

Big Trouble for Small Schools

(An analysis of state aid to Nebraska schools)

Abstract

An analysis of certified state aid to school systems comparing school years 1997-1998 and 1999-2000 reveals that 90 school systems have lost 10 percent or more in state aid funding. These school systems represent about 23,000 children, or about 9 percent of Nebraska's total public school enrollment. These systems have lost nearly \$15 million in state aid, money presumably not replaced or shifted to local property taxes. The vast majority of these schools are small, with a median 1998-1999 K-12 enrollment of 225 students. The vast majority of these schools are also in relatively densely populated areas of the state, in communities located relatively close together. This suggests that the twin combinations of LB 806 and LB 1114 contain an incentive for schools in these areas and in these circumstances to consider alternative structures such as consolidation or unification.

Methodology

Amounts of state aid to schools for each school system in Nebraska as certified by the Nebraska Department of Education were compared for school years 1997-1998 and 1999-2000. The 1997-1998 school year is the "base year" for current school finance in Nebraska; LB 806, which set the current school formula (with minor modifications since), was adopted by the Nebraska Legislature in its 1997 session. Therefore, the state aid received by schools in 1997-1998 was the last under the pre-LB 806 state aid formula. The Legislature adopted LB 1114, which caps local property tax levies, in 1996. The combined effects of these two laws determine the amount of local and state resources received by individual school systems.

In December 1997, the Center for Rural Affairs issued a report entitled *Affects of LB 1114 and LB 806 on School Funding for 1998/99*. This report analyzed the funding disparity between state aid in 1997-1998 (defined as a school system's "need") and the certified state aid for school systems for 1998-1999 pursuant to the then-newly adopted LB 806. That report found that 64 school systems would lose more than 10 percent of state aid under LB 806 for 1998-1999. This report updates the 1997 report based on another school year's experience with LB 806 and LB 1114.

All data concerning state aid and enrollment is from the Nebraska Department of Education.

Findings

When considering state aid figures for the two school years in question (1997-1998 and 1999-2000), 90 school systems have 10 percent or more less state aid funding for 1999-2000 than received in 1997-1998. These systems will receive nearly \$15 million less in state aid in 1999-2000 than received prior to LB 806, a 29 percent decrease.

As with many examples of public policy that divide public funds, there are "winners" and "losers." These 90 school systems could definitely be classified as "losers" under the

current state aid formula. These systems also have clear characteristics. Generally, these 90 school systems are:

Small. These systems have a total 1998-1999 K-12 enrollment of 22,944 students, or about nine percent of Nebraska's total K-12 public school enrollment. The median K-12 system enrollment is 225, or an average of 17 students per grade. A common way to judge size in Nebraska is to consider activity class. Nebraska schools are divided into six activity classes – A, B, C-1, C-1, D-1 and D-2 – based on enrollment, with Class A schools the largest schools in the state and D-2 schools the smallest. As Table 1 shows, 75 percent of these systems are Class D schools, while none are Class A or B schools.

Activity Class	Number of Systems	Percentage of Systems
A	0	0
B	0	0
C-1	6	6.8
C-2	16	18.1
D-1	28	31.8
D-2	38	43.2

Table 1

Note: Two school systems – Trumbull and Guide Rock – do not have high schools, and thus are not considered in dividing the 90 systems among activity class. Percentages are based on 88 school systems.

Rural. Nebraska has 47 counties considered "completely rural" under the United States Department of Agriculture BEALE Code Classification. The list of 90 school systems includes 25 of these counties containing 44 school systems. The map attached hereto shows the location of each of the 90 school systems, with a legend that indicates systems by county.

Well performing. The report [*Small Schools, Big Results*](#) of the Nebraska Alliance for Rural Education found that high school completion rates in Nebraska were best for smaller schools. An analysis of the data used for that report finds that from school years 1991-1992 to 1994-1995, the median high school completion rate for these 90 systems was 97 percent (compared to the statewide average of 85 percent). In the 1997-1998 school year, these 90 systems had an average "drop out" rate of nearly 2 percent; 50 of these systems had no dropouts.

Efficient. *Small Schools, Big Results*, using a cost-per-graduate measure of expenditures and economic "efficiency," found that high schools of 300-599 students had the lowest expenditures per pupil likely to graduate, \$5,790. These 90 school systems have an average annual expenditure per pupil likely to graduate of \$6,717, only \$927 more than the most "efficient" school size. By further comparison, the largest schools in the state (those with over 1,000 high school students) had an average annual expenditure per pupil likely to graduate of \$6,397, only \$420 less than these 90 systems. For these few dollars more, high school completion rates were significantly greater and students and patrons of the systems received the educational, social and communal benefits of smaller schools.

