information/> (accessed August 16, 2018).

Chapter 4: Evaluating the Nebraska Education Funding System

K-12 Funding Heavily Reliant on Property Taxes

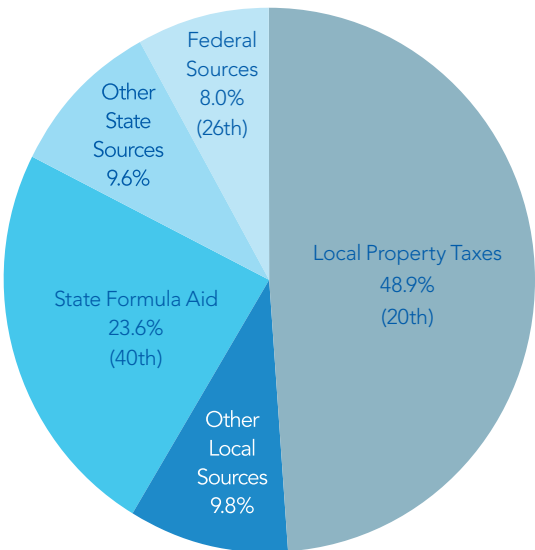
A regular complaint among Nebraska property owners is they pay too much in property taxes, and the push to reduce property taxes has been a recurrent theme in the debate over how schools are funded. That point was raised consistently during the debate of LB1059 and again took center stage during the Tax Modernization Committee and Education Committee hearings in 2013.

LB1059 tried to address these concerns by increasing sales and income taxes to take some of the pressure off property taxes as a school funding source. LB1114 (1996) established the property tax levy limit.

These efforts were able to reduce the highest tax levy from \$3.25 per \$100 of property tax valuation in 1989/90⁴⁰ to \$1.15 by 2016/17.⁴¹

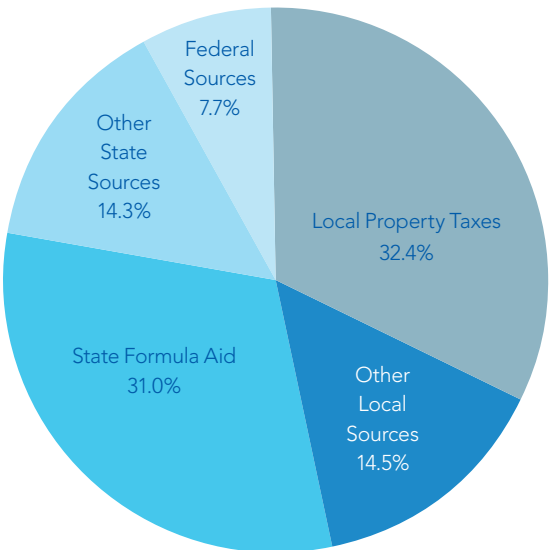
Figure 3: Nebraska Relies Heavily on Local Revenues to Fund K-12 Education Public school funding by source, 2015/16

Nebraska



Total from State Sources: 33.2% (48th)
Total from Local Sources: 58.7% (2nd)

States' Average



Total from State Sources: 45.3%
Total from Local Sources: 46.9%

Note: Examples of other state sources of revenue include: special education reimbursement, the property tax credit, and the homestead exemption. Examples of other local sources of K-12 revenue include: public power district sales tax and motor vehicles tax.

Source: U.S. Census Bureau, 2016 Annual Survey of School System Finances

Nonetheless, Nebraska today relies more on local property taxes to fund public schools than 48 other states. About 59% of education funding in Nebraska comes from property taxes and other local resources, compared to the U.S. average of about 47%, according to the most recent data (2015/16) from the U.S. Census Bureau.⁴²

As Figure 3 shows, Nebraska relies more on local revenue sources, such as property taxes, as a share of K-12 funding than the national average. Likewise, Nebraska ranks 48th in state funding as a share of K-12 funding.

The heavy reliance on local property taxes and low level of state support in Nebraska have been noted in four major tax studies in the state's history:

- A 1962 study (McClelland) found that "in comparison with surrounding states, Nebraska provides a minimum of financial assistance to local governments, particularly in the field of education."
- The 1988 "Syracuse Study" found that "Nebraska's assistance to its local governments is farther out of line with practice in the rest of the country and from accepted principles of public policy than any other aspect of public finance in the state."
- The 2007 Burling Commission found that "Nebraska's property taxes are high by every measure looked at... [and] Nebraska's state aid to local government ranks among the very lowest of all states." It also noted urban-rural tensions over school funding and concluded that "the relative lack of state funding for education compared to other states magnifies this problem."
- Finally, the Tax Modernization Committee of 2013 found that "Nebraska makes greater use of the property tax to fund public services than other states in the nation or region. Achieving the same average balance of sources in the region or nation would require a \$200 million to \$300 million shift and reduction in use of property tax."

