

# *Legislative Performance Audit Committee*

## Memorandum

To: Legislative Performance Audit Committee  
From: Legislative Audit Office  
Date: September 15, 2022  
Re: Tax Equity and Educational Opportunities Support Act (TEEOSA) Poverty Allowance

### Introduction

The Legislative Performance Audit Committee (Committee) directed the Legislative Audit Office (Audit Office) to conduct an audit of the Tax Equity and Educational Opportunities Support Act (TEEOSA). Specifically, the Committee directed the Audit Office to determine if the state equitably distributes TEEOSA poverty-student aid to school districts. At the Audit Office's request, the Committee later changed the project to a preaudit, which provides descriptive rather than evaluative information.

Poverty-student aid is one component of the TEEOSA funding formula. We reviewed whether there are aspects of the TEEOSA formula or its implementation by the Nebraska Department of Education that could cause a district not to receive enough poverty-student aid to meet its identified need. We identified three factors we believe could have such an impact. In addition to describing those factors, we provide descriptive information on selected poverty-student aid measures for school years 2018-19, 2019-20, and 2020-21.

### Results Summary

The basic TEEOSA formula is the difference between a school district's financial needs and its resources equals the amount of equalization aid it will receive. Generally speaking, if a district's resources are equal to or greater than its needs, it receives no equalization aid. If its resources do not cover its needs, it receives equalization aid.



We identified three issues relating to the TEEOSA process that could result in a district receiving less poverty-student aid than it needs. First, accurately identifying all poverty students in a district is difficult because even the best measures have limitations. Second, the results of the statutory method for calculating a district's resources may be higher than the district's *actual* resources, which could result in the district not having enough resources to meet its needs. Third, some districts with poverty-student expenditures do not include the expenditures in their budgets because they know they will not qualify for equalization aid.

As discussed later in this memo, poverty-student need is a small proportion of the total needs of all districts. Without looking at each district's total needs and resources, it is difficult to say whether the issues we identified would ultimately make a significant difference in the amount of equalization the districts receive.

Results of our review of selected poverty-student measures include:

- For the three years reviewed, poverty-student aid requests made up a small proportion of needs requests (about 5%).
- In each year, over 25% of districts did not request poverty-student aid. All were rural districts.
- Most school districts did not receive equalization funding. Those that did not request poverty-student aid received equalization much less often than districts that did request poverty-student aid.

A detailed discussion of each of these issues follows an overview of the TEEOSA formula.

The Legislative Audit Office appreciates the cooperation of the Department of Education during this preaudit. We extend special thanks to Bryce Wilson for his assistance.

### **TEEOSA Formula Overview**

The Nebraska Department of Education (NDE or Department) dispenses aid to local school districts through a funding formula established in the 1990 Tax Equity and Educational Opportunities Support Act (TEEOSA or Act). The Nebraska Legislature intended TEEOSA to reduce both local property taxes and inequalities in per student funding across districts by adding state income tax revenue to school districts' funding stream. The basic TEEOSA funding formula is, "Needs – Resources = Equalization Aid," and its basic structure has not changed since TEEOSA's passage. The Department determines the amount of state aid received by districts based on processes prescribed in TEEOSA.

In the formula, the "Needs" category contains types of school district expenditures listed in the TEEOSA statutes, such as for basic needs, transportation, summer school, distance education and telecommunications, and poverty students. Basic needs account for the overwhelming share of total formula Needs and include such expenditures as faculty and

staff salaries and benefits, various student support services, district administrative operations, and building maintenance.<sup>1</sup>

The “Resources” category contains local, state, and federal funds available to school districts. In the years we reviewed, property tax yields, as calculated by NDE at the TEEOSA levy rate, amounted to just under 80% of all formula Resources. About 16% of Resources were “other actual receipts,” a funding category that includes school district fines and license fees, public power district sales tax revenue, state special education dollars, and some federal receipts. About 5% of Resources was from “net option funding,” which compensates school districts that had more students transfer into than out of the districts, and income tax rebates.

Property tax yields in each of the reviewed years were the primary source of total funding statewide, covering about 70% of the total statewide school district Needs in each of the reviewed years.

“Equalization Aid” is the largest source of TEEOSA state aid. For example, in the 2018-19 to 2020-21 school years, equalization dollars accounted for about 84% of all TEEOSA aid to school districts. The amount of Equalization Aid a district receives is equal to the portion of its formula Needs that are not paid for by its Resources as calculated by NDE.

