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Financing Public Elementary and Secondary Schools in Nebraska

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C. Cale Hudson
Katherine Lewellan Kasten

Nebraska's system for funding public schools is deteriorating. Shifts in population, variations in tax capacity, and changes in the mission defined for public schools make the current system inadequate and inequitable. Funding problems are compounded by the large number of school districts which divide human and financial resources in the state unequally. Problems in the finance system are described, and suggestions for determining the minimum education program to be funded, the most cost-effective organization of school districts, measures for fair acquisition of funds, and procedures for equitable allocation of state aid to public schools are discussed.

Theoretically all the children of the state are equally important and are entitled to have the same advantages; practically this can never be quite true. The duty of the state is to secure for all as high a minimum of good instruction as is possible, but not to reduce all to the minimum; to equalize the advantages to all as nearly as can be done with the resources at hand; to place a premium on those local efforts that will enable communities to rise above the legal minimum as far as possible; and to encourage communities to extend their educational energies to new and desirable undertakings (Cubberley 1906, cited in Johns, Morphet, and Alexander, 1983).

Nebraskans traditionally have held high expectations for their public schools and have given them strong local support. Graduates of the system have ranked well in national comparisons and have supplied an excellent pool of employees for the state's needs (Hughes, 1987). These results are evidence of the esteem with which education has been regarded by the public. Although

Nebraska teachers have been paid poorly, compared with teachers in other states and with other professionals, the educational system has provided a quality product for a bargain price. Education and the system for delivering it have been valued highly and given high priority, particularly at the local level.

In the mid-1980s, however, the values and priorities of previous eras are changing. Depopulation in rural communities, an aging population, a decline in the proportion of households with school-aged children, and a stressed economy have caused concern about the future of public support for education. Increasing life spans and the movement of young people out of the state have contributed to a higher median age among Nebraskans.

As people live longer, their needs for services change, and their spending priorities change. State general aid to education has been reduced at a time when the pattern nationally has been to increase state support. Local taxpayers in Nebraska have been asked to assume a greater share of the cost of schooling at a time when fewer of them are directly involved with the public schools.

Advocates of the public schools must pay attention to these shifts. As support for the public schools is threatened, the equity and efficiency of the state's system for providing financial support to the schools become crucial issues for policy decisions.

System for Funding Schools

The legal responsibility for the provision of educational services is vested in states under Amendment 10 of the Constitution of the United States, which provides that "the powers not delegated to the United States by the Constitution, nor prohibited by it to the

States, are reserved to the States respectively, or to the people." The Constitution of the State of Nebraska establishes the state's interest in education: "The Legislature shall provide for the free instruction in the common schools of this state of all persons between the ages of five and twenty-one years" (Article VII, Sect. 1).

The state's mission for the public school system was defined in LB 994, an omnibus educational reform bill passed by the Unicameral in 1984:

The Legislature hereby finds and declares that the mission of the State of Nebraska, through its public school system, is to:

- (1) Offer each individual the opportunity to develop competence in the basic skills of communications, computations, and knowledge of basic facts concerning the environment, history, and society;
- (2) Offer each individual the opportunity [to] develop higher order thinking and problem-solving skills by means of adequate preparation in mathematics, science, the social sciences, and foreign languages and through appropriate and progressive use of technology;
- (3) Instill in each individual the ability and desire to continue learning through his or her life;
- (4) Encourage knowledge and understanding of political society and democracy in order to foster active participation therein;
- (5) Encourage the creative potential of each individual through exposure to the fine arts and humanities;
- (6) Encourage a basic understanding of and aid the development of good health habits; and
- (7) Offer each individual the opportunity for career exploration and awareness. (Statutes of Nebraska, Sect. 79-4140.1)

This mission statement provides a basis for evaluating the adequacy of the system of funding public elementary and secondary education in Nebraska.

Constitutional Authority for Revenues

Public school districts in Nebraska rely on several sources of revenue. The authority for several of these is provided in the state constitution.

Fines, Fees, and Licenses. The state constitution provides that all fines, penalties, and license money accrued under the general laws of the state, cities, villages, precincts, or other municipal subdivisions shall be used to support the common schools in the respective subdivisions where the moneys were accrued (Article VII, Sect. 5; Statutes of Nebraska, Sect. 79-1301). Exceptions are fines and penalties for overloading of vehicles and 50 percent of the money seized or forfeited in drug law enforcement. In the 1985-86 school year, approximately \$13.3 million in revenue was generated by local and county fees and licenses and fees assessed on trucking fleets. These revenues are distributed to local school districts on the basis of school-aged census.¹

School Lands. The constitution also designates "perpetual funds for common school purposes" generated by the lands originally set aside by the federal government in each territory for the maintenance of public schools under the Ordinance of 1785 (Article VII, Sects. 6-9; Statutes of Nebraska, Sects. 79-1302-08). When Nebraska attained statehood on March 1, 1867, 2.8 million acres of land were received from the federal government for support of schools. Some of the land was sold and the receipts became part of a trust fund established to support schools. Approximately 1.5 million acres of public school lands remain, and revenue generated by use of these lands supports schools. School districts containing school endowment lands receive

revenue from lease fees in place of property tax revenue. In 1985-86, approximately \$4.4 million was distributed to school districts as in-lieu-of school land tax. The remaining revenue generated by lease fees and the interest earned on the land grant trust accounted for \$13.6 million, which was distributed to schools on the basis of school-aged census.

Property Tax. The Constitution of Nebraska provides for the use of property taxes to support services provided for units of government below the state level. Such units include school districts, municipalities, counties, public authorities, and a host of other agencies. State statutes define parameters for the use of property taxes by school districts (Article VIII, Sect. 1; Statutes of Nebraska, Sects. 79-432-34). Historically, property taxes have provided the largest revenue source for supporting public schools. In 1985-86, local property taxes provided \$516.2 million in revenue for the support of schools, or 58.4 percent of the total revenue available to school districts statewide.

Public Power Tax. The Constitution of Nebraska (Article VIII, Sect. 11) establishes taxes on public corporations and on political subdivisions organized primarily to provide electricity. The tax is 5 percent of the retail sales in incorporated cities and villages. School districts within such tax units receive a portion of the revenue generated. In 1985-86, school districts received \$9.2 million from public power district sales.

Statutory Authority for Revenues

Statutes of the State of Nebraska provide additional revenue sources for the support of public elementary and secondary schools.

School Foundation and Equalization Fund. The state's general aid to education formula, described in Sections 79-1330-44 in state statutes, is summarized here. The amount of money to be distributed is determined by the Unicameral, but no state agency or official has discretionary power over the funds distributed.

The formula has three parts. The first, and the one given priority in the statutes, is called Foundation Aid. It is a grant distributed to school districts on the basis of resident enrollment, with the monetary amount weighted by grade level. Districts receive the basic grant for students in grades one through six, half the basic grant for kindergarten students, 1.2 times the basic grant for students in grades seven and eight, and 1.4 times the basic grant for students in grades nine through twelve. In 1985-86, \$90.6 million of state support was distributed as Foundation Aid.² The fundamental purpose of state Foundation Aid is property tax relief.

The second section of the general aid formula, Incentive Aid, provides aid to school districts based on the educational degree status of teachers and aid for summer school programs. State statutes provide \$350 for each certified teacher holding a doctorate degree, \$250 for each teacher holding a 6-year or a master's degree, and \$150 for each teacher holding a bachelor's degree. The formula also provides compensation of \$.20 per student hour for each student participating in a summer school program, with maximum compensation of \$18 per student. In 1985-86, this part of the state aid formula provided \$3.6 million in revenue for school districts statewide.

The third section of the general aid formula is Equalization Aid, the residual of the total appropriation after Foundation Aid and Incentive Aid have been

provided. Districts qualify for this aid if the minimum qualifying tax levies and the accountable receipts defined in the formula do not equal guaranteed amounts. The guaranteed amounts are set on the basis of the funds to be distributed and bear no relationship to the actual costs of education. Weighting factors are built into the distribution formula; students are weighted by grade level, as in Foundation Aid. Additional weights are provided for sparsity of student population, enrollment increases or decreases within certain minimum and maximum parameters, students transported over 4 miles, and local programs for gifted and culturally deprived students.

