

NEBRASKA

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I. GENERAL BACKGROUND

State

In 1997–1998, the state share of general fund revenues for local public elementary and secondary schools was approximately 39%. (Funds provided to districts through aid programs and for the replacement of property taxes. The vast majority of these funds are received in school district general funds.) Through the 1980s, state support had actually been decreasing as a proportion of total school revenues. In April of 1990, the Nebraska Unicameral Legislature enacted LB1059, the “Tax Equity and Educational Opportunities Support Act.” This legislation contained intent language seeking to achieve and maintain a state support level of 45% of the general fund operating expenditures of school districts. This goal has not been met in any fiscal year since the bill's enactment.

In May of 1997 the Nebraska Unicameral Legislature enacted LB 806 amending the Tax Equity and Educational Opportunities Support Act to calculate state aid at the system level.

Since the mid-1980s, extensive litigation related to personal property tax in Nebraska has occurred. The litigation has focused on the exemption of a variety of personal property (for example, household goods, farm machinery, inventories, etc.). In response to the extensive litigation and subsequent supreme court rulings, personal property is now taxed as part of the local property tax system using a “net book value” basis (effective with the 1992 tax year). This value is the purchase price of personal property, less accumulated depreciation as determined by a state-established schedule. Personal property that is fully depreciated will not be subject to tax, nor will personal property that is not depreciated at all (such as

inventories). In addition, based on an amendment to the State Constitution, beginning with the 1992 tax year, the valuation standard for land used for horticultural and agricultural purposes is 80% of the market value.

The first affiliated school systems were established beginning with the 1992–1993 school year. Affiliation refers to an ongoing association of an elementary only district (Class I district) [or portion thereof not a part of a secondary only district (Class VI district)], with one or more elementary and secondary districts (Class II–V districts) for the purpose of (a) providing a high school program serving the Class I district students and (b) maintaining tax support to finance such programs. The affiliated system interacts with the property tax system. A single K–12 general fund levy is established for all property contained within the system based on the tax request of the Class II–V district plus the tax request, or portion thereof, of the affiliated Class I district(s).

Local

In the 1998–1999 school year, there were 604 local school districts in Nebraska, with 285,847 students in grades K–12. Of the 604 districts, 266 were K–12 districts (enrolling 272,326 students), 18 were 7–12 or 9–12 secondary “overlying” districts (enrolling 3,752 students), and 320 were K–6 or K–8 elementary-only districts (enrolling 9,769 students). These districts’ enrollments ranged from 0 students to approximately 43,960 students. In addition, each of Nebraska’s 93 counties has a County Superintendent, serving primarily administrative and regulatory functions related to elementary and secondary schools in the county. Finally, Nebraska has 19 regional Educational Service Units, which are governed and funded similarly to local school districts. The number of school districts in Nebraska has been declining. For example, in 1981–1982 there were 1,043 school districts in Nebraska; in 1991–1992 there were 777 and in 1998–1999, there are currently 604 districts.

All public school districts in Nebraska are governed by locally elected school boards with 3, 6, 9, or 12 members. All school districts are fiscally independent, with revenue-raising and expenditure authority vested in its elected board, subject to certain statutory limitations.

The biggest single source of revenue for school districts is local property tax. Other significant sources of local revenue include city and county fines and license fees, proceeds from a sales tax on public power districts (the only electricity providers allowed in Nebraska), and tuition local school districts charge

other districts or parents to educate non-resident students. General state aid, funded through state sales and income taxes and other miscellaneous state general funds, represents the second largest source of revenue, and is distributed through a state equalization formula. Other significant state general-funded support is provided as well, including reimbursement funds for such programs as special education. School districts also receive state general funded replacements for local property tax revenue lost to state-enacted homestead exemptions. Finally, several non-general-fund sources of state revenue are provided to school districts, including portions of an insurance premium tax, and portions of a prorated motor vehicles tax on apportionable fleets of motor vehicles.

Funding Summary 1998–1999

Total State School Aid (All Programs)		\$ 778.0 million
Grants in aid	764.6 Million	
Teacher Retirement	13.4 Million	
Contributions		
FICA	0 Million	
Total Local School Revenue		\$ 887.0 million
Property Tax	777.0 Million	
Other local source tax revenue	85.0 Million	
Local source non-tax revenue	25.0 Million	
Total Combined State and Local School Revenue		\$ 1,665.0 million
State Financed Property Tax Credits		0
Attributable to School Taxes		

II. LOCAL SCHOOL REVENUE

Property Tax

The biggest single source of revenue for school districts is local property tax. Based on the 1998–1999 school district valuations and levies, approximately \$836 million of General Fund property taxes were requested for 1998–1999. Property taxes are budgeted and requested by the elected local school boards, but are levied, collected, and distributed by county government, which also determines

the taxable value of most property in their counties (the exception is centrally-assessed property such as railroads, pipelines, etc.).

Nebraska's constitution requires that “taxes shall be levied by valuation uniformly and proportionately upon all real property and franchises as defined by the Legislature except as otherwise provided in or permitted by this Constitution.”