The Legislature appropriates TEEOSA funds to school districts in the state biennial budget according to calculations prepared by the NDE pursuant to TEEOSA statutes. (School districts also receive non-TEEOSA state funds and federal funds, which are not included in the TEEOSA funding formula calculation.)

In the three years reviewed, between 28% and 34% of the state’s 244 school districts qualified for Equalization Aid. However, our review of NDE data from the selected school years suggests that although most *districts* are unequalized, most *students* in Nebraska attend equalized school districts. In the school years 2018-19 to 2020-21, at least three-quarters of all Nebraska public-school students attended equalized districts.

### **The Current Poverty Allowance Calculation**

Although the basic TEEOSA funding formula has not changed, lawmakers have tweaked the formula often since TEEOSA’s passage. These changes included the 1997 addition to the formula of a “poverty factor” to aid districts in the education of low-income students. In 2006, the Legislature sought to enhance school district accountability by replacing the poverty factor with a “poverty allowance” available to districts with demonstrated expenditures on low-income students. Prior to the legislation, NDE dispensed the aid to school districts regardless of districts’ actual expenditures on low-income students. Pursuant to statute, the Department now calculates school districts’ poverty allowances using average expenditures per student statewide for the most recently complete data year and average number of poverty students per district in the immediately preceding three fiscal years.

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<sup>1</sup> As an example of this, in the 2021-22 school year, basic needs accounted for 83% of total Needs statewide while poverty education accounted for 4.8%.

Individual school districts may submit their own poverty allowance calculations to the Department. While NDE follows a process prescribed in TEEOSA to calculate districts' poverty allowances, the Act does not specify a method that school districts must use in their poverty calculations. However, NDE makes available to districts a standardized worksheet to estimate the expenditures.

In its poverty calculation, NDE is required by law to select the greater of two school district demographics as the number of poverty students in individual districts:

1. the number of Free Lunch/Milk students, which generally refers to youth who have qualified for the federal child nutrition assistance programs identified in TEEOSA, or
2. the number of low-income students, as provided to the NDE by the Nebraska Department of Revenue.

Each of the methods used by NDE to count poverty students has limitations, although they may be the best available, as discussed later in this memo.

The Department applies the selected poverty student number and other student data to a formula that is structured to exponentially increase the poverty allowance as the proportion of poverty students to all students in a district increases. In other words, the higher the proportion of poverty students to all students, the greater the poverty allowance multiplier. NDE then compares its calculated poverty allowance amount to the amount submitted by a district and, pursuant to statute, uses the lesser of the two amounts as the district's poverty allowance.

NDE adds the final calculated poverty allowance to the other types of school district expenditures to determine the total amount of Needs for a district. School districts with *total* Needs that exceed total Resources are eligible for Equalization Aid.

## **Analysis**

### **Factors in Calculating Poverty-student Need**

We identified three potential issues relating to the TEEOSA process that could result in a district receiving less poverty-student aid than it needs.

The first potential issue is with measures the TEEOSA statutes requires NDE to use in assessing the need for poverty assistance in each district. As discussed previously, one measure is the number of youths in a district who have qualified for certain federal child nutrition programs referenced in the TEEOSA statutes and the other is income tax return data. According to a 2019 Urban Institute report, these measures have limitations that may cause an undercount of people who could be eligible for poverty assistance. This occurs because not everyone who would be eligible for the programs applies and some people do not have to file tax returns. The report did not provide any measures determined to be more accurate. Our discussions with NDE staff indicated they are aware of these potential limitations.

The second step in the TEEOSA process that could result in a district receiving less poverty-student aid than it needs has to do with calculation of a district's financial needs for a given year. By law, in calculating districts' resources, NDE is required to assume districts assess levies equal to the maximum levy set in state law for school districts minus five cents. For example, the current maximum levy for school districts is \$1.05. Therefore, the current TEEOSA levy used to calculate district Resources is \$1.00.

Districts are not required to use the TEEOSA levy amount. However, if a district uses a lower levy, its *actual* resources will be lower than NDE's calculation, which is used in the funding formula. Thus, districts that adopt levies lower than the TEEOSA levy may not have all the resources they need to cover their expenditures. This is because these districts will generate less property tax revenue and because Equalization Aid only covers the difference between Needs and district Resources *as calculated at the higher TEEOSA levy rate*. However, because poverty-student aid is a small proportion of districts' total needs, it is unclear what the reduced amount of Equalization Aid would be on that particular need.

