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One of the many concerns raised about LB 974[1], the Revenue Committee's property tax proposal, is that it would tie school spending to the Consumer Price Index (CPI) measure of inflation. CPI measures the change over time in prices paid by consumers for common household purchases. School districts and other local governments, however, spend money in a considerably different manner than households. Namely, salaries and benefits make up the lion's share -- about 80% -- of school spending.[2] CPI does not account for income growth, and therefore omits a large cost determinant of school spending.

Linking school spending growth to CPI will result in unpredictable budgeting

CPI is unpredictable from year to year. For example, CPI increased by 3.8% from 2007 to 2008, decreased by .4% from 2008 to 2009, and increased by 1.6% from 2009 to 2010.[3] If school districts are allowed to increase budgets by 2.5% -- the maximum allowed in LB 974 -- in one year and may have to unexpectedly halt spending or dramatically cut back growth in the following year, they will not be able to effectively plan ahead for major, multi-year funding needs. Any large expense, such as purchasing additional buses or needed building repairs, will be extremely hard for schools to budget for if they can't predict what their spending authority will be in future years.

Not only is CPI change unpredictable, but it doesn't match the growth of costs that schools face. School districts must devote a sizable portion of their budgets to benefits, such as health insurance, which grows faster than CPI on average. Between December 2005 and December 2018, CPI grew by 27.7% while health insurance costs increased by 40.5%.[4] Health insurance costs are volatile and can differ dramatically from CPI in certain years. In 2007, for example, insurance costs increased by 12% while CPI increased by less than 4%. Although health insurance costs stagnated for the next few years, they increased almost 15% in 2012 while CPI increased by less than 2%. In any given year, if health insurance costs balloon while spending growth is limited to 2% or lower, schools will be forced to dip into cash reserves or make cuts.

Comparing school spending and property taxes to CPI leaves out the full story

Some have cited the fact that school spending and property tax growth in Nebraska has outpaced CPI as a reason to limit school spending growth to change in CPI. Comparing

[1] Nebraska Legislature, "LB 974," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=41351 on Jan. 24, 2020.
[2] 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.
[3] Federal Reserve Bank of Minneapolis, "Consumer Price Index, 1913 – " accessed at https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator/consumer-price-index-1913- on Jan. 29, 2010.
[4] InflationData,com, "Health Insurance Inflation," accessed at https://inflationdata.com/articles/cost-of-living/health-insurance-inflation/ on Jan. 29, 2020.

school spending to the personal income measure of inflation, which does account for growth in salaries and as such is more reflective of what schools spend, tells a different story. School spending growth in Nebraska between 1993 and 2018 exceeded CPI growth by more than $1 billion. Over this same period, however, school spending growth trailed personal income growth by about $130 million.[5]

Important to account for state role in property tax increases

Others have recently advocated for stricter school spending caps by noting that local property taxes in Nebraska – 60% of which go to school districts[6] -- have increased by more than 50% over the past decade while CPI inflation only grew by 17%.[7] However, comparing school spending and property taxes to inflation doesn't account for the impact that reductions in state funding for K-12 education have had on property taxes in many Nebraska school districts.

During the recent hearing on LB 974, a school board member from Milford spelled out that his district -- a rural, equalized district -- requested roughly $3.5 million from property taxpayers in FY11 and $5.3 million in FY17, an increase of $1.8 million. Over the same period of time, state aid to Milford declined by nearly $1.7 million. Once the loss in state aid is accounted for, Milford's revenue increased by little more than $100,000 over the span of seven years. When state aid decreases, schools are forced to levy additional property taxes to maintain the same level of services. Increased student needs, demographic shifts and many other factors can play into what a school spends and taxes, too. Read our recent policy brief on school spending in Nebraska to learn more about the various factors that impact how our public schools use their funding.

Conclusion

When discussing inflation in relation to spending by school districts, it's important to use a suitable metric and to consider the full spectrum of factors that affect school funding and property taxes. Examining increased property tax requests by school districts is only part of the story, as these increases are often necessitated by a reduction in state aid to school districts. Evaluating all of these factors in the aggregate will help policymakers make sound decisions that can reduce our high reliance on property taxes while also protecting our vital investment in K-12 education.

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[5] Id 3

[6] Property Assessment Division, "2018 Annual Report of the Property Assessment Division" (table 9), accessed at https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/pad/research/annual-reports/2018/annrpt2018_table_9.pdf on January 30, 2020.

[7] Omaha World Herald, "Gov. Ricketts declares property tax relief the top priority; rural senator wants more relief," accessed at https://www.omaha.com/news/state_and_regional/gov-ricketts-declares-property-tax-relief-the-top-priority-rural/article_64115ac5-d35d-5f7c-90d1-4185aca7b6d6.html on January 30, 2020.