In 1985-86, 19 percent of all school districts in Nebraska qualified for Equalization Aid, and \$32.9 million was distributed. Because the revenues from a minimum qualifying levy are factored into the formula, and because of the need factors noted earlier, Equalization Aid provides funds to the districts that have the lowest assessed property tax values per pupil and those with greater need, as defined by the formula. Equalization Aid in Nebraska might be more appropriately described as a foundation plan, such as that suggested in the early 1920s by George D. Strayer and Robert M. Haig, in which the state requires each district to tax at or above a minimum level and counts the tax revenue toward a state-guaranteed level of support (Garms, Guthrie, and Pierce, 1978).

Foundation plans have been the most prevalent systems for providing state aid for operating revenues of school districts. Augenblick (1984) noted that 22 states use this system, 10 states use a guaranteed tax base approach, and 14 states combine the two methods into a multiple-tier system.

While Nebraska's system may seem to be well within the mainstream of what other states are doing, about 70 percent of the funds have recently been distributed as flat grant money (Foundation Aid) rather than as Equalization Aid. Thus, the Nebraska system is quite atypical.

The Unicameral establishes the appropriation for state general aid each year and the monetary amount for each part of the formula. Over the 20-year history of state general aid in Nebraska, the proportion of the total appropriation designated for Foundation Aid and Equalization Aid has shifted markedly, but the amount designated for Incentive Aid has remained relatively stable (table 1). As the revenue priority has shifted to Foundation Aid, the capacity to equalize resources available to school districts throughout the state has diminished.

Table 1 - State general aid appropriations to public schools, Nebraska, 1972-73 to 1986-87

Year	Type of aid						
	Foundation		Incentive		Equalization		Total
	Million dollars	Percent	Million dollars	Percent	Million dollars	Percent	
1972-73 ₁	12.9	36.8	2.9	8.4	19.2	54.8	35.0
1973-74	22.8	41.4	3.1	5.6	29.1	53.0	55.0
1974-75	22.6	41.1	3.2	5.8	29.2	53.1	55.0
1975-76	20.0	38.0	3.3	6.3	29.2	55.7	52.5
1976-77	22.3	40.6	3.4	6.1	29.3	53.3	55.0
1977-78	19.6	35.7	3.5	6.4	31.9	57.9	55.0
1978-79	21.5	39.1	3.5	6.4	30.0	54.5	55.0
1979-80 ₂	24.4	44.4	3.6	6.6	27.0	49.0	55.0
1980-81 ₂	57.0	60.0	3.6	3.8	34.4	36.2	95.0
1981-82	57.0	60.0	3.5	3.6	34.5	36.4	95.0
1982-83 ³	96.5	72.2	3.5	2.6	33.7	25.2	133.7
1983-84	96.5	72.1	3.4	2.6	33.8	25.3	133.7
1984-85	96.5	72.2	3.5	2.6	33.7	25.2	133.7
1985-86	90.6	71.3	3.6	2.8	32.9	25.9	127.1
1986-87	89.2	71.3	3.6	2.8	32.3	25.9	125.1
1987-88	87.4	71.6	3.6	2.9	31.6	25.5	122.6

¹Personal property tax exemption began.

²State aid increased by \$40 million.

³State aid increased by \$40 million transferred from personal property tax exemption rebates.

Tax on Insurance Premiums. State statutes also establish a tax on insurance premiums for support of state and county government (Sects. 77-907-14). The statutes allocate 50 percent of the revenues to the counties; 60 percent of the revenues allocated to counties are distributed to public schools and apportioned according to per-pupil average daily attendance. In 1985-86, this tax provided \$8.4 million in revenue to schools.

Special Education Funding. State statutes also define a number of categorical programs that provide revenue to public elementary and secondary schools. The largest is aid for handicapped children (Statutes of Nebraska, Chap. 43, Article 6). Nebraska is one of 27 states that supports programs for special education through categorical funding. Other states, including Iowa, distribute special education funds through the general aid formula.

Using guidelines for identification developed in state statutes (Sect. 43-604) and Nebraska Department of Education Rule 51, 11.4 percent of Nebraska's children have been identified as handicapped, which is slightly more than the national average of 10.8 percent (Nebraska Department of Education, undated). School districts have been reimbursed for services to handicapped children on the basis of 90 percent of allowable costs in excess of the average cost of education, 1 year in arrears. Transportation costs currently are reimbursed at 90 percent of costs, although the reimbursement was 100 percent until the law was changed in 1986. In 1985-86, school districts in Nebraska received state revenues of \$51.1 million to support special education programs and transportation.

Costs for educating handicapped children have been examined closely in Nebraska during the past few years.

Critics suggest that either costs have risen exorbitantly, or that too many children are being identified as needing special services. It is true that costs have risen. In 1974-75, the budget for special education was approximately \$16 million in Nebraska. By 1984-85, costs were approximately \$74 million. When this comparison is made based on deflated 1972 dollars, the increase is from approximately \$14.5 million to approximately \$29.5 million. At the same time, the number of children served increased from 23,288 (ages 5 through 18) to 30,734 (ages 0 to 21) (Nebraska Department of Education, undated). The proportion of total instructional costs devoted to special education increased from less than 10 percent in 1977-78, to more than 12 percent in 1982-83 (Nebraska Department of Education, undated). As indicated in a Nebraska Council of School Administrators position paper (1986), the increases in both money and numbers can be tied to specific policy changes, such as inclusion of learning disabled children, expanding the age range of students, adjusting the cost formula, and otherwise adjusting the categories of students served.

Nebraska is 1 of 12 states that uses an excess cost formula, which determines state aid as a percentage of the costs in excess of the costs of educating a nonhandicapped student (Crownier, 1985). This type of funding has advantages and disadvantages. While the formula includes no incentives for identification, particular types of placements, or maximum class sizes, it provides for local control and adequate funding. The formula also may discourage cooperative programs and may be more fitted to the needs of local educational agencies rather than state government (Special Education Task Force, 1985). Other formulas permit more state control over the cost of the program, although they may not serve students as well. In the 1987 legislative

session, the Unicameral stipulated in LB 413 that growth in the costs of Level I services, those provided to students for less than 3 hours a week, will be shared between the state and local districts. The state will pay half of cost increases until the state's share drops to 80 percent of the total excess cost. This provision is a move toward greater state control over program costs.

Nonresident Tuition. Because of the large number of Class I school districts, none of which serve students above grade eight, the issue of tuition payments to districts that provide education for these students has been a major concern. In 1985-86, these tuition payments totaled \$29.5 million (about 3.3 percent of school districts' general fund revenue).

The constitutionality of the statute governing determination of the tuition to be paid was successfully challenged in the courts (*Ewing v. Scotts Bluff County Board of Equalization*). In 1987, the Unicameral answered the objections of the court by revising the controlling statute (Statutes of Nebraska, Sect. 79-4102) to remove the discretionary right of school boards to accept less than the amount calculated through the formula.

Because the method for determining tuition amounts involves the use of a 5-year average of students served, school districts may pay tuition in years when no students are enrolled or may pay no tuition when students are enrolled. Nonresident tuition is, however, a kind of user fee and, as such, violates the principle of public education being supported as a public responsibility.

Other State Revenue Sources. State statutes authorize several other categories of programs for students, including vocational education (Statutes of

Nebraska, Sects. 79-1419-35) and support for wards of the court (Statutes of Nebraska, Sect. 79-445).

Distribution of Revenue Sources

In addition to the revenue authorization discussed above, Nebraska school districts derive revenue from federal categorical programs, that is, money allocated for specific categories of programs or students, and federal noncategorical programs such as aid to districts that are impacted by federal installations and their employees. Each of these revenue services is summarized in table 2.

The distribution of revenue sources for the support of Nebraska schools is not typical of the distribution in most states. In 1984-85, the national average for state support of public education was 46.3 percent. Nebraska's level of state support in 1984-85 was 22.7 percent. Nebraska ranked 49 among the 50 states in level of state support in comparison with other states (U.S. Department of Commerce, 1986). Nebraska's level of local support, however, is correspondingly high in comparison with other states.