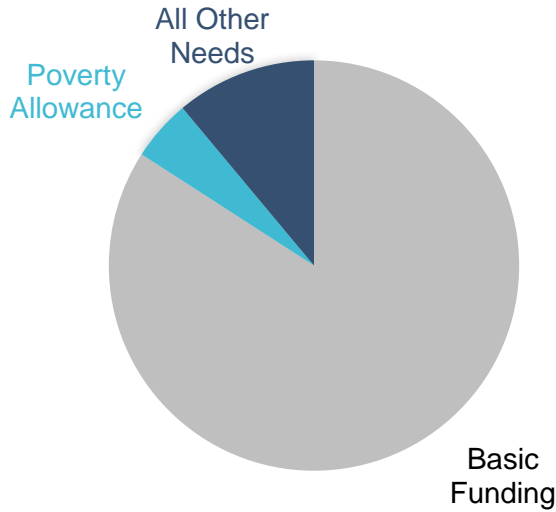
The third factor identified is not directly related to the TEEOSA formula or its administration. During the years we reviewed, many districts did not include poverty-student aid in the total Needs the Department uses to determine Equalization Aid. NDE suggested that most of these districts realize they are not going to receive Equalization Aid, even with the addition of poverty student expenditures to their total Needs. Because the poverty-student expenditure is generally a small portion of total Needs, districts don't include it because it will not increase the total enough to qualify them for Equalization Aid.

### **Poverty Allowance Requests in School Years 2018-19, 2019-20, 2020-21**

#### *Poverty Allowance Proportion of All Needs*

In the three years reviewed, the poverty allowance amounts requested by all school districts made up about 5% of the total dollars in the Needs category. Basic Funding made up by far the largest proportion (84%). The remaining needs factors made up the remaining 11% (Figure 1).

**Figure 1: Poverty allowance requests were a small part of all requests in the TEEOSA-formula Needs category.**

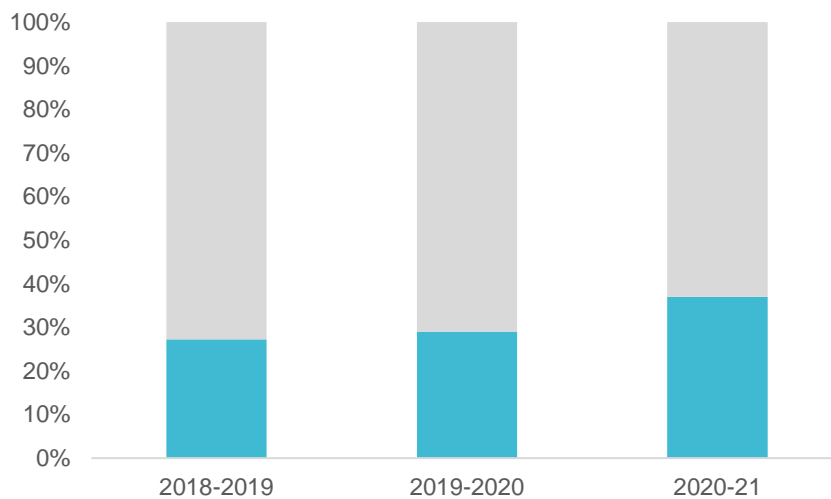


Source: Figure prepared by LAO using NDE Certified State Aid Formula Needs, Allowances, and Adjustments (A2) reports.

*Proportion of Districts not Requesting Poverty-student Funding*

In each year, over one-quarter of school districts made no poverty allowance request. In 2018-2019, 67 (27%) of all school districts made no poverty allowance request. In 2019-2020 and 2020-2021, 71 (29%) and 90 (37%) made no request, respectively. Of the districts that made no request in a single year, almost 20% made no request in any of the three years (Figure 2). See the Appendix for a list of the districts and years in which no poverty allowance request was made.