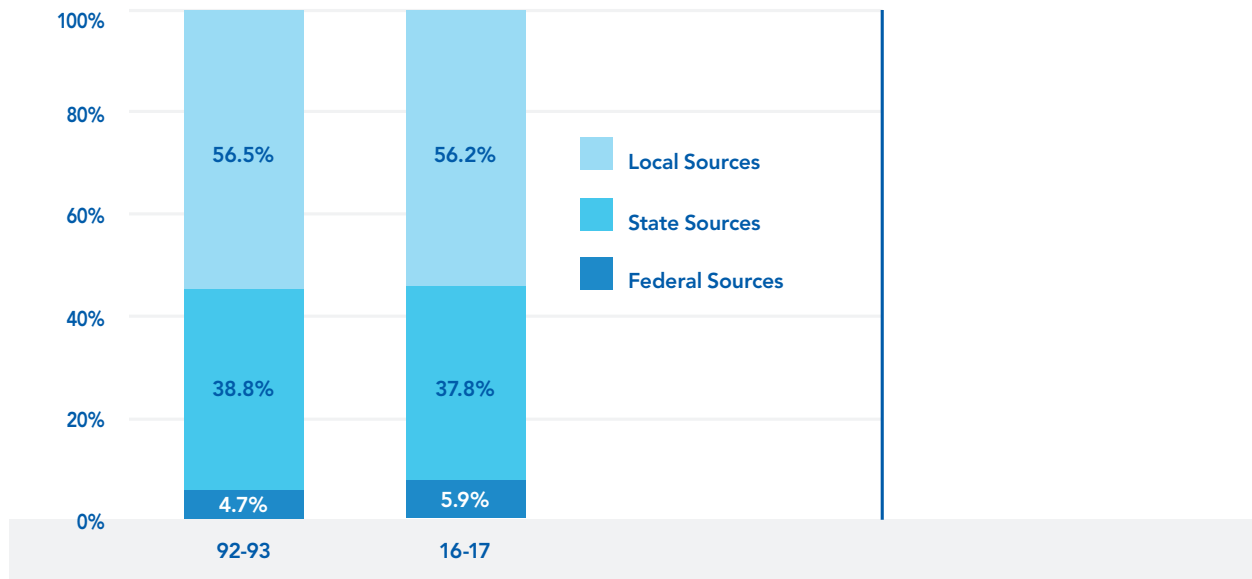
State Support for Nebraska Schools

Historically, state support for Nebraska schools has fallen short of targets set by lawmakers.

For example, LB1059 set a goal for the state to provide at least 45% of the operating costs for public school districts. The state has yet to meet this goal – for the most recent year, state sources were funding 37.4% of operating costs, \$285 million below the goal.⁴³

When LB1059 passed in 1990, Nebraska ranked 49th nationally for the percentage of K-12 funding provided by the state. Despite that law and other attempts to increase state support significantly, Nebraska ranked 48th nationally in the percentage of state support for schools in 2015/16.⁴⁴

Figure 4: School Funding Mix Has Changed Little



Source: Nebraska Department of Education Statewide Annual Financial Reports

Figure 4 shows how little the mix of state, local and federal revenue sources has changed since 1992/93, according to Nebraska Department of Education Annual Financial Reports.

In 1996, lawmakers changed the state aid law to allow the school funding formula to determine how much to spend on education. However, the amount of state aid to be distributed has instead been determined by the Legislature, often to help balance the state budget. The statutes are amended so the formula will calculate the amount determined by lawmakers.

Since LB1059 was passed, the state aid formula has been changed almost 20 times to varying degrees – often to accommodate the money available in the state budget.

Equity Issues in Nebraska's Education Finance System

Heavy reliance on property taxes combined with relatively low state support and spending/levy limits creates inequities. That's because funding is generally driven by the property valuation in a district – something over which students, their families and schools have no control.

Inequities can occur between tax rates and per-pupil funding among districts – and raise questions about unequal educational opportunities across the state.

