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# A Time To Rethink School Financing

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# Cornhusker Economics

## Cooperative Extension

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

### A Time To Rethink School Financing

Market Report	Yr Ago	4 Wks Ago	10/29/99
<b><u>Livestock and Products,</u></b>			
<b><u>Average Prices for Week Ending</u></b>			
Slaughter Steers, SE/CH 65-80%			
Weighted Avg. for Nebr. Feedlots. . . .	\$59.81	\$66.25	\$69.30
Feeder Steers, Med. Frame, 600-650 lb			
Dodge City, KS, cwt. . . . .	71.13	83.00	79.65
Feeder Steers, Med. Frame 600-650 lb,			
Nebraska Auction Wght. Avg. . . . .	*	87.73	88.44
Carcass Price, Ch. 1-3, 550-700 lb			
Cent. US, Equiv. Index Value, cwt. . . .	98.28	104.24	108.31
Hogs, US 1-2, 220-230 lb			
Sioux Falls, SD, cwt. . . . .	23.58	35.25	32.87
Feeder Pigs, US 1-2, 40-45 lb			
Sioux Falls, SD, hd. . . . .	*	23.24	
Vacuum Packed Pork Loins, Wholesale,			
13-19 lb, 1/4" Trim, Cent. US, cwt. . . .	88.90	107.90	99.70
Slaughter Lambs, Ch. & Pr., 115-125 lb			
Sioux Falls, SD, cwt. . . . .	*	68.93	71.05
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb			
FOB Midwest, cwt. . . . .	143.00	161.00	154.00
<b><u>Crops,</u></b>			
<b><u>Cash Truck Prices for Date Shown</u></b>			
Wheat, No. 1, H.W.			
Omaha, NE, bu. . . . .	3.28	2.79	2.78
Corn, No. 2, Yellow			
Omaha, NE, bu. . . . .	1.89	1.64	1.63
Soybeans, No. 1, Yellow			
Omaha, NE, bu. . . . .	5.33	4.36	4.29
Grain Sorghum, No. 2, Yellow			
Kansas City, MO, cwt. . . . .	3.32	2.73	2.71
Oats, No. 2, Heavy			
Sioux City, IA, bu. . . . .	*	1.12	1.16
<b><u>Hay,</u></b>			
<b><u>First Day of Week Pile Prices</u></b>			
Alfalfa, Sm. Square, RFV 150 or better			
Platte Valley, ton. . . . .	*	92.50	90.00
Alfalfa, Lg. Round, Good			
Northeast Nebraska, ton. . . . .	*	32.50	32.50
Prairie, Sm. Square, Good			
Northeast Nebraska, ton. . . . .	70.00	*	*
* No market.			

In our recently-completed study "Agricultural Property Taxation: A Comparative Analysis," we have found that Nebraska ranks at the very top of the major agricultural states in terms of property tax burden on agricultural property. For the year 1998, Nebraska's taxes per \$100 of full market value of agricultural land averaged \$1.16. This was 63 percent higher than the 19 major agricultural state averages of \$0.71 and 71 percent higher than the 1998 average for the regional states (Nebraska and its six bordering states). If Nebraska had decreased taxes levied per \$100 of full market value to the average of the 19 major agricultural states, annual net farm income for Nebraska would have increased more than 6 percent in this decade.

What is particularly noteworthy of the above is that Nebraskan's property tax burden has actually fallen in recent years as legislation imposing levy lids has parred down local units of government. With those limits has also come a greater share of state aid to education, which has reduced the property tax burden. Yet despite these measures, as of 1998 Nebraska still ranks highest of the major agricultural states in terms of property tax burden on agricultural land.

One of the primary reasons is that less than half of the funding for Nebraska's K-12 public education is from state sources and the major share is from local property taxes; while throughout the U.S. the state-funded share averages more than 60 percent. In fact, in many states like Kansas the state-funded share is two-thirds or more of the total.

Should Nebraska be looking at a larger share of state-level funding for K-12 public education? We believe there are compelling reasons to do so. Let's look at a few of them.



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First, there is no question that property tax levels are higher in Nebraska than in most other states. It clearly shows up in the report on agricultural property taxation noted above. But the relative burden is across-the-board, being much higher for residential and commercial property as well. In 1995-96, Nebraska ranked 10th out of the 50 states in terms of property tax burden per \$1,000 of income. This relatively higher tax burden can result in a competitive disadvantage for business firms whose assets are heavily weighted towards real estate. Likewise, higher property tax levels impact the residential development of the state as well. For example, for retirees whose income is relatively fixed, the property tax burden may well be the deciding factor for moving out of state. Similarly, business location decisions take into consideration the affordability of housing for its workforce, for which residential property tax levels are a key variable. In sum, Nebraska's relatively heavy dependence upon property taxation can, and often does, put the state at an economic disadvantage.

But there is a second issue of no less importance, and that is the question of fairness and tax equity. More than two centuries ago, the classical economist Adam Smith in his book *The Wealth Of Nations*, presented the basic tax cannons which state that the level of taxation should reflect the ability to pay as well as the benefits received (from the use of those tax collections). Those tax cannons are no less important today in designing sound tax policy.

At an earlier time in our nation's history the property tax was a relatively fair tax in that it was: (1) reflecting ability to pay in the form of real property wealth, and (2) the flow of benefits received in the form of public infrastructure development and maintenance which benefitted the property owner. Even the benefits of public education flowed to land owners who also tended to be the business owners who employed the bulk of the educated workforce.

But that is no longer the case as the disparity of property taxation grows ever-larger, both in terms of ability to pay and benefits received. Today, income is derived more from financial and intellectual capital than it is from real estate capital. And the real estate property-enhancing benefits from tax collections no longer include public education to any substantial degree.

Perhaps there is no greater disparity than in the heavy reliance upon property taxes to fund public education, with particular incongruity for rural agricultural areas. In essence, there is a major educational subsidy from one element of the population to another. This can be illustrated in the following example.

Assume a rural school district in which 70 percent of the assessed value is agricultural real estate and 55 percent of the school expenditures are covered by local property

taxes. The average cost per student is \$5,700 per year for 13 years of schooling. Also assume that 75 percent of the students leave the community permanently after graduating from high school (the brain drain). Given the above, the analysis would proceed as follows:

- a. Present value of school expenditures of \$5,700 per year over 13 years at a 7 percent discount rate is:  

$$PV = \$5,700 (8.358) = \$47,641 \text{ per student}$$
- b. Public education expenditure covered by local property taxes is:  

$$\$47,641 \times .55 = \$26,203 \text{ per high school graduate}$$
- c. Portion of local school expenditures exported as educated young adults who leave the area permanently is:  

$$\$26,203 \times .75 = \$19,652 \text{ per high school graduate}$$
- d. Portion of agricultural-based property tax revenues exported as educated young adults leaving the area is:  

$$\$19,652 \times .70 = \$13,756 \text{ per high school graduate}$$

In this fictitious, but realistic example, the rural community captures only a portion of the public investment it is making in the education of its young people, since they migrate away (often to urban areas). The community exports a dollar investment of nearly \$20,000 per graduate which is really a subsidy to those communities in which these educated young adults eventually reside. And the agricultural sector shares in this transfer proportionally to its share of the total assessed value in the tax district.

In sum, we still have in Nebraska a serious geographic as well as a tax-structural inequity in how we finance public education. Property taxes can still account for a portion; but the bulk of the financing (60 percent or more) needs to come from state tax sources in the form of individual and corporate income taxes and sales tax collections. This policy change alone could do more to properly balance Nebraska's tax system than any other.

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