By comparison, there are "winners" under the current state aid formula. Many small schools, particularly in the western part of the state, received bumps in state aid due to their inclusion in the cost groupings that recognize the unique needs and costs of sparseness. The largest schools in the state also received significant increases in state aid as a result of LB 806. Nebraska's Class A schools received a total of nearly \$78 million more in state for school year 1999-2000 than they received pre-LB 806 in 1997-1998. On average, Class A districts are now receiving 133 percent of the state aid they received in 1997-1998; the 90 systems considered in this report are receiving 71 percent of the state aid received two years ago. For comparison, Table 2 shows the state aid Class A systems are receiving for school year 1999-2000 as a percentage of that received in 1997-1998.

<u>School system</u>	<u>1999-2000 State Aid as a Percentage of 1997-1998 State Aid</u>
Kearney	124%
Fremont	133%
Omaha	142%
Millard	115%
Westside	120%
Grand Island	132%
Lincoln	151%
North Platte	149%
Norfolk	124%
Columbus	155%
Bellevue	122%

Pappillion-La Vista	120%
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Table 2

This comparison is not to begrudge the state aid received by Class A schools; the students there are entitled to a quality education the same as any other child in any other system in the state. This comparison does, however, point to the vast disparity in effects of current school finance policy in different areas of the state.

Policy Implications

It is clear from the location of the 90 school systems that LB 806 has created a class of school systems within the "standard" cost grouping treated poorly by the school finance formula. This public policy bias appears to work most against those small school systems located near other similar systems generally in areas of relatively dense populations. This policy impact, and the direct consolidation incentives contained in the school finance formula, creates a powerful economic incentive for school systems to consider alternative structures such as consolidation or unification.

This economic incentive becomes more powerful when considering the effects of the LB 1114 property tax lids. Despite the lids enacted pursuant to LB 1114 and the additional state aid to education appropriated by the Legislature, recent data show property taxes in Nebraska – especially on agricultural land – remain among the highest in the nation. The continued heavy reliance upon property taxes for school financing in rural areas is particularly distressing in times such as now when commodity prices and farm income remain low. Yet, the \$15 million lost in state aid since 1997-1998 to these 90 systems can be addressed in limited ways – increased property taxes, either through increased valuations or levy limit overrides; severe cuts in educational budgets; school closure; or consolidation. All in all, not attractive options to rural Nebraskans, and options that threaten both the equity and adequacy of education for Nebraska’s small schools.

Public policy that pressures small schools into consolidation through underfunding and incentives is counter-productive. As schools get larger, educational results worsen. The academic, social and communal advantages of smaller schools are lost. It makes little sense for the best of communities and the society to adopt public policy that worsens the achievement and outcomes of our schools and students.

To maintain well performing, efficient, community-based schools, and to prevent a worsening of Nebraska’s educational achievement and outcomes, the Nebraska Legislature should consider the following:

- The funding of local schools should follow the principle of "fund them as you find them" that is applied to other essential services such as electricity, water, roads and communications.
- The state aid distribution formula should reinstate a system of cost groupings based on school size and should incorporate the actual cost of providing an

adequate education for each district rather than average expenditures based primarily on the largest systems in the state.

- The state aid distribution formula should include factors that can be shown to impact the cost of providing an adequate education to all students, including number of students, distance, construction costs, school readiness, learning ability and other special education needs.
- The state aid distribution formula should incorporate the local capacity of a school system's property owners to pay the levied property taxes and not base funding solely on the taxable property wealth of the system.
- The Nebraska school finance system should promote resource stability and predictability.
- The Nebraska school finance system and state education policy should support the achievement of high level educational outcomes and recognize that community-based schools, whether in small or large systems, are the best option for meeting the educational goals of the community and the educational standards of the state.

School System	Athletic Class	\$ Decrease 97/98-99/00	% of Decrease	Enrollment
Wheeler Central Public	D2	\$21,788.54	100%	151
Clarks Public	D2	\$219,711.56	88%	146
Dodge Public	D2	\$196,350.64	86%	178
Bruning Public	D2	\$206,656.06	85%	156
Centennial Public	C1	\$99,434.30	84%	684
Exeter Public	D2	\$161,612.69	79%	210
Kenesaw Public	D1	\$206,132.46	75%	257
Monroe Public	D2	\$240,964.68	70%	126
McCool Junction Public	D2	\$181,908.61	67%	149
Brady Public	D2	\$104,974.79	65%	152
Elgin Public	D2	\$132,344.66	65%	215
Silver Lake Public	D2	\$103,847.57	65%	284
Giltner Public	D2	\$74,751.41	57%	189
Trumbull Public	N/A	\$139,431.70	57%	58
Petersburg Public	D2	\$135,194.01	55%	142
Fairmont Public	D2	\$217,863.95	51%	183
Hildreth Public	D2	\$181,517.49	51%	156
South Platte Public	D1	\$128,880.01	50%	249
Maxwell Public	D2	\$299,700.06	47%	265
Nemaha Valley Public	D1	\$344,193.58	47%	263
Cedar Bluffs Public	D1	\$259,757.21	46%	318
St Edward Public	D1	\$247,964.49	46%	231
SE Nebraska Consolidated	D1	\$246,298.73	43%	261
Leyton Public	D2	\$62,169.51	41%	280
Milligan Public	D2	\$172,436.43	40%	140
Spencer-Naper Public	C2	\$447,464.43	39%	308