Tax Rate Inequities

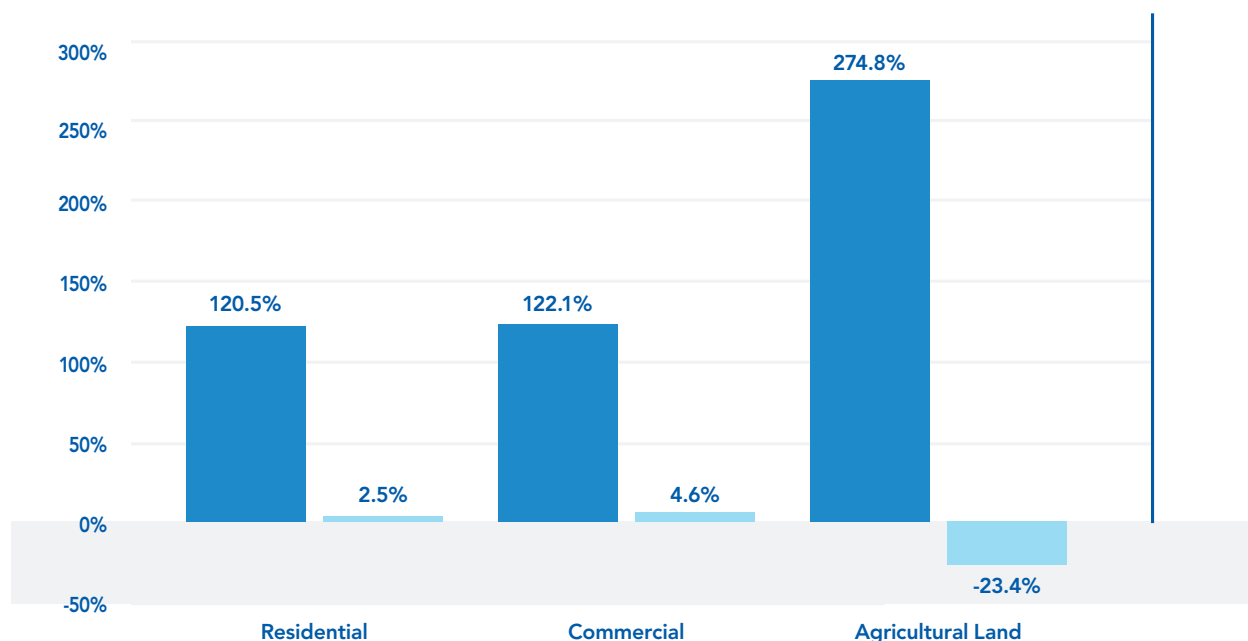
Disparities in tax rates have driven much debate over education finance and reform efforts.

- In 1989/90, the highest school district general fund property tax levy in Nebraska was more than four times greater than the lowest. Levies ranged from \$0.75 per \$100 of property tax valuation to \$3.25.
- In 2016/17, the highest school district general fund property tax levy in Nebraska was 3.6 times greater than the lowest. Levies ranged from \$0.32 per \$100 of property tax valuation to \$1.15.⁴⁵

While rural tax levies tend to be lower than urban levies, rural schools usually have significantly more property value per student. And since 1999, agricultural land values have skyrocketed, giving rural schools even more resources under the state aid formula. (See Figure 5.)

Meanwhile, the needs of urban schools under the formula have increased due to such factors as student population growth at a time when student poverty rates have increased statewide.

Figure 5: Property Tax Growth for Agricultural Land Has Far Outpaced Other Property Types Percent change in rate and total taxes, 2000 to 2017



Source: Nebraska Department of Revenue, Property Assessment Division, http://www.revenue.nebraska.gov/PAD/research/valuation/excel_files/histvt_subdiv_State_93cnties_2007-2017.xls (accessed August 16, 2018).

So while rural communities are not necessarily wealthier (higher land values may not translate into higher farm income), the state aid formula recognizes increasing property valuation as an increase in available resources. That means that a district with a low property tax levy but increased property valuations will get less state aid.

Per-Pupil Funding Inequities

States that rely heavily on property taxes to fund schools tend to have large gaps across districts in the amount of money that is spent per pupil to educate children.⁴⁶ Schools in areas with high property wealth, such as agricultural land and expensive homes, are able to spend much more than schools in areas with little property wealth. How much state support should be going to schools is a constant source of debate in these states.

In Nebraska, the K-12 funding formula attempts to equalize resources and thus eliminate funding inequities among school districts by sending more state money to those school districts with less property value. In other words, schools with high property values are expected to raise more money through local resources, and those with less property value receive a higher proportion of state dollars.

However, as Table 3 shows, even after state support is included, school districts with high property values are able to spend nearly twice as much per pupil as those with low property values.

Table 3: High-Low Property Value Districts in 2016/17⁴⁷

SOURCE OF FEDERAL REVENUE	20% OF DISTRICTS WITH HIGHEST PROPERTY VALUE PER STUDENT	20% OF DISTRICTS WITH LOWEST PROPERTY VALUE PER STUDENT
Average Assessed Adjusted Property Value per Student	\$3,623,813	\$569,565
Average General Fund Tax Levy	\$0.5110	\$1.0185
Average General Fund Property Taxes Levied per Student	\$17,995	\$5,770
Average Equalization Aid per Student	\$0	\$4,144
Average Total State Aid per Student	\$338	\$4,525
Average Other State Sources per Student ⁴⁸	\$1,589	\$350
Total General Fund Expenditures per Student	\$ 20,376	\$12,157

Districts with high property values are able to raise more from local property taxes per pupil and still have a lower property tax levy (an average of \$0.51) than those with low property values, who tend to have a higher property tax levy (an average of \$1.02). Table 3 shows that high property value districts have more than six times as much property tax revenue per pupil than those with low property values.