The following assessment standards were in place for 1998–1999: Real property, except agricultural and horticultural land, was to be valued at 100% of the actual market value. Agricultural and horticultural land was to be valued at 80% of the actual market value. All depreciable tangible personal property, except licensed motor vehicles, was to be valued at net book value. Motor vehicles were to be valued based on a statutory schedule which takes into consideration the manufacturer’s suggested retail price and age of the vehicle.

Compliance with the assessment standards is monitored annually by the State Board of Equalization (including the Governor, Secretary of State, Auditor of Public Accounts, State Treasurer, and Tax Commissioner), which has power to increase or decrease the actual valuation of property in any county or tax district to achieve statewide equalization.

Homestead Exemption

Funding in 1998–1999: Approximately \$19.3 was distributed on behalf of all taxing funds maintained by school districts.

Description: Property-taxing political subdivisions, including school districts, receive funds appropriated by the state and distributed by county treasurers to offset property tax losses from homesteads exempted under state law. Generally, up to \$40,000 of homestead actual value can be exempted from property taxation on the basis of age, household income, veteran status, and certain disabilities. (NEB. REV. STAT. §§ 77-3501 to 77-3530). It should be noted that the exempted valuation *is* included in the valuation base of subdivisions when levies are set.

All school districts actually receiving property taxes are likely to receive homestead exemption funds, but because they are paid by the state to counties, who then redistribute them to the subdivisions, including school districts in their county (often along with other property tax proceeds), reliable detail information by school district is not available.

Income Tax

None.

Other Local Revenue Sources

Other significant sources of local revenue include city and county fines and license fees; proceeds from a sales tax on public power districts; and tuition and transportation fees. Local school districts charge other districts or parents to educate non-resident students. Specific amounts for these other revenues are not currently available for 1998–1999. Based on historical data, the fines and license fees and the sales tax on public power districts average between \$19 and \$15 million each. Tuition and transportation fees has tended to exceed \$8 million annually.

III. TAX AND SPENDING LIMITS

Local school district budgets are adopted by action of elected, fiscally independent school boards following publicized hearings. Traditionally, the only direct voter involvement required by law has been acceptance of school bond issues, which requires a simple majority of qualified voters voting in the bond election.

Effective in 1990–1991, school districts were placed under a spending limitation for general fund purposes. Prior to that date, levy limits of 14 cents per \$100 of valuation on Special Building Funds (subject to a 55% majority of voters voting on the question, to 17.5 cents); and a limit of 5.2 cents for Environmental Hazard Abatement funds existed. These levy limits continue to exist.

The Tax Equity and Educational Opportunities Support Act, first in effect for the 1990-1991 school year, imposes limitations on the general fund budget of expenditures of all school districts in Nebraska. From 1990–1991 to 1995–1996, a district's "applicable allowable growth rate" (AAGR) was certified based on the district's spending in relation to other districts, with lower spending districts allowed a higher growth rate. In 1995–1996, allowable growth ranged from 3% to 5.5%. A 75% majority vote of the school board was required to "access" this growth rate. A provision also allowed, with a 75% vote, a district to grow an additional 1% over their AAGR. Additional spending was allowed for special education expenditures, for costs funded through "special grants" as defined by the State Board of Education, and for various other items. One item of note is an addition to the district's authority to spend for a growth in students.

For the 1996–1997 and 1997–1998 school fiscal years, the AAGR was calculated based upon the districts’ change in student membership. This allowed rapidly growing districts to increase their spending, while holding districts with no growth or falling enrollment, to 2% growth in 1996–1997 and 0% growth in 1997–1998. An additional 1% was allowed, subject to a 75% approval vote of the school board. Provisions still allowed for additional spending for special education and “special grants,” but the additional spending authority for growth in student membership was suspended for these two years. The growth rate certified to the districts was already based on an increase in student population.

Other spending limitation exclusions were enacted for 1996–1997 and 1997–1998, including “voluntary termination agreements with certificated personnel,” often through the form of teacher or administrator early retirement, and spending for capital expenditures funded through the general fund. (Building and site expenditures were not included since those are funded through the Special Building Fund and are not subject to spending limitations.)

In 1998–1999, district expenditure growth once again reverted to a growth range calculation. Ranging from 2.5% (basic allowable growth rate) to 4.5% (maximum allowable growth rate), a district’s actual percentage was based on its spending compared to a “target budget level” for the district. This target budget level equaled the amount calculated in the state aid formula as the district’s “formula needs.” A district that had actual expenditures in excess of the target budget level was allowed a growth rate of 2.5%. A district that had actual expenditures less than 80% of their target budget level was allowed a growth rate of 4.5%. A district with actual expenditures falling between between the target budget level and 80% of the target budget level was allowed a growth rate between 2.5% and 4.5%, with a lower spending level resulting in a higher AAGR. Districts are allowed to automatically access basic allowable growth rate of 2.5% with the regular hearing to adopt the budget. To access any AAGR above 2.5% requires a 75% majority vote of the school board. The growth rate approved by this vote can be anywhere above 2.5% with a maximum of the districts AAGR plus an additional 1%.

Again, provisions allow for additional spending for special education and special grants. Other district spending limitation exclusions include expenditures for: (a) interlocal cooperation (b) judgments not paid by liability insurance, (c) voluntary termination of certificated employees, (d) certain lease-purchase agreements, (e) increases in students, (f) certain building operation and maintenance costs for new

or additional construction, and (g) retirement incentive plans and staff development assistance for reorganized districts.

