EXECUTIVE SUMMARY

The Nebraska School Finance Review Commission was created by the Legislature in LB 940 (1988) to make an in-depth and objective review of the funding of Nebraska's public school system. The Commission was charged with the examination of whether or not income as a revenue source and indicator of wealth should play a larger role in school finance. It was also to look at methods to reduce the burden on the property tax for school support and consider state aid distribution formulas which provide greater equity for Nebraska students and taxpayers.

The Commission was composed of representatives appointed by the Governor from all classes and sizes of school districts, members of the public at large, representatives of higher education, a representative of the Governor, a representative of the Commissioner of Education and members of the Legislature. This diverse group of individuals united to work on the complex and often emotional issue of school finance in a cooperative and positive spirit. The Commission held over twenty public meetings, five public hearings and listened to innumerable presentations of staff and outside experts, in order to reach its conclusions on how Nebraska might implement a school finance system which is fairer for Nebraska taxpayers and students.

The Commission found two major problems with the way Nebraska currently funds its public school system. First, the burden on property for school support is excessive by any standard of measurement, resulting in inequities to taxpayers and a narrow and unstable tax base for schools. Second, the current system of school finance, with its overemphasis on the property tax as the primary basis of support for schools and grossly inadequate equalization abilities, does not assure that all students in the state will have equitable access to appropriate and necessary school services.

Further, the Commission found that the historic resistance to greater equalization of school fiscal support in Nebraska was closely related to the inability of Nebraska policy makers to reach consensus on what constitutes "wealth" in terms of school district resources and in terms of taxpayers' ability to pay for educational services. The Commission felt that removal of this perennial rural-urban stumbling block was critical in order for there to be widespread public support for a greater state role in school funding. It concluded that the utilization of income tax revenues as a dedicated revenue source for schools and as an indicator of school district wealth was a necessary and crucial factor for an improved school funding system.

The Commission also concluded that some form of limitation on school district budget growth would be an essential and necessary component of a plan for school finance which entailed a substantial tax shift in the means by which Nebraska supports its public schools. In order to convince Nebraskans and their political leaders of the wisdom and necessity for greater state tax support for schools and a corresponding lessening of property tax support for schools, the Commission became convinced that real and effective budget limitations are a political necessity. Only budget limits will guarantee a real shift in the burden of tax support for Nebraska public schools.

The Commission also recognized early that a decrease in property tax support for the schools could be effectuated only through corresponding increases in state tax support for schools. The Commission found that it would be unrealistic and damaging to public education in this state to expect significant decreases in school spending as a means of property tax relief because Nebraska schools spend below or near average on both a per pupil and per capita basis. Increases in state taxes are the political cost which Nebraskans must be willing to pay in order to reap the benefits of short-term and long-term property tax relief and educational equity.

The Commission believed that any system of school finance should be guided by a few overriding principles and beliefs about the purpose of state involvement in the financial support of the school system. In other words, it was crucial to understand why Nebraska provides state aid to schools in order to make decisions about the kind of state aid program which will benefit Nebraska. The Commission came to believe that the purposes of state aid are:

1. First, to assure all Nebraska children an equitable opportunity for an appropriate education;
2. Second, to provide a broad and stable system of financial support for public schools through an appropriate mixture of revenue sources; and
3. Third, to provide equalization of fiscal ability and financial support among school districts and taxpayers through a distribution formula which recognizes school district needs and school district wealth.

Further, the Commission believes that "wealth" as it relates to school districts' ability to provide educational services and in terms of taxpayers' ability to pay for such services, must include consideration of income tax revenues as well as property tax revenues.

With due regard for these findings and beliefs the Commission has proposed the following recommendations for a new school finance system:

1. **Twenty percent of all state income tax revenues should be dedicated for public school support. Twenty percent of all individual income tax proceeds which are attributable to specific school district should be returned directly to the school district where such income tax revenues originated.**

   This recommendation will assure a broadened, growing and more stable base of support for all public schools.

2. **There should be an increase in the overall level of state support to a target level of 45 percent of the aggregate operational costs of the school system in order to effectuate a 15 percent reduction in aggregate property taxes which will be levied (or a 20 percent reduction in aggregate property taxes to be levied for support of the schools).**

   This recommendation will assure a meaningful and realistic reduction, over the short and long term, in the share of school costs which must be supported by the property tax.

3. **The Legislature should implement an equalization based distribution formula which will assure that all school districts have the fiscal ability to provide for the realistic needs of students and which will measure school district wealth in terms of both its available income tax resources and property tax resources.**

   This recommendation will help assure that the state is meeting its responsibilities to provide equitable educational opportunities for students and fair tax treatment of its citizens.

4. **In conjunction with increased state support for the schools, there should be an implementation of real and effective growth limitations on the budgets of public schools. These limitations should be sensitive to differences in needs and resources of the schools.**

   Budget growth limitations will assure that the increase in state support does result in reduced property tax support for schools. For the initial year of implementation, the Commission is recommending a budget growth range of 4 percent to 6.5 percent.

5. **The Commission recommends that its proposed school finance plan should be funded on an ongoing and sustainable basis from appropriate increases in the state sales and/or income taxes as determined necessary and appropriate by the Legislature.**

   The Commission recognized its duty to suggest a tax source or sources which will be necessary to implement its plan. It did not feel it appropriate to propose specific revenue increases since this will be a function of the Legislature and the Governor in light of constitutional duties to set a budget based on projected revenues and total budget obligations.

This is a plan for a new school finance system which the School Finance Review Commission submits to the Legislature in fulfillment of its statutory obligations under LB 940. The Commission recommends that the Legislature and Governor give this plan serious consideration in the 1990 session of the Unicameral.