Moreover, local support for public schools has increased recently and state support has decreased (table 3). Local district taxes have increased as a source of revenue, while state aid has decreased. The decrease in state support means that sales and income taxes provide less support to schools, and property taxes provide more support. Because property taxes account for most of the local revenue to support schools (93.6 percent in 1985-86), Nebraska's school districts are more dependent on local property taxes than school districts in most other states.

Table 2 - Sources of revenue for Nebraska schools, 1985-86

Source of revenue	Amount (millions)	Percentage of total receipts
Local:		
District taxes	\$516.2	58.4
Public power taxes	\$9.2	1.1
Other	\$26.2	2.9
Total	\$551.6	62.4
County:		
Fines and fees	\$7.6	.8
Nonresident tuition	\$29.5	3.3
Other	\$.3	.1
Total	\$37.4	4.2
State:		
General aid	\$127.1	14.4
Special education	\$51.1	5.8
Wards of the court	\$1.1	.1
Apportionment	\$13.6	1.5
In-lieu-of school land tax	\$4.4	.5
Insurance premium tax	\$8.4	.9
Pro-rata motor vehicle	\$2.2	.3
Other	\$20.2	2.3
Total	\$228.1	25.9
Federal:		
Categorical programs	\$42.7	4.8
Noncategorical aid	\$9.8	1.1
Total	\$52.5	5.9
Nonrevenue sources	\$14.1	1.6
Total, all sources	\$883.7	100.0

Source: Nebraska Department of Education, Finance Section, "Financing Education in Nebraska," March 1987.

Table 3 - Sources of revenue for Nebraska school districts' general funds, 1982-86

Source of revenue	Year			
	1982-83	1983-84	1984-85	1985-86
	Percent			
Local district taxes	53.68	54.89	55.22	58.41
All local sources	57.96	59.22	59.70	62.41
All county sources	4.31	4.05	4.26	4.24
State (formula)	18.02	17.01	15.53	14.38
Special education	5.36	5.48	5.55	5.78
All state sources	30.06	28.75	26.72	25.82
Federal aid	5.86	6.04	6.35	5.93
Nonrevenue sources	1.81	1.94	2.97	1.60

Sources: Nebraska Department of Education, Finance Section, "Financing Education in Nebraska: Comparison of Revenues and Expenditures for School Years 1982-83 and 1983-84," "Financing Education in Nebraska: Comparison of Revenues and Expenditures for School Years 1983-84 and 1984-85," and "Financing Education in Nebraska: Comparison of Revenues and Expenditures for School Years 1984-85 and 1985-86."

Organization of School Districts

The revenues described earlier are available in varying amounts and proportions to all school districts in Nebraska. The organization of school districts is an important element of the school finance system in the state.

In 1986-87, there were 302,836 children enrolled in public and private schools throughout Nebraska.³ During that period 35,697 students (11.8 percent) were enrolled in private schools. The remaining 267,139 students were the responsibility of the 927 fiscally independent school districts in the state, or they were enrolled in state-operated schools.

Classification of School Districts

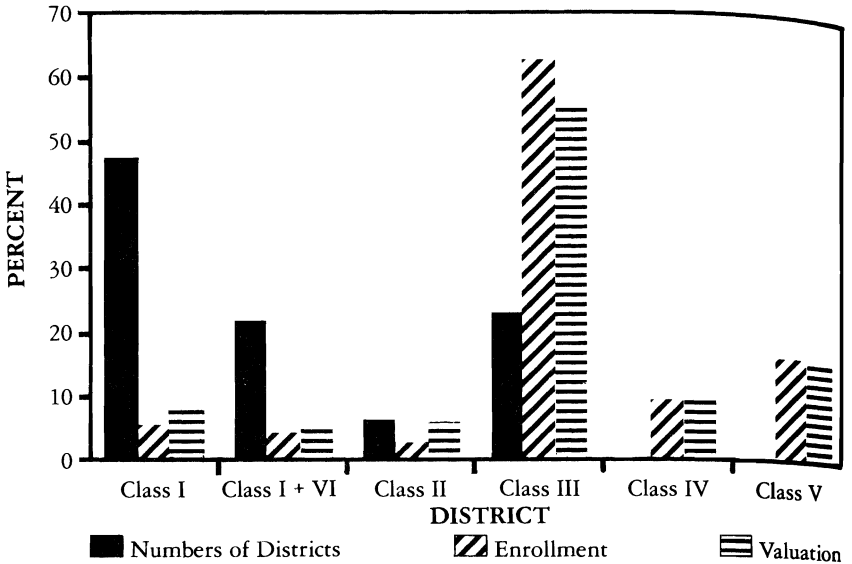
The Statutes of Nebraska (Sects. 79-102-106) establish a classification system for school districts. The six classes of school districts are defined as follows:

- Class I: Elementary grades only;
- Class II: 1,000 or less resident population and elementary and high school grades;
- Class III: More than 1,000 and less than 100,000 resident population and elementary and high school grades;
- Class IV: 100,000 or more and less than 200,000 resident population and elementary and high school grades;
- Class V: More than 200,000 resident population and elementary and high school grades; and
- Class VI: Only secondary grades.

The city of Lincoln is the only Class IV school district in the state, and the city of Omaha contains the only Class V school district in Nebraska.

Most of the independent school districts provide educational services for a few students and are Class I districts, while most students are enrolled in Class III districts (figure 1). Moreover, property valuation in Nebraska is not distributed proportionate to student enrollment. The Class III districts, for example, enroll 64 percent of the state's students but include only 55.1 percent of the total valuation of property in the state. The Class I and Class VI school districts enroll 7.8 percent of the students and include 15.4 percent of the property valuation. The percentages of students enrolled and property valuation are comparable only in Lincoln and

FIGURE 1
Nebraska Public School Districts, by Class of District,
Student Enrollment, and Property Valuation, 1986-87



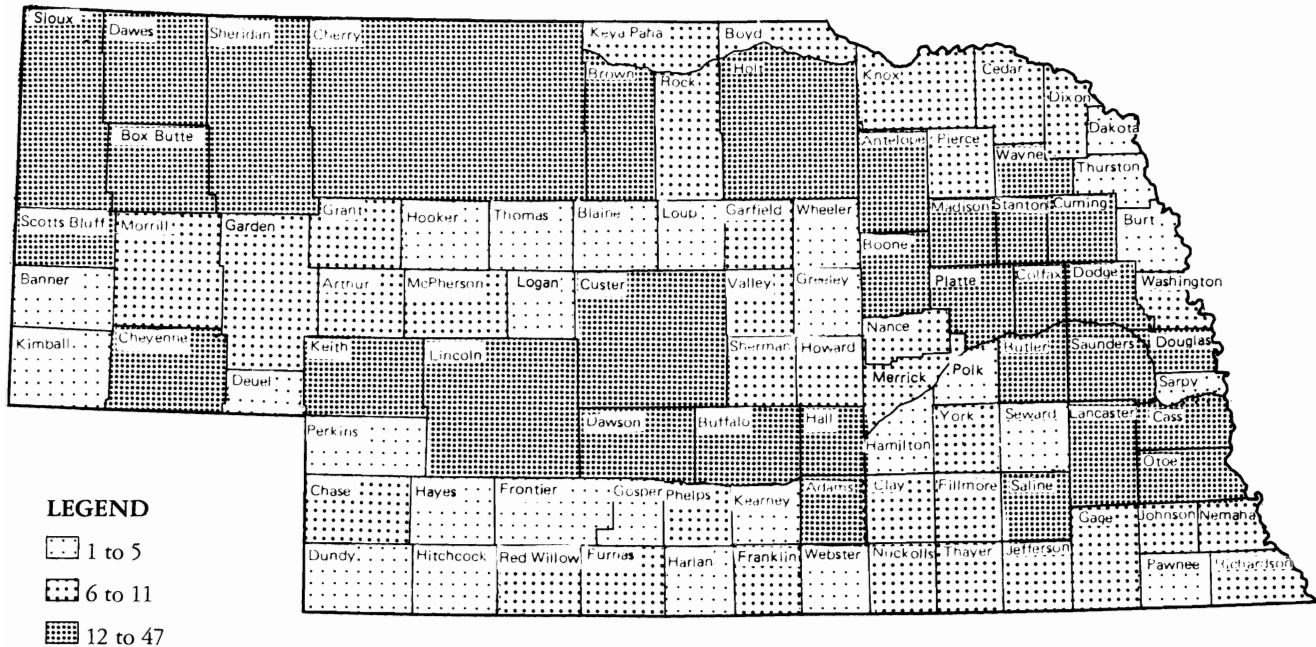
Note: Class I refers to those districts not attached to a Class VI district. Class I + VI includes those Class I districts that are attached to a Class VI district and the Class VI districts to which they are attached.