School districts are not required to budget the maximum allowable budget to prevent loss of future budget authority; there is a specific “unused budget authority” carryover provision. Finally, limitations continue to be imposed on the growth in budgeted reserves, and statutory maximum reserve thresholds are based on the size of the district.

Starting in 1998–1999, Class I (elementary only) districts are under separate spending limitations. These limitations are based on (a) previous district budgets and the budget of their “primary high school” (the high school district with which the largest amount of their valuation was affiliated) or (b) amounts allowed by Class VI (high school only) primary high schools. The provisions included above, with few exceptions, no longer apply to these Class I districts.

IV. STATE/PROVINCIAL EARMARKED TAX REVENUE

Income Tax

Since the enactment of the Tax Equity and Educational Opportunities Support Act through fiscal year 1995–1996, an amount equal to 20% of the individual income tax liability of residents of Nebraska school districts has been annually provided to schools. Additionally, the Act also included an increase in the income tax rates. The proceeds of this increase (along with the proceeds of an increase in the sales tax) have influenced the level of State Aid funding that is provided annually. Of the total appropriation under the Act, the amount provided through a “Rebate” grew from \$83.3 million in 1990–1991 to more than \$125 million in 1995–1996.

Beginning in 1996–1997, the maximum level of “Rebate” was reduced to the 1992–1993 funding level of \$102 million. A two-phase process was put in place. First, income tax liability revenue above \$102 million was removed from “Rebate” and added to the funds available for equalization aid. Second, Of the remaining dollars after allocation to aid, approximately \$22.9 million was provided to districts as net enrollment option funding in 1998–1999. Calculation of the option enrollment payments was changed from an amount based on total option students payable to non-equalized schools only, to a net option student basis for all schools. These changes resulted in a “Rebate” factor of 10.03% in 1998–1999 versus the previous 20% factor in place previous to fiscal year 1995–1996.

In-Lieu-of School Land Tax & State Apportionment

The Nebraska constitution perpetually dedicates “for common school purposes” all funds derived from the “sale or leasing of sections number sixteen and thirty-six in each township in this state,” which is the “school land” granted under the Homestead Act. The funds, supplemented by various earmarked state-level fines and penalties, are distributed as in-lieu-of school land tax and apportionment

Insurance Tax Fund

Funding in 1998–1999: \$11 million.

Description: 60% of the money deposited into the Insurance Tax Fund is allocated for distribution to school districts as equalization aid pursuant to the Tax Equity and Educational Opportunities Support Act. The monies deposited into the Insurance Tax Fund are generated through a tax on the gross premiums received by insurance companies for business transacted in Nebraska (NEB. REV. STAT. §§ 77-907 to 77-918).

State School Fund

(State Apportionment and In-Lieu-Of School Land Tax)

Funding in 1998–1999: \$28.1 million.
(Apportionment: \$20.4 million; In-Lieu-Of: \$5 million)

Description: The primary source of revenue to this fund is the lease of state-owned “school or saline land” deeded to the state as part of the Homestead Act (there are still more than 1.5 million acres of school land in Nebraska). The fund also receives revenue from the investment of the proceeds of sales of such land in the past. Finally, the fund is augmented with various state-level fines, penalties, and unclaimed property. The fund is used first to provide payments in lieu-of-taxes to school districts containing school lands (\$5 million in 1997–1998), with the remainder (\$20.4 million) distributed as “state apportionment” on a “per school-age child” basis. Nebraska school districts are statutorily required to conduct an annual census of children aged birth through 20 years, with the counts of children ages 5 through 18 (365,793 in June 1997) used as the basis of apportionment payments. In 1993, the statute governing the determination of in-lieu-of school land tax payments was amended. The amendment resulted in the

application of an 80% factor to the last appraised value of the school land in determining the payment. The 80% factor is reflective of a prior constitutional amendment to value horticultural and agricultural land at 80% of market for tax purposes (NEB. REV. STAT. §§ 79-1035, 79-1036).

Extent of Participation: All local districts in which children ages 5 through 18 are reported in the census received Apportionment funds. Only those districts, or affiliated school systems, in which school land lies received in-lieu-of school land tax.

Prorate Motor Vehicle

Funding in 1997–1998: Approximately \$3.3 million.

Description: All property-taxing subdivisions including school districts receive payments from the state's Motor Vehicle Tax Fund, which is made up of payments made by the owners of fleets of apportionable vehicles in-lieu of registration. The funds are distributed to county treasurers for redistribution to property-taxing subdivisions in the proportion that each subdivision's levy is to all levies within the county (NEB. REV. STAT. §§ 60-301 to 60-305.17).

Extent of Participation: Because the funds are distributed through county government, and are often paid along with other property tax proceeds, reliable detail information by school district is not available. However, all school districts (except those with no levies) receive funds from this program.

Education Innovation Fund

Funding in 1998–1999: \$4.9 million.