And state support does not completely mitigate these disparities. State aid delivered through the formula allocates more state money to low property value schools. But other state sources – outside of the formula – send more money to the wealthier districts.

While there are other factors that contribute to per-pupil funding inequities – such as the economies of scale that are found in schools with a large number of students – the fact that those districts with the lowest spending tend to have the highest tax levies warrants further discussion.

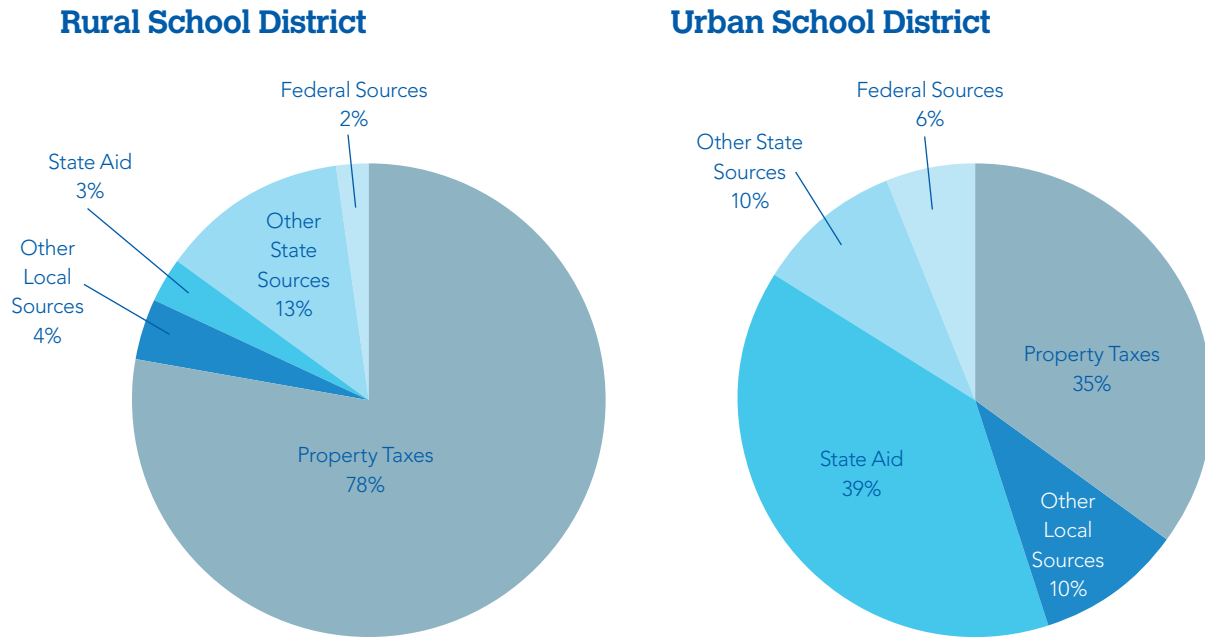
How These Inequities Play Out: Rural Schools More Reliant on Property Tax Revenue while Urban Schools Have Higher Tax Rates

It can be helpful to look at a specific example contrasting a rural and an urban school district.

The 2016/17 actual revenues generated by the school funding system for a rural school district and an urban school district are shown in Figure 6 on the next page.

Each school district relies heavily on local property taxes to fund its education programs: they represent 78% of the total revenue for the rural school district and 35% for the urban school district.

Figure 6: Funding Mix in a Rural and an Urban School District



Source: Nebraska Department of Education 2016/17 Annual Financial Reports

State aid provides 3% of the total revenue for the rural school district and 39% of the total revenue for the urban school district.