Source: Nebraska Department of Education, Management Information Services, "Nebraska Public School Districts — 1986-87."

Omaha (the Class IV and Class V districts). These disparities increase the pressure on the property tax in the Class III districts.

Figure 2 shows the county distribution of public school districts during the 1986-87 school year. Eight counties (Banner, Blaine, Dundy, Hayes, Hooker, Logan, Loup, and Wheeler) in the state had only one district, with student enrollments in these areas ranging from 135 in Loup County to 427 in Dundy County. Holt County, the county with the largest number of school districts, had 47 independent school districts, with the smallest enrolling one student and the largest enrolling 813. By contrast, Douglas County has the largest student

FIGURE 2
Distribution of Public School Districts in Nebraska,
by County, 1986-87 School Year



Source: Nebraska Department of Education, "Fact Sheet 1: Statistics and Facts about Nebraska Schools, 1986-87 School Year."

population among the counties. Douglas County had 14 fiscally independent school districts in 1986-87. The smallest, a Class I district, enrolled 14 pupils, and the largest, Omaha Public Schools, enrolled 41,638.

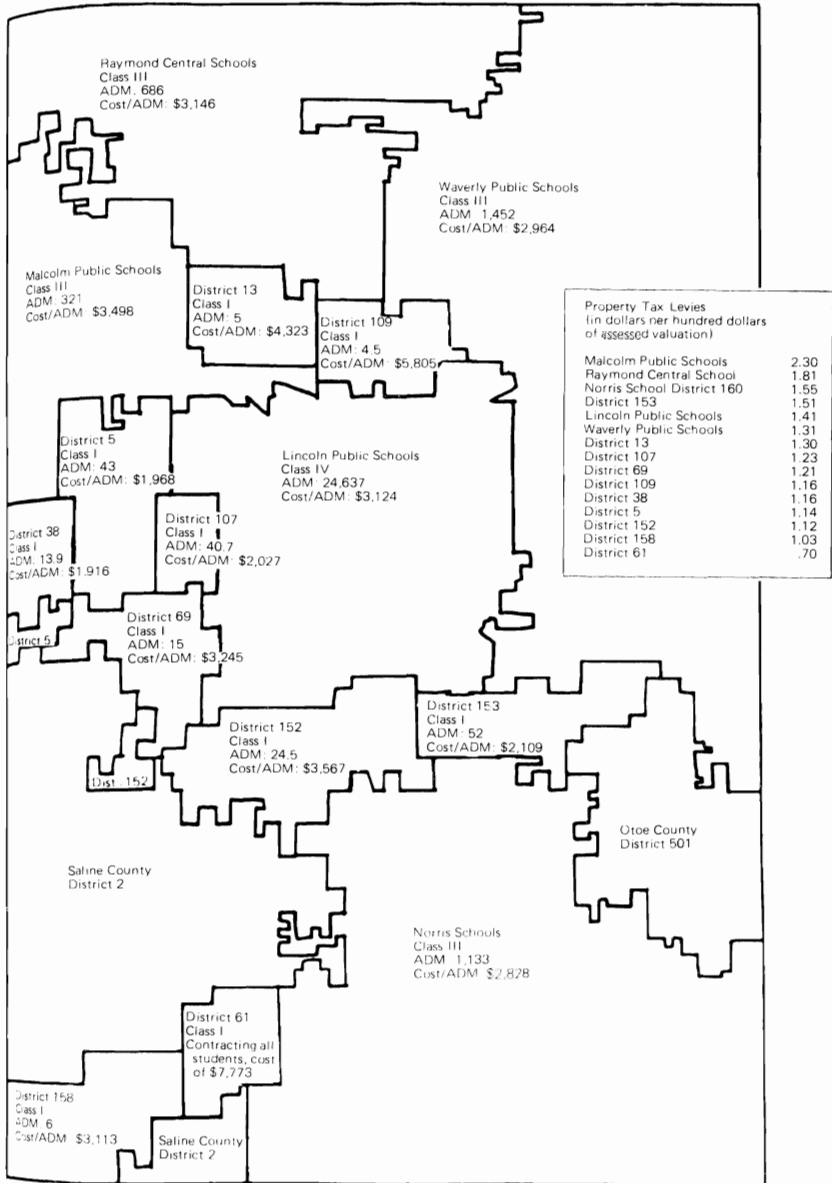
The current organization of school districts in Nebraska is easier to understand if the distribution of districts within a single county is examined. Figure 3 shows school districts headquartered in Lancaster County in 1985-86. Lancaster County is the state's second most populous county and includes the city of Lincoln.

Figure 3 illustrates that school districts that are headquartered in one county frequently contain property located in other counties. Norris Schools in Lancaster County, for example, includes property in Otoe and Gage counties, while some property in Lancaster County is part of the tax base of school districts headquartered in neighboring counties. Consequently, it is difficult to discuss student enrollments and property valuations by county. In addition, inequities in property assessment procedures among counties are reflected in inequities within a school district.

Figure 3 includes the property tax levies for the General Fund of the districts headquartered in Lancaster County. The districts differ in tax levies, student enrollments, and expenditures per student. Whether this represents a system of common schools, will be addressed later.

Although the number of public school districts in Nebraska has declined dramatically since 1949 when Nebraska had 6,734 fiscally independent school districts, the state still has an extraordinary number of districts in comparison with other states. Only Illinois, California, and Texas have more school districts than Nebraska and the public school enrollments in those states are 6.9 to 16 times larger than those in Nebraska.

Figure 3
School Districts in Lancaster County, Nebraska, 1985-86



Because the Class I districts typically operate without a superintendent or principal, Nebraska maintains the office of the county superintendent of schools. The 93 county superintendents assist the school boards in Class I districts. This assistance includes programming for special education students and evaluating teachers. The cost of maintaining the office of the county superintendent in 1985-86 was about \$2 million.⁴

A comparison with Iowa is helpful in understanding the district organization facing Nebraskans. Iowa, with 481,198 students and 436 school districts, is also considering school reorganization. Iowa has 23 school districts (5 percent) with fewer than 200 students and 140 school districts (32 percent) with fewer than 400 pupils (Roos, 1987). In comparison, Nebraska had 743 school districts (78 percent) with fewer than 200 students and 754 school districts (79 percent) with fewer than 400 pupils.

Reorganization of school districts has been a controversial issue in Nebraska for several years. In 1985, the Unicameral passed LB 662, which would have required the merger or affiliation of all Class I school districts in the state with Class II, III, IV, V, or VI districts by 1990. A petition drive resulted in a referendum on the ballot question in the November 1986 election. The reorganization was defeated by a substantial margin. The 1987 Legislature was again presented with bills concerning the reorganization of school districts. An agreement was made between the chair of the Education Committee and the governor to postpone any reorganization proposals until the 1988 session.

Educational Service Units

Educational Service Units are intermediate education agencies created by the Nebraska Legislature in 1965. Because the service units are financed largely by property tax revenues and by contract fees charged to local school districts, service units are a significant part of the total school finance system in Nebraska.

In LB 688, the 1987 Unicameral clarified the mission of the service units to be that of providing service to schools "as identified and requested by member school districts," providing "for economy, efficiency, and cost-effectiveness" in the delivery of educational services, providing "leadership, research, and development in elementary and secondary education," and assisting in the "enhancement of educational opportunities" in local schools.

Nebraska has 17 service units that include several counties each and 2 service units operated by school districts, which are the school districts of Lincoln and Omaha. Eight counties that currently are not part of any service unit will be placed in units by January 1988. Individual school districts will be able to withdraw from service unit membership between January 1 and December 31, 1988.