The State Lottery Act, created in 1991, earmarks at least 25% of lottery proceeds (after prizes and operating expenses have been paid) to be set aside for innovative educational and environmental projects in Nebraska and for compulsive gamblers assistance. Of such funds, 49.5% is dedicated to the Education Innovation Fund. The Excellence in Education Council, appointed by the governor, is responsible for developing policies and procedures for the administration of the Fund. The Education Innovation Fund provides three different programs to benefit Nebraska public schools: (a) the Competitive Incentive Grant Program, (b) the Quality Education Incentive Payment Program, and (c) the Mentor Teacher Program. Education Innovation Fund grants must address one or more of the following

statutory funding priorities: professional staff development; strategic school improvement plans; educational technology assistance; educational accountability, alternative programs for students, programs that demonstrate improvement of student performance; early childhood and parent education; decision making models in school management; increased involvement in the community; development of magnet or model programs to facilitate desegregation; programs addressing family and social issues; programs enhancing critical and higher-order thinking; programs producing quality education; programs for innovative use of time; training programs; and programs for students with disabilities (NEB. REV. STAT. § 9-812). 1994-1995 was the first year in which funds were made available to school districts. Since its inception, \$54.2 million in Education Innovation Fund grants have been awarded.

V. BASIC SUPPORT PROGRAM

General School Aid Formula

Funding in 1998–1999: \$591 million.

Percentage of Total State Aid: 76%.

Nature of Program: Foundation-type equalization program, contained in the Tax Equity and Educational Opportunities Support Act (LB806, 1997) NEB. REV. STAT. §§ 79-1001 through 79-1033.

Allocation Units: Pupils. Average Daily Membership (ADM) plus students for which the district pays tuition to another district or educational agency. Pupil information is taken from the immediately preceding school fiscal year.

In 1998–1999, the initial calculation of state aid (determined by December 1 for payment during the upcoming school year) was based on a one-day fall membership count plus students for which the district paid tuition to another district or educational agency. This information was taken from the immediately preceding school year. Adjustments are made in the subsequent year's payments to reflect a recalculation of the amount due a district based on ADM plus students for which the district pays tuition.

Local Fiscal Capacity: Equalized assessed property valuation plus other revenues, including allocated income tax funds. As of 1994–1995, property

valuations are adjusted by the Nebraska Department of Revenue to eliminate the impact of differing assessment practices within the 93 counties.

How Formula Operates: Calculations associated with the equalization program produce values for (a) district fiscal need (“formula need”) based on actual spending of school districts, (b) district fiscal capacity (“formula resources”) including both state and local general fund operating revenues available to each district, and (c) district equalization aid. For districts within an affiliated school system, the “formula needs” and “formula resources” are aggregated to determine “system needs” and “system resources.” Equalization aid is calculated for the system based on the difference between “system needs” and “system resources.” Unless otherwise noted, data used in determining equalization aid are taken from the second year proceeding the year in which aid payments are made.

Determination of Formula Need. School districts are grouped into very sparse, sparse, and standard cost groupings according to census students per square mile in the county where the high school is located, formula students per square mile in the high school system, and distance between high school attendance centers. Estimated general fund operating expenditures per adjusted formula student for each of these groups is calculated. The local system’s cost grouping cost per student is then multiplied times the “adjusted formula students” in the system, plus transportation allowance and special education allowance to arrive at “formula need.” “Adjusted Formula Students” include the Average Daily Membership (ADM) of the system, resident students the system is contracting out to other systems or service providers, as well as adjustments for demographic factors for poverty, limited English proficiency and students residing on Indian land. The result is a formulaic representation of “average” estimated expenditures for a local system that takes into account the sparsity of a variety of Nebraska school districts.

For the 1998–1999 state aid formula, which reflects projected actual 1997–1998 expenditures, the group cost per student for the very sparse local systems was \$5,573; for the sparse local systems was \$5,070; and for the standard local systems was \$4,311. Formula need, statewide, totaled \$1.608 billion.

Effective for 1998–1999, cost information was based on two-year-old data but “formula students” for all districts were based on one-year-old data. The initial calculation and actual payments incorporated a one-day fall membership count. The payments made in subsequent years will include adjustments to reflect the recalculation of “formula students” and “formula needs” based on ADM.

Determination of Formula Resources. There are four measures of fiscal capacity included in the equalization formula: Other Actual Receipts, Allocated Income Tax Funds, Net Option Funding and Yield from Local Effort Rate.

Other Actual Receipts. Includes virtually all general fund revenues actually received by the district, other than local property taxes and general state aid (including allocated income tax funds, which are included as formula resources separately). These miscellaneous revenue sources include public power district sales tax revenue; local and county fines and license fees; tuition receipts; transportation receipts; interest on investments; other miscellaneous local receipts, but not those from private foundations, individuals, associations, or charitable organizations; special education receipts; state ward of the court and ward of the state payments; apportionment and in-lieu-of school land tax; pro-rate motor vehicle license fee receipts; other miscellaneous state receipts; various noncategorical federal receipts; and Impact Aid (P.L. 81-874) receipts to the extent allowed by federal law. For 1998–1999 state aid payments, a total of \$219 million in “other actual receipts” from 1996–1997 was included in the formula. Although the statutes governing state aid include as an “other actual receipt” Impact Aid revenues to the extent allowed by federal law, these funds were not held accountable in the 1998–1999 calculation.