**Figure 2: In each year, over one-quarter of school districts made no poverty allowance request.**

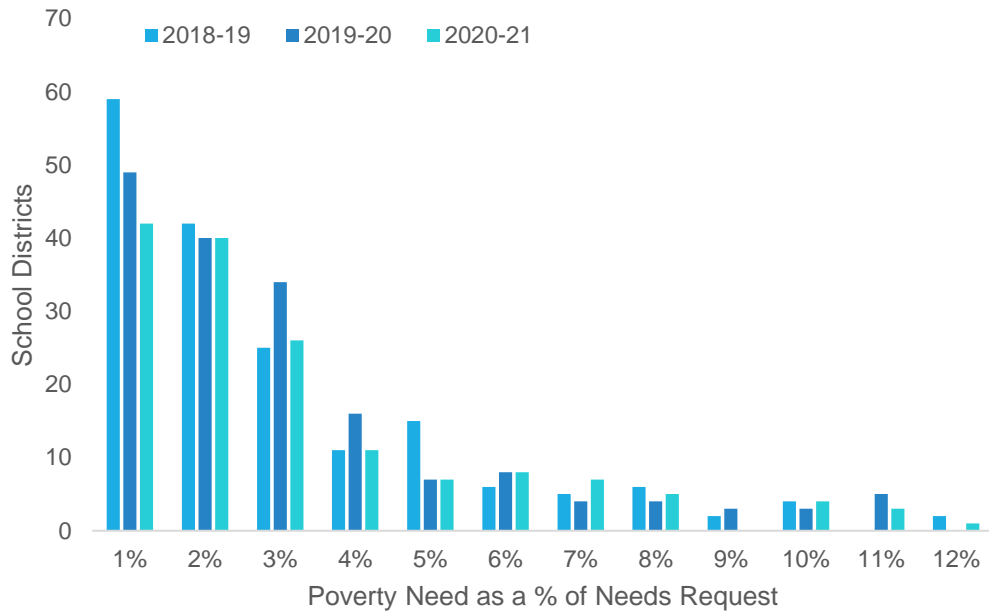


Source: Figure prepared by LAO using NDE Certified State Aid Formula Needs, Allowances, and Adjustments (A2) reports.

*Poverty-student Requests that were 4% or Less of Districts' Total Needs Requests*

Of the districts that did make poverty allowance requests, the lowest request was \$1,275 (Sterling Public Schools in 2019-20) and the highest was over \$66.9 million (Omaha Public Schools in 2020-21). In each year, for more than 75% of the districts that received poverty allowance funding, the funding equaled 4% or less of their total needs (Figure 3).

**Figure 3: In most of the school districts that made poverty allowance requests, the requests were between 1% and 4% of the district’s total needs request.**



Source: Figure prepared by LAO using NDE Certified State Aid Formula Needs, Allowances, and Adjustments (A2) reports.

### *Proportion of Equalized Districts*

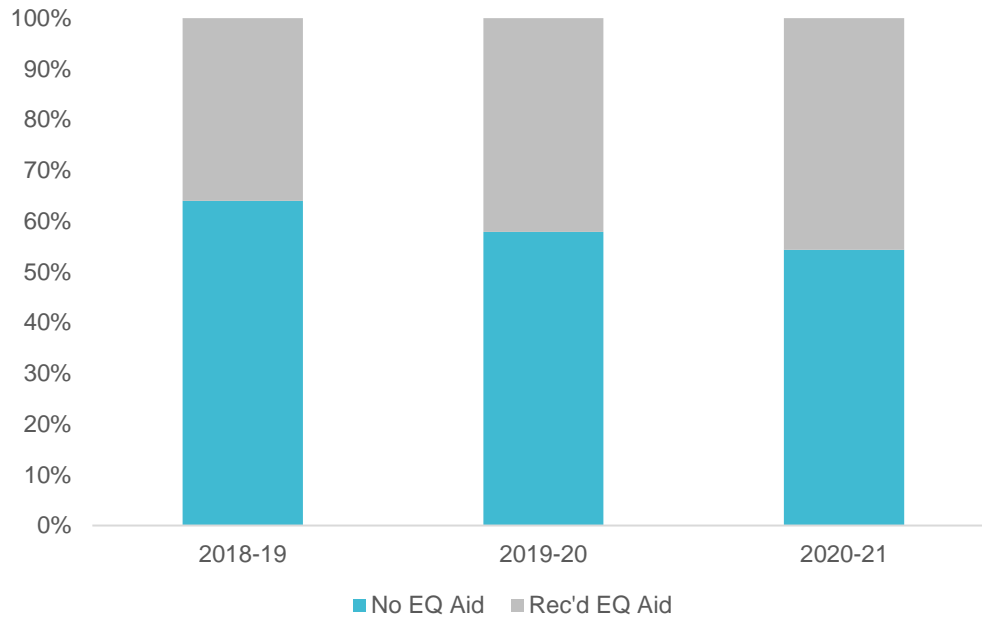
As noted earlier, in the years reviewed, two-thirds of the districts did not receive equalization aid (Figure 4). In each year, most of the districts that requested a poverty allowance did not receive equalization aid (Figure 5). Nearly all of the districts that did *not* request a poverty allowance did not receive equalization aid (Figure 6).