Service units are permitted by statute to levy taxes up to 3.5 cents per hundred dollars of valuation (Statutes of Nebraska, Sect. 79-2210). Approximately one-third of the service units are at, or near, this limit (Educational Service Unit Planning Committee, 1986). In 1984-85, local district taxes accounted for \$9.3 million of the \$25 million revenue for the general funds of all service units. Contracted services accounted for an additional \$12.7 million (Bowmaster, 1986). Approximately \$17.3 million of the \$25 million budget in 1984-85 was spent on

instruction, support services for pupils, support services for staff, business support services, and repair and maintenance. These were services that school districts would provide in the absence of the service units. Approximately \$2.5 million was spent on costs of administration and the operation and maintenance of service unit facilities.

Historically, the service units in Nebraska have operated with a great deal of discretion. As stated in the statutory revisions passed in the 1987 legislative session, the State Board of Education is required to develop rules and regulations for the accreditation of service units to ensure that service unit programs are evaluated at least every 7 years for responsiveness to school district needs. They are also required to ensure that public revenues are being used in ways consistent with the goals and mission assigned to the service units.

Enrollment Trends

Nebraska's problems with reorganization of school districts are very difficult to solve because of the uneven distribution of the population, including the school-aged population, within the state. The state's 16 counties that show consistent growth are also the counties with the largest population and the most economic diversity. In general, these counties are located along Interstate 80 and the Platte River, and they include the state's metropolitan counties.⁵ In 1980, these counties accounted for 66 percent of the state's population and only 16 percent of the land area (Deichert, 1986). According to the 1985-86 census of school-aged children, these counties contain 69 percent of the school-aged population. In addition, they contain the headquarters of 25 percent of the fiscally

independent school districts, and 56 percent of the assessed property valuation in the state.⁶

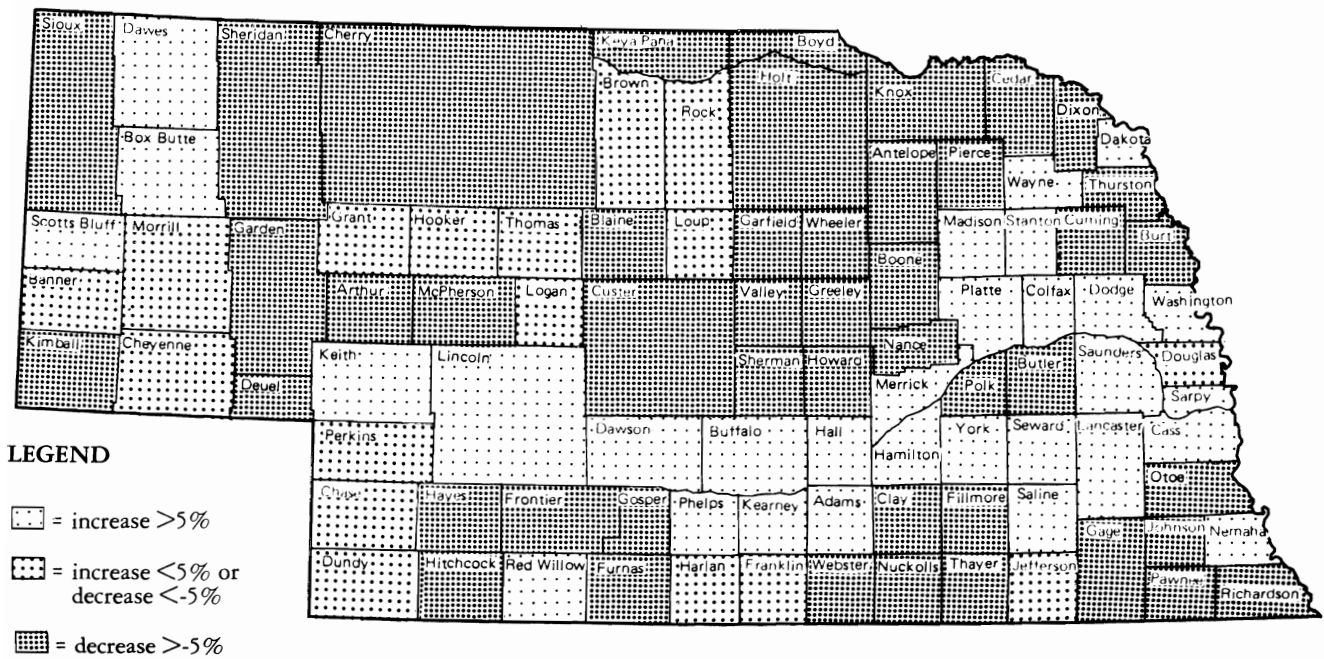
Thus, most of the state's school-aged children are enrolled in a few of the state's independent school districts. Local tax revenues are raised by taxing a disproportionately small share of the state's property tax base. These problems are likely to get worse in the next decade.

Figure 4 shows the projected percentage of losses and gains in numbers of children, ages 4-17, in the 93 counties of Nebraska by the year 2000. If these projections are accurate, the number of children in this age group will decrease in 62 counties. In 48 of these counties, the decrease will be 5 percent or greater (Deichert, 1982).

Problems in Financing Nebraska's Public Schools

The current system of financing and organizing school districts in Nebraska poses several important problems for public education. Each year several proposals are introduced in the Unicameral to modify the organization of school districts, the formula for state support, the funding for special education, or other educational programs. Historically, only incremental changes have been possible. The reorganization bill, which was passed by the Unicameral in 1985 (LB 662), was defeated by referendum. Major sections of the Omnibus Educational Reform Bill passed in 1984 (LB 994) have remained unfunded. Because the current system of financing schools relies so heavily on local support, problems with financing schools have become more serious in many parts of the state as population has decreased and the general economic condition has deteriorated.

FIGURE 4
 Projected Percentage Losses and Gains of Children
 Aged 4-17 in Nebraska by 2000



Source: J. A. Deichert. *Nebraska Population Projections 1985-2020*. Lincoln NE: Bureau of Business Research, University of Nebraska-Lincoln, 1982.

Imbalances in the Taxes Supporting Schools

Nebraskans appear capable of supporting public education. The state ranked 23rd in the nation in per capita income in 1985, and 12th in the percentage of personal income left after state and local taxes (Nebraska Tax Research Council, 1986).

Because the overall capacity of the state to support education appears underutilized, the extent to which the major tax sources are used deserves attention. The state's sales tax and income tax collections per \$1,000 of personal income in fiscal year 1984-85 ranked 39th and 36th respectively among the states (Nebraska Tax Research Council, 1986). Nebraska ranked 13th in the nation in the amount of local property tax collected per \$1,000 of personal income. The imbalance in the use of the three major tax bases to finance government, particularly the heavy burden on local property tax to support education, has had a negative impact on public relations for educators.

Local Tax Inequities

One of the problems facing Nebraskans is inequity in property tax bases, tax rates, and assessment practices among counties and school districts.

Tax Rates. Nebraska's constitution prohibits the levying of a property tax for state purposes (Article VIII, Sect. 1A). At the same time, school districts and other government units below the state level have become heavily dependent on property taxes as a source of revenue. In 1985-86, property taxes represented 93.6 percent of the revenues for the general fund received from local sources by school districts. This amount

represents 58.4 percent of all general school district fund receipts (table 2). School districts collected approximately 60 percent of all property taxes levied by local governments in Nebraska in 1985.⁷

Taxpayers are very aware of the property tax. They know how much they pay. Equity of the tax and accountability for its use are strong concerns. As the major users of the property tax, public elementary and secondary schools are subjected to close scrutiny by a tax-conscious public.

The property tax base per student is not uniform among school districts. Variation in the distribution of population and property wealth caused tax base per pupil ratios as high as 65:1 among the state's 281 Class II, III, IV, and V school districts during the 1986 tax year, with accompanying general fund tax rates ranging from \$2.82 to \$.76 per \$100 of valuation (Hudson, Smail, and Smail, 1987). Comparable tax rates for the 904 Class I, II, III, IV, and V school districts, when the Class I rates included levies for Class VI or secondary school tuition purposes,⁸ ranged from \$2.82 to \$.43 per \$100 of property valuation. The median tax rate for public schools was \$1.26 for all 904 districts and \$1.50 for the general fund of those organized as kindergarten through twelfth grade districts.