Allocated Income Tax Funds. Commonly referred to as a “rebate,” was changed from 20% of income tax liability in 1996–1997 to a specific amount frozen at the 1992–1993 funding level of \$102.3 million. Net option funding is subtracted from the \$102.3 million and the balance is distributed as Allocated Income Tax Funds. In 1998–1999, \$79.4 million in Allocated Income Tax Funds was distributed to local systems.

Net Option Funding. Payment of the option enrollment amounts was changed from the equalization to the income tax portion of the State Aid formula. The calculation of the option enrollment payments was changed from an amount based on the total option students payable to non-equalized schools only, to a net option student basis for all schools. The statewide net enrollment option funding of \$22.9 million in 1998–1999 was subtracted from the \$102.3 million income tax rebate allocation. Net enrollment option funding like “rebate,” is considered a resource, so for any system that generates Equalization Aid, the net enrollment option funding and the “rebate” dollars received offset what would otherwise be an additional need for Equalization Aid. In 1998–1999, \$22.9 million in Net Option Funding was distributed to local systems.

Yield from Local Effort Rate. The local system's actual adjusted valuation is multiplied times a factor to derive the amount of local property taxes each local system could receive at a typical tax rate. The factor used is known as the local effort rate, and is mathematically derived to balance the equalization formula. The other components of the formula -- total needs, other actual receipts, allocated income taxes, net option funding, the amount of state equalization aid available (the amount estimated to be appropriated by the Legislature)—are known values. Thus, this local effort rate is left as the only variable to balance the formula by determining at what typical rate property taxes would have to be levied to balance the fiscal needs and fiscal capacities of local systems covered by the formula.

Nebraska levies are expressed in dollars and cents per \$100 dollars of taxable valuation, so the “local effort rate” is similarly applied to valuations in hundreds of dollars. The local effort rate used in the 1998–1999 state aid formula was approximately \$1.00 for K–12 systems. The local effort rate is used to determine the amount of local property taxes each local system could receive at a “typical” tax rate from its own valuation. On a statewide basis “yield from local effort rate” totaled \$795.8 million.

The Department of Revenue provides the adjusted valuation. The adjustment process incorporates sales/assessment ratio data as a means of insuring that for state aid purposes the valuation used is based on the assessment levels (in relation to market value) required by statute. For 1998–1999, the adjusted valuation is also based on a 1997 tax year framework. The combination of using adjusted valuation and a more current valuation result in a 1998–1999 K–12 local effort rate of \$1.0006. The statewide “yield from local effort rate” totaled \$795.8 million in the initial 1998–1999 calculation.

Statewide, the value for the four components of Formula Resources was \$1.120 billion in the initial 1998–1999 calculation.

Equalization Aid

Each local system's, “formula resources” are subtracted from “formula need,” and the result (if greater than zero) is equalization aid. For 1998–1999, the total was \$500.3 million. In an affiliated system, any equalization aid generated is distributed back to the individual districts based on weighted formula students.

There are four additional components of state aid that are exceptions to the basic equalization formula. These four components interact with the funding available for equalization aid.

Minimum Levy Adjustment. The Minimum Levy Adjustment is calculated and applied to any system that has a General Fund common levy that is less than 90% of the maximum levy (\$0.99 in fiscal year 1998–1999). The Minimum Levy Adjustment is considered a resource in the State Aid formula, so for any system that generates equalization aid, the Minimum Levy Adjustment offsets what would otherwise be additional need for equalization aid. Local systems that do not generate equalization aid are penalized in this process by decreasing the amount of allocated income tax available to the system. In fiscal year 1998–1999, 16 local systems had General Fund common levies less than \$0.99 and were subject to the Minimum Levy Adjustment totaling \$2.8 million. Of these 16 local systems, 8 were not equalized. The non-equalized Minimum Levy Adjustment totaled \$407,000.

Lop Off Adjustment. The Lop Off Adjustment is a mechanism in the formula to prevent local systems from receiving too much State Aid at one time. It is intended to prevent the “roller coaster” effect of receiving a large amount of State Aid in one year, causing the levies in the system to be lower because of spending limitations, in the second year, receiving a lesser amount of State, causing the levies for the local system to increase.

The amount of revenue from State Aid and potential property taxes (calculation based on adjusted valuation and a levy of \$1.00) for each local system are limited. The prior year’s State Aid and property taxes (calculated based on assessed valuation and the system General Fund levy) are multiplied by a percentage which includes the applicable allowable growth rate and the percentage growth in students for each local system. The prior year’s State Aid and property taxes are further increased by unused budget authority and any decreases in system receipts from the prior year.

The amount of revenue from calculated State Aid and potential property taxes is then compared to the prior year’s State Aid and property taxes that have been adjusted as described above. If the calculated State Aid and potential property taxes are more than the previous year’s State Aid and property taxes, the local system has State Aid taken away (“lopped off”). In fiscal year 1998–1999, 19 local systems were subject to the Lop Off Adjustment for a total of \$14 million.

Small School Stabilization Adjustment. Local systems that have (a) 900 or less formula students and (b) have adjusted general fund operating expenditures per formula student less than the average for all local systems with 900 or less formula students qualify for Small School Stabilization. The Aid is distributed proportionately to qualifying systems based on the dollar amount each local system's calculated State Aid plus the product of a levy of \$1.10 multiplied by the adjusted valuation is below 90% of State Aid received by the local system during the previous school fiscal year plus property taxes receipts. In fiscal year 1998–1999, 9 local systems qualified for the Small School Stabilization Adjustment for a total of \$493,000.