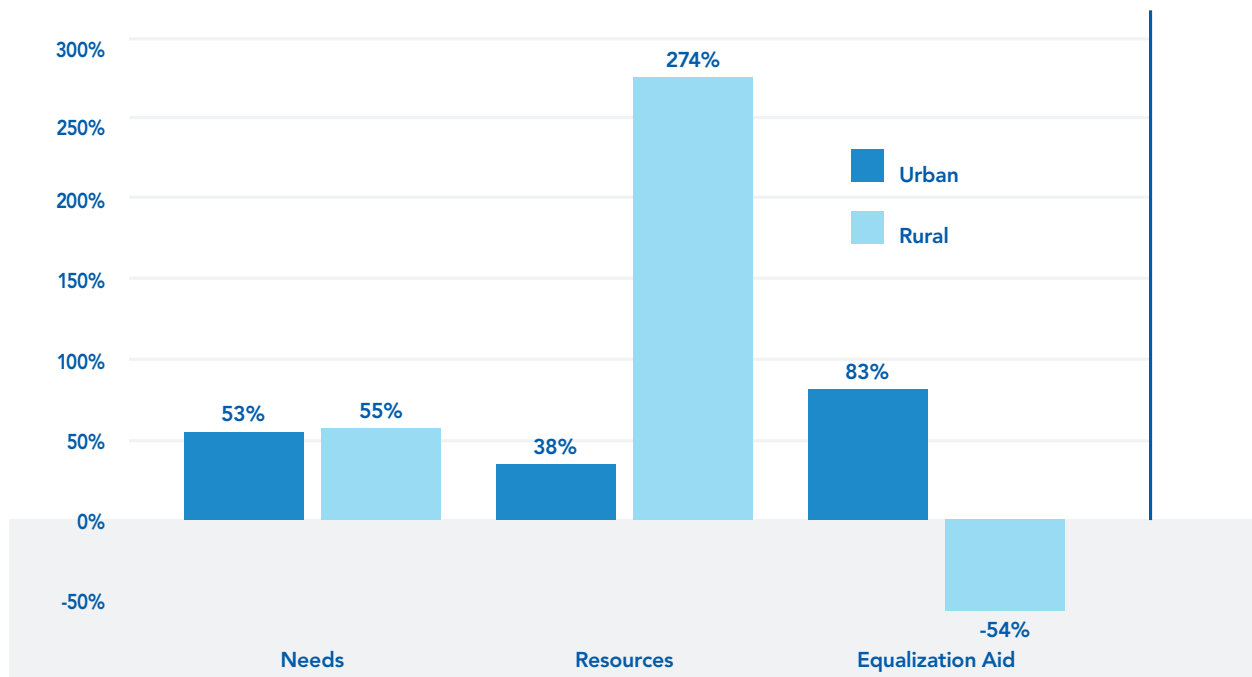
- The rural district has a general fund levy of \$0.66. The urban school district has a general fund levy of \$1.05.
- The property tax valuation per student for the rural school district is \$3.2 million. The property tax valuation per student in the urban district is \$508,000.
- The rural school district spends \$24,679 to educate each student, while the urban school district spends \$10,132 to educate a student.

The notable difference in the school funding system for these two schools is the property tax valuation behind each student. The rural school district has more than six times as much property tax valuation behind each student as the urban school district. The difference in the amount of local and state sources of revenue is directly related to this difference.

Because the state aid formula relies so heavily on local property values to calculate the resources of schools, the result is that urban school districts need more state aid even though they tend to have higher property tax levies.

But at the same time, the rural districts are seeing a loss of equalization aid due to increasing agricultural land valuations (see Figure 7). Meanwhile, agricultural landowners are not seeing incomes rise as fast as land values, so more of their income is being taken up by increased property taxes.

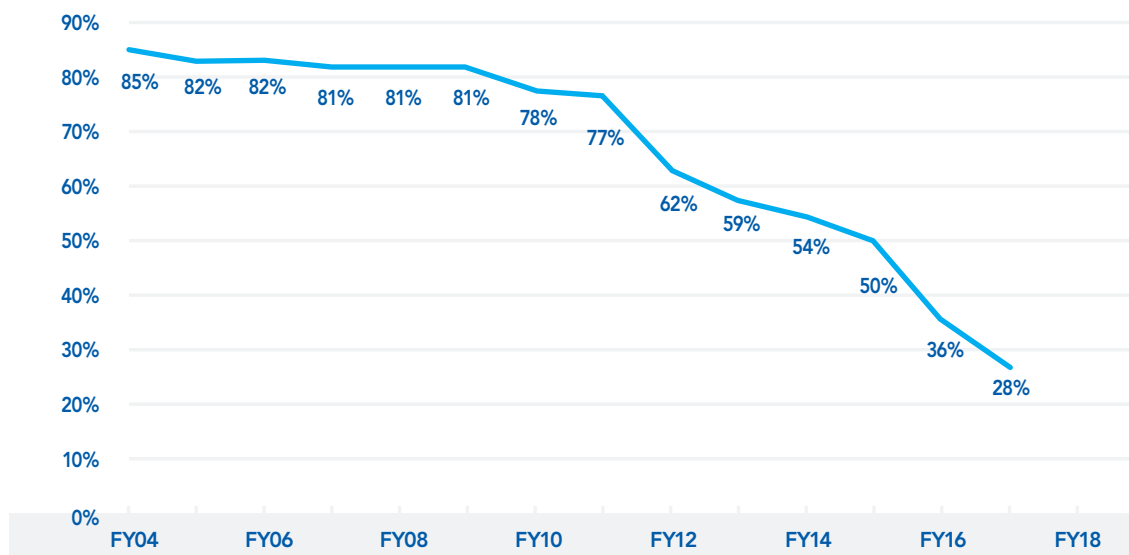
Figure 7: Changes in Highly Urban and Highly Rural Districts, Growth in needs, resources, & equalization aid, FY07-FY17



Sources: Nebraska Department of Revenue, Property Assessment Division, http://www.revenue.nebraska.gov/PAD/research/valuation/excel_files/histvt_subdiv_State_93cnties_2007-2017.xls (accessed August 16, 2018); Nebraska Department of Education, School Finance & Organization Services, Annual Financial Reports, <https://fos.education.ne.gov/fos/ASPX/Search.aspx?id=1> (accessed August 16, 2018).