**Figure 4: In each of the years reviewed, two-thirds or more of the districts did not receive equalization aid.**

	Not Equalized	Equalized
2018-19	175 (72%)	69 (28%)
2019-20	163 (67%)	81 (33%)
2020-21	160 (66%)	84 (34%)
<b>Total</b>	<b>498</b>	<b>234</b>

Source: Figure prepared by LAO using NDE Certified State Aid Formula Needs, Allowances, and Adjustments (A2) reports.

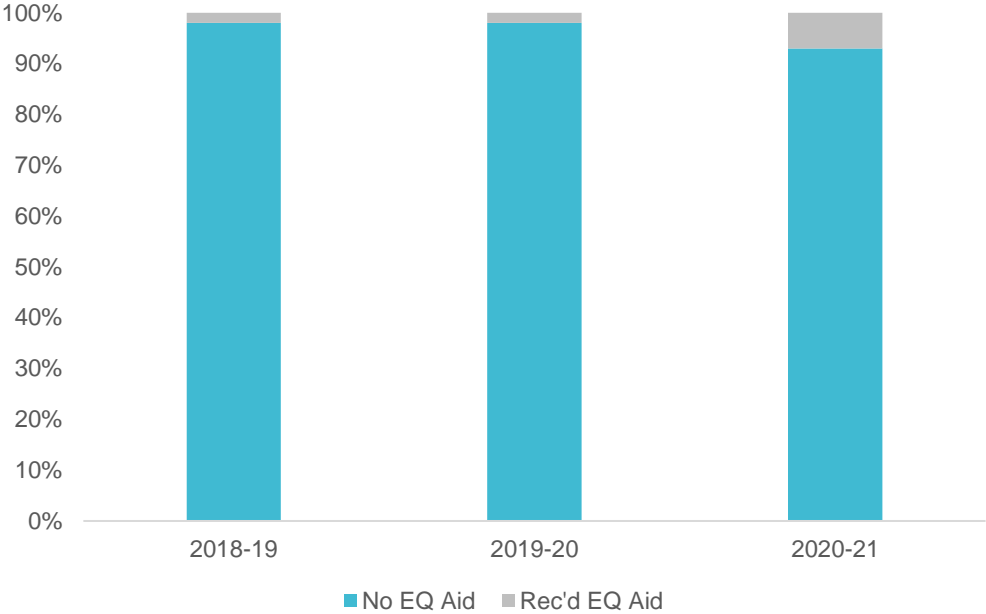
**Figure 5: Most districts that requested a poverty allowance did not receive equalization aid.**



Source: Figure prepared by LAO using NDE Certified State Aid Formula Needs, Allowances, and Adjustments (A2) reports.



**Figure 6: Nearly all of the districts that did *not* request a poverty allowance did not receive equalization aid.**



Source: Figure prepared by LAO using NDE Certified State Aid Formula Needs, Allowances, and Adjustments (A2) reports.

## Appendix

Seventy-six school districts had no poverty allowance request: 19 (25%) made no request in 1 year; 10 (13%) made no request for 2 years, and 47 (62%) made no request in any of the 3 years. Seven districts received equalization aid. All 76 districts that had no poverty allowance requests were in rural areas.