Stabilization Factor. A local system cannot receive State Aid that is less than an amount equal to 85% of the State Aid certified to be received in the preceding year less any increase in adjusted valuation multiplied by the maximum levy of \$1.10. In fiscal year 1998–1999, 39 local systems qualified for the Stabilization Factor for a total of \$1.7 million.

To recap, a total of \$591 million in general state aid was appropriated for 1998–1999: \$79.4 million was paid in allocated income tax funds, \$22.9 million was paid in net option funding, and \$500.3 million was generated as equalization aid. For the equalization aid, \$14 million was deducted for “lop off” and \$407,000 was deducted for non-equalized minimum levy penalty,” \$1.7 was distributed as a “stabilization factor,” and \$493,000 was distributed in “small school stabilization adjustment.”

State Share: As outlined above, the state pays each district Allocated Income Tax Funds, Net Option Funding, Equalization Aid less the Lop Off deduction and the non-equalized Minimum Levy Penalty, Stabilization Factor and Small School Stabilization Adjustment.

Local Share: Local districts' actual property taxing effort does not affect the calculation of state aid, except in the calculation of minimum levy adjustment deductions. School districts have a maximum property tax rate of \$1.10. However, because the equalization formula assures that a typical level of spending can be supported at a typical property tax rate, districts spending higher than typical for districts of like size tend to have higher than typical local levies, and those spending less tend to have lower ones. In addition, school districts are subject to lids on their budgeted general fund expenditures, and the lid's allowable growth percentage is greater for lower spending districts (again, as compared to other districts of comparable size) than for higher spending ones.

Weighting Procedures: Weighting factors by grade level are used in the determination of costs. Kindergarten (except Kindergarten programs providing 1,032 or more hours of instruction) is weighted at .5; Grades 1–6 (including Kindergarten programs providing 1,032 or more hours of instruction) are weighted at 1.0; Grades 7–8 are weighted at 1.2; and Grades 9–12 are weighted at 1.4.

Adjustments for Special Factors: As outlined in “Determination of Formula Need,” weighted formula students are adjusted for demographic factors.

For local systems in which there are students who reside on Indian land, as defined under P.L. 81-874, the “weighted formula student” values are increased by a factor equal to the system's average daily attendance of students who reside on Indian land (as reported by the United States Department of Education in calculating the district's P.L. 81-874 payments) multiplied by 25%.

For local systems in which there are students with limited English proficiency, as defined by the U.S. Department of Education, the “weighted formula student” values are increased by a factor equal to the system’s limited English proficiency students multiplied by 25%.

For local systems in which there are poverty students, the “weighted formula student” values are increased by a poverty factor of progressive percentages between 5% and 30% applied to formula students who qualify for free lunches/milk or children under 19 years of age living in a household with adjusted gross income less than \$15,000, whichever is greater. In addition, the “weighted formula student” values are increased by an extreme remoteness factor equal to 12.5% multiplied by the formula students in local systems with fewer than 200 formula students, more than 600 system square miles, fewer than .3 formula students per system square mile and more than 25 miles between high school attendance centers.

Aid Distribution Schedule: Aid is distributed in equal payments on the last working day of each month from September through June. Districts that receive in excess of 25% of their budget from federal funds can request payment of up to one-half of the remaining funds to be provided if a financial hardship exists.

Districts Off Formula: None.

VI. TRANSPORTATION

Transportation Allowance

Funding in 1998–1999: \$32 million.

Percentage of Total State Aid: 2.0%.

Description: The transportation allowance, a component of the General State Aid Formula Needs, is determined for each local system based on the lesser of actual specific transportation costs or a calculated amount based on the miles transported (excluding activities) plus in lieu of transportation (mileage paid to parents).

Extent of Participation: Not reported.

Special Education Transportation

Funding in 1998–1999: Approximately \$11 million.

Percentage of Total State Aid: 1.4%.

Description: Prior to fiscal year 1995–1996, districts were reimbursed for 90% of the allowable cost of transporting eligible children with disabilities from the age of 5 to the age of 21 (districts transporting eligible children below the age of 5 are reimbursed with federal funds) (NEB. REV. STAT. § 79-1144). Districts are reimbursed for the allowable cost of transporting eligible children with disabilities from the age of 5 to the age of 21 on a pro rata basis. The State Board of Education determines the basis from appropriations for special education approved by the Legislature based on all allowable transportation costs.

Extent of Participation: Not reported.

Enrollment Option Transportation

Funding in 1998–1999: 0.17 million (approximately).

Percentage of Total State Aid: less than 1%.

Description: Districts that educate Enrollment Option students who qualify for free lunches are eligible for reimbursement for transportation expenses (either for

reimbursements made by the district to parents for their transportation expenses or costs the district incurred in actually providing the transportation) at a statutorily calculated rate per mile for one trip each day for the mileage by which the one-way distance exceeds 3 miles (NEB. REV. STAT. §§ 79-241, 79-611, 81-1176).