Overall, the percentage of school districts receiving equalization aid has declined consistently since 2004, as shown in Figure 8.

Figure 8: Percent of School Districts Receiving Equalization Aid, FY04-FY17



While rural districts see their resources outweighing their needs, urban districts with low property value see their needs increase faster than their resources, due in part to rapid population growth and increasing poverty rates. As a result, over time a greater share of equalization aid has gone to larger, urban schools. On average, low property value per student districts received \$4,144 in equalization aid per student in 2016/17, while high property value per student districts received \$0.

Equalization aid went to only 28% of schools in 2016/17; however, the 75 districts that received such aid educated 79% of all students in the state. Many of these equalized districts levy at or near the levy limit of \$1.05, and so have little room to increase local contributions should state support decline.

These dynamics have fueled the ongoing rift in the Legislature and pitted urban and rural school districts against each other in the fight for state funding.

Inequities in Educational Opportunities

The courts have clearly left it up to the Legislature to determine how to fund K-12 education, and unlike many other states, Nebraska's Constitution does not require an adequate or quality education.

Yet the potential for inequities in educational opportunities manifests itself in different ways. Can a district with low per-pupil spending provide the same quality as a district spending twice as much? On the other hand, large districts are able to offer a greater variety of courses, such as foreign languages, than many small districts. Does this create disparities in educational opportunities?

Until recently there has been little evidence that increased funding necessarily improves educational outcomes. However, increases in school spending were found to lead to substantial improvements in graduation rates and other achievements for children from poor families in a 2014 study by the National Bureau of Economic Research.⁴⁹ With 45% of Nebraska's students living in poverty in 2016/17 compared to 32% in 2002/03, Nebraskans would do well to take heed of this research.⁵⁰

"... increasing per-pupil spending by 20 percent for a child's entire K-12 schooling career increases high school completion by 22.9 percentage points, increases the overall number of years of education by 0.928, increases adult earnings by about 24.6 percent, increases annual family income by 52.2 percent, and reduces the incidence of adult poverty by 19.7 percentage points."⁵¹

However, similar increases in per-pupil spending for non-poor children were not found to have the same impact. So how can we utilize the school funding system to provide an adequate education and at the same time ensure we are getting resources to where they are most needed and have the greatest impact?

While Nebraska's Constitution doesn't require the state to provide for an adequate, quality education, there are many reasons to consider this question as we evaluate Nebraska's K-12 funding system.

40 Nebraska Department of Education, 2012/2013 Statistical Information for Public Schools, https://www.education.ne.gov/wp-content/uploads/2017/07/1213Stats_revAug13.pdf (accessed August 16, 2018).

41 Nebraska Department of Education, 2016/2017 Statistical Information for Public Schools, <https://www.education.ne.gov/wp-content/uploads/2017/07/1617Stats.pdf> (accessed August 17, 2018).

42 2016 Public Elementary-Secondary Education Finance Data, U.S. Census Bureau.

- 43 2016/17 Statewide Annual Financial Report, <https://fos.education.ne.gov/fos/ASPX/AFR/AFRStatewide.aspx?datayear=2016/17&id=2> (accessed August 16, 2018).
- 44 2016 Public Elementary-Secondary Education Finance Data, U.S. Census Bureau.
- 45 Nebraska Department of Education, "Statistical Levies."
- 46 *The Stealth Inequities of School Funding*, Baker & Corcoran, September 2012.
- 47 Nebraska Department of Education, School Finance & Organization Services, 2016/17 Annual Financial Report, 2016/17 State Aid Certification, 2016/17 Statistical Information for Public School Districts.
- 48 Other state sources are the Property Tax Credit and Homestead Exemption. Districts with high property value per student will tend to receive more of these two sources of state aid per student.
- 49 Matthis, William J., "Research-Based Options for Education Policymaking: Does Money Matter?", National Education PolicyCenter (June 2016), <http://nepc.colorado.edu/publication/research-based-options> (accessed September 29, 2016).
- 50 Nebraska Department of Education, *State of the Schools Report Cards*, <http://www.education.ne.gov/documents/SOSR.html> (accessed July 2, 2018).
- 51 Jackson et al, *The Effect of School Finance Reforms on the Distribution of Spending, Academic Achievement, and Adult Outcomes*, (May 2014).

Conclusion



Nebraskans’ passion for strong K-12 education is evident by the ongoing dialogue about how best to develop a fair and equitable funding system.

Fueling that conversation are the unique situations facing urban and rural schools and districts of varying sizes, coupled with shared challenges such as educating children in poverty, those with disabilities, English language learners and those with parents who move frequently.

Nebraska for decades has relied more heavily on local property taxes to fund schools than most other states – which has framed the debate over what is fair and equitable.

