

School spending has been a frequent discussion point as Nebraska lawmakers have worked to find ways to reduce our high reliance on property taxes to fund K-12 education. Below we examine some key factors regarding the way our state's public schools utilize their funding.

What Nebraska schools spend

A Legislative Fiscal Office study found spending by Nebraska's public K-12 schools grew at an average of 3.5% annually between FY07 and FY17.¹ The state's portion of that spending grew 1.8% annually on average during this time.² As state support lagged spending growth, schools had to rely more heavily on local property taxes.³ Also, the 3.5% level of spending growth over the decade was lower than in the previous decade as school spending grew 5.5% a year on average between FY 87 and FY 97 and by 5% on average between FY 97 and FY 07. While total school spending does typically increase every year in dollar amounts, when viewed as a share of personal income, school spending in Nebraska has actually declined. An analysis of Nebraska Department of Education Data show that in 2018, Nebraskans spent less on K-12 education per \$1,000 of personal income than they did in 1993.

Why we use personal income growth to reflect inflation

School spending between 1993 and 2018 exceeded the Consumer Price Index (CPI) by more than \$1 billion. Over this same period, however, school spending trailed personal income growth by about \$130 million. CPI measures the average change over time in prices paid by consumers of goods and services. However, household purchases are fundamentally different from the costs accrued by school districts and other local governments. For example, income growth is not included in CPI but school salaries composed 55% of Nebraska school spending in FY 17-18. Therefore, using CPI to assess school spending would omit a large cost driver in school budgets. Personal income, on the other hand, includes growth in salaries, and also reflects the ability of Nebraskans to pay for goods and services.

Demographic change having a major impact on school spending

The LFO report⁴ finds that school spending growth in Nebraska has been largely impacted by a demographic shift that has many people moving from rural to urban parts of the state. The shift has resulted in enrollment declines in many rural school districts and surges in many urban school districts -- both of which have major implications for what schools cost. Of Nebraska's 244 school districts, 154 -- the vast majority of which are in rural Nebraska -- saw enrollment decline between FY07 and FY17. Districts with declining student population, however, still have significant fixed costs because, unless

¹ Nebraska Legislature, Legislative Fiscal Office, "Historical and Current Nebraska K-12 School Data," accessed at https://nebraskalegislature.gov/pdf/reports/fiscal/k-12_school_data-2018.pdf on Aug. 21, 2019. (Page 28)

² Ibid 1 (Page 48)

³ Ibid 1 (Page 40)

⁴ Ibid 1 (Page 11)

enrollment drops dramatically, such districts still need teachers and support staff to instruct the remaining students. Also, building maintenance and utility costs don't go down if there are fewer students nor does the cost of making building improvements to help meet mandated responsibilities such as educating students with special needs. This causes increased per-pupil spending in these districts as a relatively similar amount of money is being used to educate a smaller number of students. Costs will rise in districts with rising enrollment, too, as these districts need more teachers and facilities to educate the increased number of children.

The combined effect of declining enrollment and fixed costs in many rural districts and increasing enrollment and rising costs in urban districts is an increase in overall average per-pupil spending statewide.⁵ Enrollment is likely to continue to decline in many rural Nebraska school districts as rural Nebraskans continue to move to our urban areas, the LFO report notes, which means overall per-pupil costs will likely continue to rise.⁶

Increase in teachers, health professionals also contributing to rise in school costs

In the last 30 years, the total number of teachers and health-related professionals in Nebraska's public schools has increased by 39.3%. Elementary school teachers accounted for the vast majority of this increase. The increase in teachers was necessitated in part because of an increase in students, particularly in Nebraska's largest school districts. Meanwhile, many of the increases in health-related staff such as speech pathologists, occupational therapists, physical therapists and others were mandated by federal and state laws to help address increased needs, particularly with regard to educating students with special needs.⁷ This increase in teachers and health-related professionals has required schools to increase their spending on salaries and benefits, which are the largest cost items in school budgets.