District (County)	School Year	Calculated Poverty Allowance	Equalization Aid
Adams Central (Adams)	2018-19	\$0	\$0
	2019-20	\$0	\$0
Ainsworth Community (Brown)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Allen Consolidated (Dixon)	2020-21	\$0	\$0
Anselmo-Merna Public (Custer)	2018-19	\$0	\$0
	2019-20	\$0	\$0
Arnold Public (Custer)	2020-21	\$0	\$0
Axtell Community (Kearney)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Battle Creek Public (Madison)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Boone Central (Boone)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Bruning-Davenport Unified (Thayer)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Chambers Public (Holt)	2020-21	\$0	\$0
Clarkson Public (Colfax)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Crawford Public (Dawes)	2020-21	\$0	\$788,472
Creek Valley (Deuel)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0

<b>District (County)</b>	<b>School Year</b>	<b>Calculated Poverty Allowance</b>	<b>Equalization Aid</b>
Creighton Community (Knox)	2020-21	\$0	\$0
Crofton Community (Knox)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Cross County Community (Polk)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Diller-Odell Public (Gage)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
East Butler Public (Butler)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Elba Public (Howard)	2020-21	\$0	\$553,986
Elgin Public (Antelope)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Elkhorn Valley (Madison)	2019-20	\$0	\$0
	2020-21	\$0	\$0
Eustis-Farnam Public (Frontier)	2019-20	\$0	\$0
	2020-21	\$0	\$0
Exeter-Milligan Public (Fillmore)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Fairbury Public (Jefferson)	2018-19	\$0	\$0
Fillmore Central Public (Fillmore)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Freeman Public (Gage)	2020-21	\$0	\$0
Friend Public (Saline)	2019-20	\$0	\$0
	2020-21	\$0	\$0
Giltner Public (Hamilton)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Gothenburg Public (Dawson)	2020-21	\$0	\$155,580
Hampton Public (Hamilton)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0

District (County)	School Year	Calculated Poverty Allowance	Equalization Aid
Hartington-Newcastle Public (Cedar)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Heartland Community (York)	2018-19	\$0	\$0
	2020-21	\$0	\$0
Hemingford Public (Box)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Howells Dodge Consolidated (Colfax)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Humphrey Public (Platte)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Hyannis Area (Grant)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Johnson Co Central Public (Johnson)	2020-21	\$0	\$0
Keya Paha County (Keya)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Leigh Community (Colfax)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Lewiston Consolidated (Pawnee)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Litchfield Public (Sherman)	2020-21	\$0	\$0
Logan View Public (Dodge)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Loomis Public (Phelps)	2018-19	\$0	\$0
	2020-21	\$0	\$0
Lyons-Decatur Northeast (Burt)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0

District (County)	School Year	Calculated Poverty Allowance	Equalization Aid
Malcolm Public (Lancaster)	2018-19	\$0	\$854,677
	2019-20	\$0	\$955,238
	2020-21	\$0	\$978,085
Maxwell Public (Lincoln)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
McCool Junction Public (York)	2018-19	\$0	\$0
Minden Public (Kearney)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Mullen Public (Hooker)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Newman Grove Public (Madison)	2019-20	\$0	\$0
	2020-21	\$0	\$0
North Bend Central Public (Dodge)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Osmond Community (Pierce)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Plainview Public (Pierce)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Potter-Dix Public (Cheyenne)	2020-21	\$0	\$0
Randolph Public (Cedar)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Red Cloud Community (Webster)	2020-21	\$0	\$0
Riverside Public (Boone)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Rock County Public (Rock)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Sandhills Public (Blaine)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0

<b>District (County)</b>	<b>School Year</b>	<b>Calculated Poverty Allowance</b>	<b>Equalization Aid</b>
Shickley Public (Fillmore)	2018-19	\$0	\$0
	2020-21	\$0	\$0
Silver Lake Public (Adams)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Sioux County Public (Sioux)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
South Platte Public (Deuel)	2019-20	\$0	\$0
	2020-21	\$0	\$0
Southwest Public (Red)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
St Edward Public (Boone)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Sterling Public (Johnson)	2020-21	\$0	\$0
Theford Public (Thomas)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Twin River Public (Nance)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Valentine Community (Cherry)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Wallace Public School District (Lincoln)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0
Wauneta-Palisade Public (Chase)	2020-21	\$0	\$29,075
Waverly School District (Lancaster)	2020-21	\$0	\$0
West Holt Public (Holt)	2018-19	\$0	\$0
Westside Community (Douglas)	2020-21	\$0	\$0
Wheeler Central (Wheeler)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0

<b>District (County)</b>	<b>School Year</b>	<b>Calculated Poverty Allowance</b>	<b>Equalization Aid</b>
Wisner-Pilger Public (Cuming)	2018-19	\$0	\$0
	2019-20	\$0	\$0
	2020-21	\$0	\$0