Meanwhile, the economy has changed markedly in the last 50 years and continues to do so, shifting the landscape on which the school funding debate takes place.

A number of questions are key to the school funding debate:

What is most important in Nebraska’s school funding: equity in spending or adequacy in school district support? Do the disparities of curriculum offerings to students in schools across the state and disparities in per-pupil spending mean some students are not being provided an “adequate” education?

How can Nebraska create an education finance system that fosters quality, fairness and equity when some schools have six times as much property value per student as other schools? Should the state assume a larger role in K-12 finance and, in effect, reduce property tax reliance?

Or is more fundamental revision of the school funding system needed? Is property value an appropriate measure of community resources in today’s economy, or is it time to look at determining the wealth of a school district based on income of its residents or some other measures?

How well positioned are we in Nebraska to meet the technology and infrastructure needs of students and school districts to compete in a global economy heading into the future?

A periodic review of the entire school finance system – to address changes in how children are taught, federal policies, and the availability of financial resources – would allow Nebraska to create a common statewide vision for education in Nebraska while maintaining strong local control of schools.

We hope this primer helps Nebraskans understand the current school funding system, how it came to be and the challenges the state faces in this arena. We also hope it has shown the perceived inequities from different points of view and can promote a better understanding of the unique challenges facing different types of schools, while helping Nebraskans find more common ground on this vital issue.

Appendix A : 2016/17 Components of Need



Basic Funding – Basic funding is the major component of formula needs. It uses actual spending data as a baseline and adjusts to account for some of the components below as well as expenditure exclusions. Finally, this adjusted spending is averaged with the spending of the ten larger and ten smaller districts that are closest in size.

Poverty Allowance – School districts that annually complete a Poverty Plan will qualify for this per-student allowance. A Poverty Plan contains the activities, curriculum and goals for educating students in poverty. The allowance is calculated so that up to a point, districts with an increased concentration of students in poverty received a higher per-student allowance.⁵²

Limited English Proficiency (LEP) Allowance – School districts that annually complete an LEP Plan will qualify for this allowance. An LEP Plan contains the activities, curriculum and goals for educating students with limited English proficiency. The LEP allowance is determined based on a per-student factor.

Focus School & Program Allowance – School districts that are members of a learning community are the only school districts that may qualify for this allowance if it is created as a part of the Learning Community diversity plan. A focus school is a school created for a specific and unique curriculum focus and enrollment is not restricted by student residence.

Summer School Allowance – School districts that operate summer school for at least three hours a day for 12 days will qualify for this allowance. The allowance is calculated using a per-student factor.

Special Receipts Allowance – This includes receipts for special education, state wards of the court and the high ability learner curriculum program.

Transportation Allowance – This allowance is designed to recognize the additional costs associated with the transportation of students. The amount of this allowance is calculated based on actual transportation expenditures or route miles traveled.

Elementary Site Allowance – School districts with more than one elementary school that is more than seven miles from another elementary school or is the only elementary school within a city or village may qualify for this allowance.

Distance Education & Telecommunications Allowance – This recognizes the transmission costs for providing distance education courses. It is based on actual expenditures.

System Averaging Adjustment – School districts with greater than 900 formula students that levy more than \$1.00 per \$100 of property tax valuation and whose basic funding per formula student is less than the average of all districts with greater than 900 formula students qualify for this adjustment.

New School Adjustment – A school district that builds a new school due to overcrowding may qualify for the adjustment. The amount of need calculated for this adjustment is based on the school district's basic funding per formula student.

Student Growth Adjustment – School districts that see an increase in enrollment may apply for this adjustment. The amount of need calculated for this adjustment is based on the K-12 estimated end-of-year student count and the school district's basic funding per formula student.

Community Achievement Plan Adjustment – School districts in a learning community receive this adjustment based upon meeting standards in an approved learning community achievement plan.

Limited English Proficiency Allowance Correction – Schools that receive an LEP allowance must show actual expenditures for LEP or the school district will receive a reduction to its needs. Additionally, if a district is determined not to have met the requirements of the limited English proficiency plan they will also receive a correction in needs for year in which aid is being certified. They will also be disqualified from receiving the LEP allowance in that year.

Poverty Allowance Correction – Schools that receive a poverty allowance must show actual expenditures for poverty or the school district will receive a reduction to its needs. Additionally, if a district is determined not to have met the requirements of the poverty plan they will also receive a reduction in needs for the subsequent year.

Non-qualified LEP Adjustment – Schools that do not spend 50 percent of their prior year LEP allowance will not be able to participate in the LEP allowance for the next certification of State Aid.

Student Growth Adjustment Correction – A school district that received a student growth adjustment will have an increase in need if the actual student growth was higher than the estimated student growth; or the school district will have a decrease in its need if the actual student growth was less than the estimated growth.