Administrator salaries are not a major driver of school spending

While more teachers and health-related professionals have been hired in recent years, the LFO report notes that school administrative staff declined as a percentage of total staff from 6.4% to 5.5% between FY07 and FY17. Almost 80 percent of school spending in Nebraska is on salaries and benefits⁸ but U.S. Census data show that only 4.7% of salary funding went to administrators.⁹ Nebraska spent less on school administration per pupil than 34 other states in 2017 as the state's administrator costs were \$599 per pupil versus a national average of \$674 per pupil, U.S. Census data show.¹⁰

⁵ Ibid 1 (Page 11 and Page 36)

⁶ Ibid 1 (Page 36)

⁷ Ibid 1 (Pages 15-16)

⁸ U.S. Census, "2017 Public Elementary-Secondary Education Finance Data," (table 8) accessed at <https://www.census.gov/data/tables/2017/econ/school-finances/secondary-education-finance.html> on Oct. 9, 2019.

⁹ Ibid 8

¹⁰ Ibid 8

Increased cost of benefits, substitute and teacher aide salaries a factor in school spending increases

Regular teacher salaries are the largest school spending item but they represent a smaller share of school expenditures than they have in the past. The regular teacher salary share of school costs declined from 42.6% to 35.7% over the past decade, the LFO report shows.¹¹ However, overall spending on salaries and benefits have increased with benefits, substitute teacher and teacher aide salaries making up an increasingly large share of school costs -- increasing from 12.3% to 20.3% on average between FY07 and FY17.¹²

Operations cost growth has declined, construction cost growth is on the rise

The LFO report showed that operations costs -- which cover salaries, instruction and other costs --- in Nebraska's schools have grown at a lower rate than in previous decades. Operations costs grew at 3.5% annually on average between FY07 and FY17. Average annual operations cost growth was 5.5% between FY87 and FY97 and 5% between FY97 and FY07. Factors that contributed to operations costs growing at a lower rate included a reduced number of school districts caused by district consolidation. Over the past ten years (FY07 to FY17), there were 11 mergers, unifications, or dissolutions of Class 2-5 systems, the LFO report showed. In the prior 10 year period (FY97 to FY07), there were 28.

While operational costs slowed, construction-related costs increased from an average of 3.5% between FY97 and FY07 to 7.5% between FY07 and FY17. The demographic shift in which Nebraskans are moving from rural to urban parts of the state is playing into this. A 2018 survey of school districts conducted by the Nebraska Rural Community Schools Association¹³ found that in many rural districts, construction costs have increased as schools have made needed repairs and upgrades to aging facilities. In growing districts, construction costs have increased as more facilities have been needed to accommodate the growing number of students, the survey found.

Spending can fluctuate greatly year to year based on needs

Exactly how much a school district spends can vary significantly from year to year. For example, if a school district needs new textbooks, it may spend more on supplies in one year but less the next year. Additionally, schools may face unanticipated and unavoidable expenses in a given year. For example, if a student with limited mobility moves into a district, the school may be required by federal and state mandates to

¹¹ Ibid 1 (Page 27)

¹² Education Week, "Staff Benefits Are Eating Up Bigger Shares of District Budgets, Report Finds," accessed at http://blogs.edweek.org/edweek/teacherbeat/2018/08/benefit_spending_bigger_shares_district_budget.html on Sept. 16, 2019.

¹³ Nebraska Rural Community Schools Association, "The Real Story Behind School Spending In Nebraska," accessed at https://drive.google.com/file/d/18nWm_OrlOAgv8HhVtmLuXPD0iIKXVM2P/view on Oct. 31, 2019.

purchase a bus with a wheelchair lift. This mandated expense would increase that district's budget considerably over previous years, particularly if this occurs in a smaller district. These fluctuations can cause a district's spending growth to significantly exceed or fall below the statewide average in a given year.

Conclusion

As discussions continue about ways to lower our high reliance on property taxes to fund K-12 education, it's important for state leaders to understand the multitude of factors behind school spending in Nebraska. Demographic shifts, federal and state mandates and unexpected costs all can have a considerable impact on school district spending as well as the state's overall per-pupil spending. Keeping these factors in mind will help state leaders make sound decisions regarding property taxes and school funding while avoiding policy choices that would have detrimental effects on our state's schools and our children.