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Public School Financing in Nebraska: A Chronic Dilemma

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

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Market Report	Yr Ago	4 Wks Ago	9/6/02
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$69.37	\$63.13	\$63.26
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	98.72	82.46	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	101.35	89.06	87.33
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	107.50	97.10	98.12
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	46.00	34.00	24.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	36.37	*	14.50
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	114.25	107.34	82.67
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	49.05	81.62	68.50
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	125.15	162.45	161.62
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	2.97	3.87	4.84
Corn, No. 2, Yellow Omaha, bu	1.88	2.37	2.70
Soybeans, No. 1, Yellow Omaha, bu	4.50	5.34	5.41
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.61	4.43	5.05
Oats, No. 2, Heavy Minneapolis, MN, bu	1.45	1.92	2.00
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	102.50	105.00	142.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	70.00	92.50	92.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	117.50	120.00
* No market.			

School Financing – hardly any topic gets more spirited debate than this. Those who bear the brunt of the property tax say we have pushed the limits; while others see greater state formula dollars to schools being synonymous with tax increases someplace else. Moreover, many people fear the erosion of local control of their schools as financing changes. However, regardless of one's personal position, these are extraordinary economic times that require us to be realistic. The following data from the U.S. Census Bureau's latest Annual Survey of Local Government Finances, I believe, sheds some light on this topic.

Table 1 arrays the distribution of public school revenues across funding sources for Nebraska and our neighboring states for the latest available period of data, 1999-2000. Nebraska continues to rely primarily upon local revenue sources, accounting for more than 56 percent of the revenue. This percentage is far higher than that for several of our neighboring states who have opted to collect more taxes at the state level and redistribute back to local schools. Even relative to the U.S. average, Nebraska's reliance on local sources is substantially higher. In fact, Nebraska still ranks second highest among the 50 states in terms of percentage of school financing derived from local sources (only Maryland is slightly higher with 56.7 percent of funding coming from local sources).

Even though there has been a gradual shift of financing in recent years, Nebraska's reliance upon state financing sources for public schools remains strikingly small – less than 37 percent for 1999-2000. In fact, this percentage was not only second to the bottom for the neighboring states (South Dakota was the lowest), but for the entire 50 states as well! The U.S. average is essentially half of the elementary-secondary public school financing coming from state sources.

Another way of comparing is to look at rankings among the 50 states and the District of Columbia on the basis of revenues from the various sources to \$1,000 personal income (Table 2). By this measure, which puts the financ-



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ing for schools in a somewhat closer relationship to ability to pay, the rankings point out the same dilemma – that Nebraska ranks high (11th overall) in terms of local sources; while right at the bottom (47th) in terms of state-derived funding.

As for the implications of these patterns for future policy direction, I see three. First, given the fact that most students don't stay in, or even return to their local community after graduating from high school, it is far more *geographically equitable* if the bulk of funding for their elementary and secondary education be derived from state rather than local sources. This point is particularly true of smaller rural areas, where the vast majority of high school graduates leave and never move back to their local areas.

Second, by raising the state collected portion of school financing, greater *tax equity across sources* can be achieved as well. Using state based personal and corporate income tax collections as well as state collected sales taxes, this state's citizenry is sharing the tax burden in much

closer relationship to the principles of economic ability-to-pay and benefits received. Presently, the relatively high dependency upon local finances, of which more than three-fourths represents property taxes, is seriously skewed.

Third, the financing patterns observed in other states should put to ease much of the perception that greater state funding leads to reduced local control of schools. Citizens have **not** given up their local control of schools in Kansas, Wyoming or any other state that has opted for greater reliance upon state-based funding.

As Nebraskans and their policy makers face the inevitable need in the near future for a major overhaul of their tax and fiscal systems, moving our school financing into the 21st century will certainly need to be on the agenda. And the sooner the better!

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Table 1. Percent Distribution of Elementary-Secondary Public School System Revenue by Source, Nebraska, Neighboring States and U.S., 1999-2000*

Geographic Area	Distribution of School Revenue From:			
	Local	State	Federal	Total
	----- Percent -----			
Nebraska	56.3	36.8	6.9	100.0
Iowa	43.3	50.9	5.8	100.0
Missouri	46.6	46.7	6.6	100.0
Kansas	30.7	63.0	6.3	100.0
Colorado	53.3	41.4	5.3	100.0
Wyoming	39.6	52.0	8.4	100.0
South Dakota	52.7	35.0	12.3	100.0
U.S. Average	43.1	49.8	7.1	100.0

*Source: U.S. Census Bureau, Annual Survey of Local Government Finances, "Public Elementary-Secondary Education Finances: 1999-2000."

Table 2: Nebraska and Neighboring States National Ranking According to Relation of Elementary-Secondary Public School Finance Amounts to \$1,000 Personal Income*

Geographic Area	State Ranking by Source of Revenue From:		
	Local	State	Federal
Nebraska	11	47	28
Iowa	23	28	42
Missouri	21	36	37
Kansas	39	14	29
Colorado	14	45	49
Wyoming	20	18	10
South Dakota	19	50	6

*Source: U.S. Census Bureau, Annual Survey of Local Government Finances, "Public Elementary-Secondary Education Finances: 1999-2000." Refers to ranking across 50 states plus the District of Columbia.