Needs Stabilization – To avoid a large increase or decrease in a school district's need, once all the above components are summed, the total formula needs of a school district may not be less than 100 percent or greater than 112 percent of its prior year's need. The Needs Stabilization amount adjusts formula needs up or down as necessary.

52 After the percentage of students in poverty in a district exceeds 35%, the district no longer receives an increase in their poverty allowance for a higher concentration of students in poverty.

Appendix B : 2016/17 Components of Resources



Yield from Local Effort Rate – A school district’s adjusted valuation multiplied by the Local Effort Rate (LER). The LER is a common tax rate that is established by statute. The LER for 2018/19 is \$1.0203.

Net Option Funding – Students do not have to be educated in their resident district. They have the opportunity to choose (option into) another school. School districts that have students from other districts choosing to attend their school will receive this resource. The amount of the resource is calculated on a statewide per-student factor. For 2018/19, net option funding equals 95% of the statewide average basic funding per formula student.

Allocated Income Tax Funds – This is the share of the money that residents of a school district pay in state income taxes that is received by that school district in the form of a rebate. This resource meets one of the goals of LB1059 (1990). For 2018/19, the share of income tax is 2.23%.

Other Actual Receipts Received by the District – This is based on actual local and state receipts reported by a school district on the Annual Financial Report. Receipts identified as other actual receipts are found in §79-108.01. Examples include fines, license fees, and interest.

Community Achievement Plan Aid – Distributed to districts which are members of a learning community, predicated on meeting goals set forth in an approved community achievement plan. For 2018/19, community achievement plan aid equals 0.4643% of statewide average operating expenses per student multiplied by the total learning community formula students.

Appendix C : 2016/17 Expenditure Exclusions

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Infrastructure Damaged by Natural Disaster – A school district may exceed the spending limit for building and other infrastructure damage due to a natural disaster. The State Board of Education must approve the use of this exclusion.

Judgments Not Paid by Liability Insurance – This exclusion is limited to the amount not paid by the liability insurance coverage of the school district for a judgment against it. The State Board of Education must approve the use of this exclusion.

Retirement Incentive Plan & Staff Development Assistance – Any school district that must cut staff because it has reorganized or unified may budget for these costs outside of the spending limit during the year in which the reorganization or unification occurs. The State Board of Education must approve the use of this exclusion.

Distance Education Courses – Any amounts received from schools or educational service units for providing distance education courses. The State Board of Education must approve the use of this exclusion.

Data Transmission Networks Exclusion – The first-year costs associated with joining Network Nebraska are excluded from the expenditure lid. Network Nebraska maintains the statewide data transmission hardware and software for providing distance education. The State Board of Education must approve the use of this exclusion.

Voluntary Termination Agreements with Certificated Employees – Amounts agreed to be paid to a certificated employee for a voluntary termination of employment. The State Board of Education must approve the use of this exclusion.

Retirement Contribution Increase – The additional costs incurred by a school district to pay its portion of an employee's retirement contribution. The State Board of Education must approve the use of this exclusion.

Special Education – Expenditures under the special education budget.

Special Grant Funds – Expenditures from special grant funds.

Federal Impact Aid – Districts may exclude the aid received from the federal government for the education of children residing on federal Indian lands within the district. The State Board of Education must approve the use of this exclusion.

New Elementary Attendance Site(s) – A school district may exceed the spending limit for the first-year costs of operating a new elementary school. The State Board of Education must approve the use of this exclusion.

Early Childhood Education – For the first fiscal year in which early childhood students are included in the calculation of formula students, qualifying districts can exceed the expenditure lid by an amount equal to the early childhood grants received the previous fiscal year increased by the Basic Allowable Growth Rate. The State Board of Education must approve the use of this exclusion.

Special Election to Override Expenditure Lid – A school district may ask voters to exceed the spending limit through a special election. Effective for one fiscal year only.

Appendix D : 2016/17 Levy Exclusions



Voluntary termination agreements with certificated employees – Amounts to be paid to certificated employees in exchange for a voluntary termination of employment.

Special Building Fund Projects – Amounts to pay for special building fund projects started before April 1, 1996.

Health and safety modifications – Levies approved for the purposes of environment hazard abatement, accessibility barrier elimination, or for modifications for life safety code violations, indoor air quality, or mold abatement and prevention. A levy for this purpose may not exceed ten years.

Judgments not covered by liability insurance – Any amount for judgments obtained against a school district that are not covered by liability insurance.

Lease-purchase contracts approved prior to July 1, 1998 – The amount of any yearly lease payments for any active lease-purchase contracts.

Bonded indebtedness – The amount to retire the principal and interest on a bond that was approved by a vote of the taxpayers in the school district.

Special Election to Override the Levy Lid – A board of education or the patrons of a school district may call for a special election to exceed the levy limitation. The special election ballot must include the amount of the excess levy authority being sought and the number of years for the excess levy. A levy override may not exceed five consecutive school fiscal years.



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