State and Local Shares: State law provides for the proration of payments if the appropriation is not sufficient to fund the claims submitted. If such a situation occurs, a deficit appropriation may be requested in order to fully fund all claims at a subsequent date.

Extent of Participation: Not reported.

VII. SPECIAL EDUCATION

Funding in 1998–1999: Approximately \$128.8 million.

Percentage of Total State Aid: 16.5%.

Description: The Special Education Allowance, a component of the General State Aid Formula Needs, includes special education, state ward, and accelerated or differentiated curriculum program receipts included in local system formula resources and receipts from the Medicare Catastrophic Coverage Act of 1988 (to the extent the district would have received payment pursuant to the Special Education Act).

For children age 5 to age 21, local school districts are reimbursed for the “allowable excess cost” for services and programs for children receiving special education services. Districts are reimbursed in the following school fiscal year on a pro rata basis from appropriations for special education approved by the Legislature. Children below the age of 5 receiving special education services are paid for with federal funds (NEB. REV. STAT. §§ 79-1131 through 79-1135).

State and Local Shares: Districts assume the costs not reimbursed as outlined above. In addition, insufficient appropriations can result in prorated payments of the specified amounts.

Extent of Participation: Not reported.

VIII. COMPENSATORY EDUCATION

No state aid provided.

IX. GIFTED AND TALENTED EDUCATION

Gifted children and learners With high ability

Funding in 1998–1999: \$6 million.

Percentage of Total State Aid: less than 1%.

Description: Each school district must identify learners with high ability and may provide accelerated or differentiated curriculum programs that will address the educational needs of the identified students at levels appropriate for the abilities of those students (NEB. REV. STAT. §§ 79-1106 to 79-1108.03).

State and Local Shares: For school fiscal years 1998–1999 through 2000–01, 5% of the appropriation for Gifted Children and Learners with High Ability is reserved for distribution as grants to local systems for startup costs based on a pro rata share of the eligible costs submitted in grant applications. Local systems may apply for base funds and matching funds to be spent on approved accelerated or differentiated curriculum programs. Local systems must provide funds from other sources for the approved accelerated or differentiated curriculum program greater than or equal to 50% of the matching funds received.

Extent of Participation: Not reported.

X. BILINGUAL EDUCATION

No state aid provided.

XI. EARLY CHILDHOOD EDUCATION

Funding in 1998–1999: \$0.56 million.

Percentage of Total State Aid: less than 1%.

In 1998–1999, Nebraska had 16 state-funded early childhood programs (NEB. REV. STAT. §§ 79-1101 to 79-1104). Each program involves a collaboration between the local school district and a local community agency.

There are no other state-funded pre-kindergarten programs in Nebraska (“below-age-five” special education programs are federally funded).

XII. OTHER CATEGORICAL PROGRAMS

Wards of the Court

Funding in 1998–1999: \$1.2 million.

Percentage of Total State Aid: less than 1%.

Description: The cost of the education and any required transportation for a student who is a ward of the state or a ward of any court, and who is placed in a public school district other than the district in which they resided at the time they became a ward, or who is placed in an institution that maintains a special education program approved by the Department of Education, is paid by the state under rules and regulations prescribed by the Department of Health and Human Services (NEB. REV. STAT. § 79-215).

State and Local Shares: The state pays the full cost of students determined to be eligible.

Extent of Participation: 18 local districts.

Other Miscellaneous “Categorical” Programs

In addition to the programs detailed above, approximately \$506,000 was provided for Child Nutrition programs.

XIII. TEACHER RETIREMENT AND BENEFITS

Funding in 1998–1999: \$13.4 million.

Percentage of Total State Aid: 1.7%.

Description: Nebraska law provides for a defined benefit plan administered by the Public Employees Retirement Board for all school employees, certificated and non-certificated, in the state, except those employed by Class V school districts. The only Class V school district is Douglas County School District 001, commonly known as Omaha Public Schools. Class V school districts have a separate, but similar, defined-benefit retirement system (NEB. REV. STAT. §§ 79-978 through 79-9,116).

State aid is appropriated to the 2 retirement systems – “School Retirement System of the State of Nebraska” (NEB. REV. STAT. § 79-975) and “School Employees Retirement System of Douglas County School District 001” (NEB. REV. STAT. §§ 79-9,115). These state funds are primarily used for the payment of service and formula annuities; no state retirement system funds are provided directly to the local school districts.

Members of the state system contribute a percentage of their total compensation, which is then “matched” at 101% by their employer from local district general funds. The minimum member contribution percentage for the 1998–1999 school year was 7.25%. State law requires annual adjustment of the contribution percentage by the Public Employee Retirement Board upon recommendation of an actuary (NEB. REV. STAT. § 79-958).

Local school district employer share of FICA is not provided directly by the state.

State and Local Shares: The Class V school district retirement system includes a special property-taxing authority with a levy limit of 7 cents per \$100 of taxable valuation (NEB. REV. STAT. §§ 79-9,112). All local school district employer's contributions are taken from school district general funds.

Extent of Participation: All school districts employing eligible individuals are required to participate one of the two programs.

XIV. TECHNOLOGY

The 1999 Unicameral Legislature passed Legislative Bill 386 that appropriates \$3 million during 1999–2000 fiscal year and \$3.075 million for 2000–2001 fiscal year for the use of technology in schools. Training and infrastructure support are targeted area for the dollars.