Guide Rock Public	N/A	\$90,558.10	37%	28
Orchard Public	D1	\$247,019.61	37%	227
Clarkson Public	D1	\$199,386.68	35%	232
Odell Public	C2	\$233,218.24	35%	211
Republican Valley Public	C2	\$402,775.24	35%	315
Chester-Hubell-Byron	D2	\$134,370.83	34%	152
Dorchester Public	D1	\$185,856.19	34%	248
Table Rock-Steinauer	D2	\$142,611.59	34%	122
Coleridge Community	D1	\$279,474.56	33%	238
Culbertson Public	D1	\$261,604.63	33%	213
Hay Springs Public	C2	\$290,632.79	32%	214
Howells Public	D1	\$181,199.62	32%	229
Newman Grove Public	C2	\$173,605.83	32%	318
Pleasanton Public	D1	\$213,584.78	32%	262
Rising City Public	D2	\$58,571.08	32%	158
Diller Community	C2	\$139,918.70	31%	156
Lodgepole Public	D2	\$82,695.65	31%	156
Silver Creek Public	D2	\$90,065.35	31%	185
Butte Public	D2	\$168,115.16	30%	149
Clearwater Public	D2	\$187,303.79	29%	190
Ewing Public	D1	\$198,423.12	28%	190
Leigh Public	D1	\$213,706.08	28%	304
Newcastle Public	D2	\$179,981.81	28%	187
Amherst Public	D1	\$231,592.30	27%	295
Crofton Public	C1	\$312,014.64	27%	426
Elba Public	D2	\$181,809.80	27%	173
Paxton Consolidated	D1	\$63,178.10	27%	222
Bancroft-Rosalie Public	D1	\$173,779.66	26%	322
Clay Center Public	D1	\$171,361.79	26%	265
Allen Consolidated	D2	\$175,275.13	25%	224
Stuart Public	D1	\$217,750.95	25%	209
Hampton Public	D1	\$37,378.76	24%	175
Osmond Public	C2	\$142,553.57	24%	284
Dawson-Verdon Public	D2	\$126,309.12	23%	183
Lyons-Decatur Northeast	C2	\$233,100.59	23%	439
Verdigre Public	D1	\$158,524.09	23%	265
Bennington Public	C1	\$340,198.45	22%	546
Pender Public	C2	\$213,006.26	22%	426
Blue Hill Public	C2	\$212,505.39	21%	357
Lynch Public	D2	\$103,228.84	21%	121
Lawrence Public	D2	\$63,083.09	20%	125
Arcadia Public	D2	\$77,295.65	19%	116

Stanton Community	C2	\$284,302.03	19%	483
Fullerton Public	C2	\$186,650.10	18%	431
Syracuse-Dunbar-Avoca	C1	\$172,666.00	18%	633
Wausa Public	D2	\$90,783.05	18%	220
Wheatland Public	D2	\$409.72	18%	163
Nelson Public	D2	\$90,786.75	17%	208
Beemer Public	D2	\$91,204.17	16%	182
Weeping Water Public	C2	\$145,326.45	16%	428
Alma Public	C2	\$155,929.14	15%	407
Sioux County Public	D2	\$12,016.27	15%	54
Bloomfield Community	C2	\$115,857.85	14%	407
Elkhorn Valley	C2	\$164,055.99	14%	483
Medicine Valley Public	D1	\$94,813.11	14%	288
Osceola Public	D1	\$41,484.69	14%	312
Sterling Public	D1	\$86,556.06	14%	249
Albion Public	C1	\$129,104.95	13%	648
Wynot Public	D2	\$71,834.79	13%	182
Hershey Public	C1	\$135,824.13	12%	485
Prague Public	D2	\$37,612.63	12%	158
Waterloo Public	D1	\$75,027.06	12%	269
Genoa Public	D1	\$96,146.28	11%	334
Stromsburg Public	D1	\$34,631.29	11%	312
Total		\$14,734,997.69	3,118%	22,793
Average		\$165,561.77	35%	256
Median		\$168,115.16	31%	