Nebraskans are most aware of inequities in tax rates when they compare their taxes with those of others in the general area. In 1986, property tax rate ratios between school districts were over two-to-one in 47 of the state's counties.⁹ For example, the range in tax rates for Adams County was \$0.48 in District 29 and \$1.55 in the Hastings district; in Butler County, it was \$0.54 in District 24 and \$1.76 in Rising City; and in Dawson County, it was \$0.53 in District 12 and \$2.23 in Cozad. These rates include levies for county high school tuition

or Class VI membership. Typically, the lower tax rates were levied on property in Class I school districts, even when the levies for secondary school costs were included in the totals. The perceived inequities in school tax rates, particularly among people in a common governmental unit, such as a county, are a source of discontent.

The range in tax rates illustrates the inequity in the current system for local support of schools. The issue is arguable because the lower rates usually occur in the more sparsely populated rural areas where a few individuals are major property holders and pay most of the property taxes. Farmers, ranchers, and other property intensive business owners are particularly burdened by the property tax and often view it as an unfair business tax. Action by the Legislature in 1985 to declare agricultural and horticultural land as a separate class for tax assessment purposes may shift property tax burdens in some areas rather dramatically to residence owners. Inequities in tax rates probably will not be alleviated because this statutory change merely legalizes a common practice, that is, underassessment of such property by county assessors. The net effect of the 1985 law cannot be determined at this time.

Assessment Practices. People frequently compare their tax rates to determine if they are being treated fairly. Such comparisons may lead to erroneous conclusions, because taxes paid are determined by multiplying a tax rate by the assessed value of the property--the tax base. Any tax system's equity is no greater than the accuracy by which the base for the tax is determined. The property tax base is arrived at by elected county assessors in Nebraska. Although elected, they must complete a modest training program provided

by the state that includes instruction in the use of uniform assessment practices.

Assessment-to-sales ratios for 1986 on single-family residential improved property typify the assessment problem.¹⁰ This class of property should be assessed at 100 percent of its market value. Among counties reporting over 100 sales in this classification, Adams County reported an assessment/sales ratio of 94.4 percent; Cass County, 75.6 percent; Douglas County, 85.9 percent; Hall County, 85.7 percent; and Saunders County, 70.1 percent. The variations are much greater when counties with fewer sales are included and when the other 17 classes of property are reported.

Because school districts often include property in two or more counties, yet levy a uniform property tax rate, the various practices of assessors result in taxpayers within the same school district paying an unequal amount of tax on what is actually comparable property. More inequity is introduced when the state distributes funds to school districts based on a formula that uses local property valuations as a measure of financial ability. This is what occurs in the Equalization Aid portion of the state general aid formula. Such misinformation provides a false impression of local fiscal capacity and gives an advantage to underassessed units in the form of a greater share of state aid appropriation.

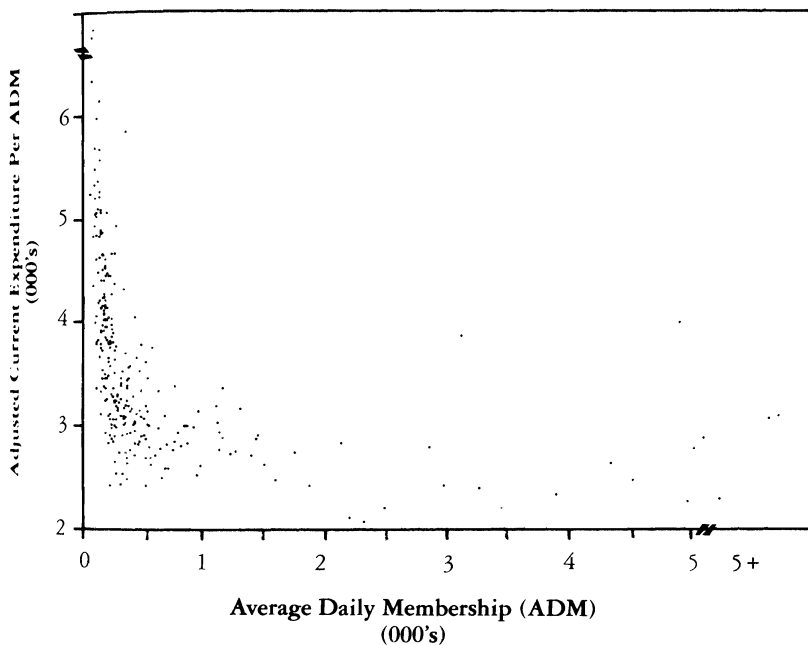
Local Spending Differences

Differences in spending per student among school districts occur for a variety of reasons and may indicate inequities in educational opportunities. When such differences are substantial, the causes should be

examined to determine whether the system is as efficient and effective as it might be.

Expenditures per Student. School districts' general fund expenditures per student vary greatly. In the 1985-86 school year, expenditures per student ranged from \$2,139 to \$8,085 in the 281 districts that provide education from kindergarten through twelfth grade. The range was much greater when the Class I districts, some with enrollments as low as one student, were considered. Figure 5 illustrates the relationship between the average

FIGURE 5
Adjusted Expenditures Per Average Daily Membership,
Nebraska, 1985-86¹



¹Data include Nebraska's Class II, III, IV, and V districts and are for the 1985-86 school year. Data were obtained from Nebraska Department of Education records.

daily membership of Class II, III, IV, and V school districts and expenditures per student. Figure 5 indicates that higher expenditures per student are related to lower enrollments. This relationship could be considered an efficiency, or cost-effectiveness, measure.

Education is a labor intensive industry, with salaries, benefits, and contracted human services accounting for 80-85 percent of the budget. Low student-employee ratios greatly increase expenditures per student. School districts with low enrollments are subject to wide variations in expenditures per student because the experience and formal education of faculty have a major impact on the school budget. Figure 5 suggests greater cost-effectiveness as a school district's enrollment reaches 250 to 1,000 students. The most cost-efficient school districts appear to have enrollments ranging from 1,000 to 5,000 students. Larger districts appear to have somewhat higher costs per student.

The Nebraska Department of Education reported similar relationships for the 1985-86 school year. The average cost per student was \$2,786 (for elementary programs) in Class I districts. The average cost per student was \$4,682 in Class II districts, \$3,197 in Class III districts, \$3,416 in Lincoln Public Schools (Class IV district), \$3,233 in Omaha Public Schools (Class V district), and \$4,785 in Class VI districts (secondary programs only).¹¹

Teachers' Salaries. Nebraska does not pay teachers well in comparison with other states. Nebraska ranked 42nd among the states in average salary paid to teachers in 1985-86 (Nebraska State Education Association, 1986). South Dakota was the only adjacent state with a lower average salary (National Education Association, 1986).

Table 4 shows information about experience, degrees, and average salaries of teachers in the various classes of school districts. The percentage of teachers with master's degrees, their experience, and their average salaries are related to the class of a school district. Teachers in school districts with larger enrollments appear to have more experience and education.

Table 4 - Tenure, degree, and salary statistics for public school teachers, Nebraska, 1985-86¹

Class of district	Teachers				
	Number	Full-time equivalent	Percent with masters degree	Average years in district	Average salary
I	1,492	1,400.9	7.0	6.1	\$15,308
II	971	922.1	11.0	7.5	\$17,697
III	11,118	10,839.8	24.0	9.6	\$20,576
IV	1,466	1,402.2	32.0	10.7	\$22,564
V	2,202	2,188.3	32.0	11.8	\$24,504
VI	414	385.7	25.0	8.8	\$21,194
Total	17,663	17,139.0	24.4	9.5	\$20,669

¹Data include school district personnel who are employed only as full- or part-time teachers. Personnel with assignments other than classroom teaching were excluded.

Source: Nebraska State Education Association, *Salary Schedules and Salaries, 1986-87*.

Program Inequities. Teachers and administrators in Nebraska are well-trained, and the material that is taught in Nebraska's schools is generally taught well (Hughes, 1987; *Education Week*, 1987). But inequities in educational opportunities are inherent in the system because of the range of resources. The program

provided is apt to be minimal in resource scarce districts, while a much broader program is more likely in wealthier districts. The opportunities for an education are limited by local resources instead of by state resources and are, therefore, inherently inequitable.