XV. CAPITAL OUTLAY AND DEBT SERVICE

Generally, state school aid is not provided for capital outlays. However, several funding programs do provide funds for certain capital outlays: the In-Lieu-Of School Land Tax and Homestead Exemption programs do provide state funds to the various capital outlay funds detailed below. The majority of funds provided, however, are for general fund purposes. In addition, certain capital outlays are provided for by the General Fund. For school years 1993–1994 through 1999–2000 school districts may utilize the Property Tax Reimbursement Fund for purposes of raising tax dollars to cover the reimbursement of property taxes to a taxpayer if the repayment is required by a final order of a court, the State Board of Equalization and Assessment, or the Tax Commissioner.

Bond Funds. Local school bond issues are submitted to the electors of a school district or affiliated school system, and a simple majority of those voting is required for passage (NEB. REV. STAT. § 10-702). However, certain classes of school districts are subject to a statutory limit on school bonds equal to 14% of the actual valuation of all property in their district. In 1998–1999, 137 local school districts levied Bond Funds. In an affiliated school system, the grades 9–12 portion of a K–12 district's bond levy may be applied to the valuation of the entire affiliated school system as opposed to the valuation of just the K–12 district.

Special Building Funds. Local school districts may, by a 55% majority vote of legal voters voting at any annual or special meeting of the district, levy a special annual tax for capital outlays of not to exceed 17.5 cents per \$100 of valuation, for a term of not to exceed 10 years (NEB. REV. STAT. §§ 79-1098, 79-1099).

Districts other than elementary-only (K–12 districts and secondary-only districts) may, without an election of the voters but by action of the board of education, annually establish such capital outlays fund from the proceeds of a levy, not to exceed 14 cents per \$100 of valuation (NEB. REV. STAT. §§ 79-10,120).

In 1998–1999, 208 districts levied Special Building Funds.

Environmental Hazard Abatement/Accessibility Barrier Elimination Funds. Local school boards may designate particular environmental hazard abatement projects (typically asbestos abatement) or accessibility barrier elimination projects (typically in complying with the American's with Disabilities Act) to be funded for up to 10 years by a levy, not to exceed 5.2 cents per \$100 of valuation (NEB. REV. STAT. §§ 79-10,110). Beginning in 1993-1994, such projects within a K–12

district that is part of an affiliated system may be specified as related to grades K–8 educational purposes and grades 9–12 educational purposes. In such systems, the K–8 portion is levied against only the valuation of the K–12 district. The 9–12 portion is levied against all valuation within the affiliated system. In 1998–1999, 23 local school districts reported levies for K–8 Environmental Hazard Abatement/Accessibility Elimination Funds and 23 districts reported levies for 9–12 Environmental Hazard Abatement/Accessibility Elimination Funds. Not all 23 districts that reported levies for grade 9–12 purposes were part of an affiliated system. Some nonaffiliated K–12 districts or high school only districts chose to report split levies.

Property Tax Reimbursement Fund. Local school boards required by a final order of a court, the State board of Equalization and Assessment, or the Tax Commissioner to reimburse property taxes to a taxpayer may request taxes to be levied in an amount necessary to fund the reimbursement. The taxing authority of such funds may only apply to fiscal years 1993–1994 through 1999–2000. This separate fund was established due to the various statewide requirements to repay property taxes that resulted from the extensive litigation related to the personal property tax structure. In 1998–1999, 1 school district reported a Property Tax Reimbursement Fund levy.

XVI. STANDARDS/ACCOUNTABILITY MEASURES

Standards are under discussion in the state. No specific regulations have been posted by the Department of Education for 1999–2000. Beginning with the spring semester of 2001, however, a statewide testing program is to be implemented for students in a selected grade in each of the grade ranges of 4-6, 7-9, and 10-12.

XVII. REWARDS/SANCTIONS

See description of the funding program.

XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS

The state provides limited funds for the establishment and maintenance of charter schools.

XIX. AID TO PRIVATE SCHOOLS

Generally, Nebraska does not provide public funds for nonpublic schools. One program does exist, however, which provides for public school districts to loan textbooks to children who are enrolled in private schools that are approved by the State Board of Education.

Textbook Loan Program

Funding in 1998–1999: \$0.3 million.

Percentage of Total State Aid: less than 1%.

Description: Public school districts receive state funds to purchase textbooks which are loaned to children who are enrolled in approved private schools. Districts are not obligated to spend any money for the purchase and loan of such textbooks other than funds specifically appropriated by the Legislature (NEB. REV. STAT. § 79-734).

State and Local Shares: No local share is required.

Extent of Participation: 29 local public districts.

XX. RECENT/PENDING LEGISLATION

None reported.

XXI. SPECIAL TOPICS

Enrollment Option

Funding in 1998–1999: \$22.9 million.

Percentage of Total State Aid: N/A.

Description: Beginning with the 1990–1991 school year, students may attend school in a district other than the one in which they reside. Unless districts meet specific rejection criteria related primarily to capacity and/or desegregation or if the application is not made by the statutory deadline (deadline may be waived by

districts), participation in the program is mandatory for both resident and option (educating) districts.

Extent of Participation: Not reported.