Resources that are needed to provide a good education system include adequate funds, good staff, a critical mass of students, and a community with high expectations for schools. These resources are not totally independent of each other. Citizens who have high expectations for schools will provide the funds to hire good staff and will demand good teaching. While the number of students is an important determinant of the program provided, to some extent, additional money and good teaching can overcome the effect that a shortage of students has on the quality and scope of an educational program. For example, a child can be taught to read and write with only one teacher present, if the community is willing to support such a system. Many of the goals of public education in Nebraska, however, can be better accomplished when a child has the opportunity to interact with other children of the same age. Moreover, economic and population changes in Nebraska have created new demands on scarce resources in many communities. Communities that could at one time support high-quality educational programs for small numbers of students may no longer be able to do so.

Table 5 shows the distribution of school districts by size of enrollment and classification. As table 5 shows, in 1986-87 operating school districts in Nebraska ranged from four Class I districts enrolling one student each, to the Omaha Public School District, with an enrollment of over 30,000 students (41,638 students in 1986-87). The 40 Class I school districts in table 5 that show no enrollment exist as legal entities, but did not operate a

Table 5 - Number of school districts by enrollment and classification, Nebraska, 1986-87

Number of students	Class						Total number of districts
	I	II	III	IV	V	VI	
0	40	-	-	-	-	-	40
1	4	-	-	-	-	-	4
2-3	21	-	-	-	-	-	21
4-5	50	-	-	-	-	-	50
6-7	66	-	-	-	-	-	66
8-9	55	-	-	-	-	-	55
10-19	174	-	-	-	-	-	174
20-29	85	-	-	-	-	-	85
30-39	39	1	-	-	-	2	42
40-49	20	-	-	-	-	-	20
50-59	20	1	-	-	-	3	24
60-69	11	1	1	-	-	-	13
70-79	6	-	-	-	-	-	6
80-89	4	2	-	-	-	2	8
90-99	1	6	1	-	-	1	9
100-149	12	22	4	-	-	2	40
150-199	6	19	31	-	-	1	57
200-249	2	6	27	-	-	4	39
250-299	-	-	26	-	-	4	30
300-349	1	-	21	-	-	3	25
350-399	-	-	18	-	-	-	18
400-449	3	-	9	-	-	-	12
450-499	-	-	11	-	-	-	11
500-599	1	-	17	-	-	-	18
600-699	1	-	8	-	-	1	10
700-799	-	-	4	-	-	-	4
800-899	-	-	6	-	-	-	6
900-999	-	-	4	-	-	-	5
1,000-1,249	-	-	7	-	-	-	7
1,250-1,499	-	-	6	-	-	-	6
1,500-1,749	-	-	2	-	-	-	2
1,750-1,999	-	-	2	-	-	-	2
2,000-3,999	-	-	10	-	-	-	10
4,000-5,999	-	-	3	-	-	-	3
6,000-7,999	-	-	2	-	-	-	2
8,000-9,999	-	-	1	-	-	-	1
10,000-29,999	-	-	1	1	-	-	2
30,000 and more	-	-	-	-	1	-	1

- = not applicable.

Source: Nebraska Department of Education, "Fact Sheet 1: Statistics and Facts about Nebraska Schools, 1986-87 School Year."

school during 1986-87. Either no elementary school-aged children lived in the district, or they attended school elsewhere. The median enrollment for schools serving students in kindergarten through grade twelve is in the 250-299 group, which suggests enrollments of fewer than 25 students per grade in half of the districts. High schools enrolling fewer than 25 students are not permitted to continue for more than 3 years, except under certain conditions related to isolation or federal funding (Statutes of Nebraska, Sect. 79-701). Some districts were close to this number in 1986-87.

Low enrollment may influence the learning environment in an elementary school, but it need not change the program of study. Lack of a critical mass of students in the seventh grade and beyond, however, can restrict the scope and quality of programs. The choices available to students in secondary schools with low enrollments are not as extensive as those in larger schools. In many instances, courses are not taught as well, if for no other reason than that teachers must prepare for more courses each day. As enrollments in secondary schools become smaller, school districts have difficulty obtaining, and retaining, faculty for courses in specialty areas and providing equipment and facilities for courses that are taught infrequently or to small groups.

State Funds for Equalization

As noted earlier, funds appropriated for education through the state's School Foundation and Equalization Fund (general aid to school districts) are subdivided into three categories: Foundation Aid, based on number of students; Incentive Aid, based on teachers' levels of education and summer school programs; and Equalization Aid, based on property valuation relative to need as

defined by the legislature. The state's appropriations decreased from \$133.7 million in 1984-85 to \$122.6 million in 1987-88, with reductions generally confined to Foundation Aid.

In 1986-87, \$32.3 million was budgeted for Equalization Aid. This represents about 26 percent of the \$125.1 million budgeted for all general aid and 15 percent of all state support. Moreover, the state's equalization aid of \$32.3 million accounts for less than 4 percent of school districts' general fund expenditures. Variations in tax bases, expenditures, and tax rates, coupled with minimal equalization aid, explain the ineffectiveness of the current method to achieve fiscal equity for school districts in the state.

Summary and Conclusions

The evidence presented in this chapter leads the authors to the following conclusions about financing public elementary and secondary schools in Nebraska.

- Although financial reform of some states' school finance systems has been achieved through legal challenges, apparently Nebraska's problems must be solved by the state legislature. The sparse language in Nebraska's constitution that outlines the state's commitment to public schools is not comparable to the language used as the basis for legal cases in other states.
- The appropriate missions and goals of the public school system must be included in any discussions concerning public school finance. The Unicameral defined the mission of the schools in LB 994, now incorporated in state statutes as Section 79-4139.

Policy decisions about financing public schools must refer to the mission for the schools established in state statutes.

- Nebraska's 20-year-old design for funding public elementary and secondary education does not serve school districts equitably. This is because of variations in needs, as indicated by total enrollment and tax bases.
- The design of an equitable and effective financing system for Nebraska's public schools is hampered, perhaps made impossible, by the organization of districts into more than 900 units subdivided into six classes that are based on population or grade levels served. Variations in needs, special interests, and local resources defy construction of an equitable financing program.
- Depopulation in many rural areas has increased stress on schools with low enrollments. Restricted curricula in secondary schools, less specialized teaching assignments, and high costs per student will continue if enrollment projections are correct. Low enrollment is a major cause of variations in expenditures per student among school districts. Both cost-effectiveness and program-comprehensiveness would be improved if enrollment centers were larger.
- Nebraskans are not overtaxed in comparison with residents of other states. Tax bases are not distributed equitably, however, and some residents have more of a tax burden than others. Laws that restrict access to various tax bases prevent some

governmental units from using their true tax capacity.

- Although the current funding system recognizes only the state and local school districts as tax units to support schools, other alternatives exist. These alternatives should be considered, particularly in a state with many small districts and sparsely populated areas.
- Assessment of property for tax purposes is not standardized. This adds to the resentment local taxpayers feel toward paying property tax, and to inequities in any formula for distributing aid to school districts based on property valuations.
- Although Nebraska has had a good supply of high-quality educators in the past who have provided excellent schooling for students, discrepancies in salaries, both within the state and between states, will lure talented staff away from many of our school districts.
- State government controls the tax rates and which units of government will have access to the income and sales tax bases. These taxes are broad and generally progressive; but, they are subject to instabilities, such as fluctuations in the economy, competing demands for funds, and political shifts. Many believe that local governments retain control of programs if they are supported with locally collected taxes. While this may be partly correct, local property taxes are inequitable because of uneven assessment practices, uneven distribution of the tax base, and the regressive nature of property

taxes. Many citizens resent the system. The dilemma appears to be that state government has access to the tax bases needed to best finance schools, but lacks the will to tax; while local governments want local control, but lack access to equitable tax bases.

We cannot contend that the system for financing public schools in Nebraska has failed to provide most of the state's youth with an adequate or superior education, despite inequities in access to programs and tax efforts. But, changes in technology, variations in tax capacity, and shifts in population are creating new problems that call for policy decisions to maintain or improve the system.

Policy Decisions

Nebraskans face several policy decisions if elementary and secondary education in the state is to be maintained and improved through an equitable system of financial support. In a broad sense, financial planning for education requires policy decisions about the program to be financed, the methods for delivering the program, the means for funding the program, and the methods for allocating funds to school districts.

What Is to Be Taught and to Whom?

The types of educational programs required by students are changing. As implied by Cubberley at the beginning of this chapter, equal educational opportunity is a goal to which we should strive, although it may never be fully realized. Policy is needed to establish clearly the minimum program that should be available to all

youth, the role of the state in providing this program, and the means by which exemplary and innovative programs will be encouraged in districts with varying financial and human resources. Such policy is inexorably tied to the availability of funds.

Agreement about what is to be taught, and to whom, will not be easy. Although the mission of the public schools has been defined in state statutes, some citizens may view the mission as exceeding basic program requirements, and others will see it as far short of the program to which the state should aspire. Recent legislation has expanded the school-aged population to include preschool handicapped children and profoundly handicapped children. Pressures exist for strengthening programs for gifted children, for developing preschool and extended care programs, and for expanding adult education programs. How much are Nebraskans willing to support, given that the state probably does not have the resources to provide everything that is desirable?

How Shall the Program Be Delivered?

Although the quality of education appears to be generally good in Nebraska, evidence suggests that the system is inefficient because of the large number of school districts. Low enrollments are related to high costs per student and constrain program offerings and social experiences, resulting in a lower gain for the money invested.

Because any funding system is likely to involve statewide taxes, and because graduates of most school districts migrate from the area, Nebraskans should be concerned about organizing school districts to maximize financial resources. Policy is needed to define the best

methods for organizing administrative and local tax bases to gain maximum benefits from education funds. Such policies should encompass the role of educational service units and consider the possibility of developing cooperative agreements among school districts for specific needs. These policies should define and provide for the needs of isolated school districts.

How Shall State and Local School Funds Be Acquired?

Although all of the sources for funding public schools should be reviewed, the critical areas appear to be the methods used to obtain state aid and local tax revenues.

State Revenue Policy. Policy is needed regarding the adequacy and stability of sources of revenue for state aid to schools. The state should determine if school districts should continue to receive funding from the state's general revenue fund, where they compete with other governmental units for income and sales tax revenues, or whether other sources should be used, such as a state lottery or other forms of gambling, or a designated income or sales tax levy.

Local Revenue Policy. Current policy permits an unlimited districtwide property tax as the prime source from which school districts obtain the balance of their budget needs. The inequities in this system are caused by uneven assessment practices and property resources. Assuming that the property tax will continue to have an important role in financing public schools, policy is needed to ensure that property is equitably valued for tax purposes. Greater equity might be achieved through

stricter supervision of county assessors by state officials, through assignment of adjustment indexes to counties where assessment-to-sales or other approved measures indicate deviations from the state standard, or assessment of property at the state level.

An additional concern is the capability of local school districts to levy taxes beyond those required for participation in the state's equalization formula. School districts in Nebraska currently operate with immense fiscal independence, unlike several other states, including Iowa and Kansas, where property tax levies are limited. Reliance on local revenues and the lack of limitations on the local tax levies severely restrict state efforts at equalization. Policy is needed to determine the degree to which Nebraska's school districts will be fiscally independent. If the state limits fiscal independence, policy will be needed to ensure continued local control and the continued capacity of local districts to be innovative and responsive in educational programs.

Policy is needed to define an adequate local tax base for financing schools. The property tax does not fairly represent local tax capacity, especially in a state with many small school districts and extreme variations in local economies. Alternatives include local or regional income or sales taxes, and a uniform tax, probably on income, to be collected locally for schools. The ability to move to avoid a local income tax and absentee ownership of property create difficulties for using an income tax in small governmental units. This system could operate equitably in regions as large as most counties; funds would be redistributed to schools districts. Hudson (1986) presents a thorough discussion of broadening the tax base for local school districts in Nebraska to include optional county sales, income, or property taxes to supplement a district property tax.

How Shall State Aid Be Allocated?

The state needs to clarify its policy about the purpose of state aid to school districts. Sound policy about allocating state funds to school districts must stem from a philosophy about its intended purposes. Will the purpose be to provide property tax relief, to guarantee funding for a state-determined program in each district, to guarantee equal access to funds, to guarantee taxpayer equity, to provide incentives for broader and better educational programs, or to encourage equal opportunity? Allocation must be based on the fundamental purposes of the program and must be tailored to circumstances involving organization of school districts, variations in local tax capacities, and the role of the state in supporting public schools.

Policy is needed to determine the degree to which the state will be involved in supporting public schools and the mechanisms by which state aid will be allocated. The amount of money allocated to general aid must be adequate to the purposes defined by the state. Given adequate funding, the following alternatives for distributing funds are possible.

If the purpose of state aid is to guarantee a basic program, the present system could continue with modifications and adjustments to bring the system in line with defined purposes. Changes could be made in the balance between the money allocated through Foundation Aid, the flat grant, and that allocated through Equalization Aid. Allocations should be based on the purposes for general state aid. Incentive Aid could be redefined to fit current state objectives. Student weightings in the formula could be reconstructed to be more consistent with current state policies and goals.

A percentage-equalizing or guaranteed yield type of allocation system could be adopted. These power equalizing mechanisms require the state to guarantee support for locally determined budgets. Limits can be installed to control the state's obligations (Johns, Morphet, and Alexander, 1983; Jones, 1985).

Additional measures of local tax capacity could be used to qualify for state funds. The measure of ability to pay local taxes for schools might be more accurate if other economic measures, such as per capita income or per capita retail sales, were included in the allocation equation.

The need factor in any allocation system might be expanded to include weighting of handicapped students, vocational education students, and other students who require special resources. The state should decide if it wants to pursue a policy of funding selected programs categorically, or if it wants to include all programs in a general aid formula and use a weighted student or classroom unit approach.

A nontraditional allocation method could be developed based on the policies and circumstances unique to Nebraska, such as the system developed by Hudson (1986). Full state funding, such as that used in Hawaii and California, state vouchers, and other radical changes in the allocation of state funds are also alternatives, but we see little evidence that they would be considered seriously in Nebraska at this time.

Nebraskans face many important policy decisions concerning financing public education, none of which will be easy. But the evidence suggests substantial returns on investments in education to individuals and to society. Indeed, failure to invest in education has been identified as the major cause, after land, capital, and labor have been equated, of differences among economic levels in

the United States and in nonindustrialized nations. Nebraskans should consider seriously the risks of underinvestment in this vital area.

Endnotes

1. All revenue estimates, unless otherwise noted, were obtained from the annual report of the Nebraska Department of Education, "1985-86 Statewide Totals." Unless otherwise noted, references to the school year and the fiscal year mean the budget period from September 1 to August 31. Tax years coincide with the calendar year and run from January 1 through December 31.
2. Distribution of money in the state general aid formula was obtained from Nebraska Department of Education data.
3. Enrollment and school district data were obtained from "Fact Sheet 1: Statistics and Facts about Nebraska Schools, 1986-87 School Year," Nebraska Department of Education.
4. Nebraska Department of Education data.
5. The 16 counties are Adams, Box Butte, Buffalo, Dakota, Dawson, Dodge, Douglas, Hall, Keith, Lancaster, Lincoln, Madison, Platte, Sarpy, Scotts Bluff, and Washington.
6. Nebraska Department of Revenue, Research Division, "1986 Average Property Tax Rate"; Nebraska Department of Education, Management Information Services, *Statistics and Facts about Nebraska Schools 1985-86*.
7. Calculated from data compiled for the *Annual Report* of the Nebraska Department of Revenue, 1985.
8. Nebraska Department of Education, Management Information Services, "Ranking of Class I-V Districts by Total Levy as Reported on 1985-86 State Aid Supplements."
9. Ibid.
10. Nebraska Department of Revenue, Property Tax Division, "Assessment/Sales Ratios for Assessment Year of 1986."
11. Nebraska Department of Education, Finance Section, "Financial Report of Public Schools Districts: Class II-V and Class I Districts Combined Totals by County, School Year 1985-86."

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