

BIG TROUBLE FOR SMALL SCHOOLS

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INTRODUCTION

An analysis of the proposed changes to Nebraska's school finance formula and school structure shows that many of Nebraska's rural schools could suffer from imposition of a "small by choice" factor. Research has consistently shown that smaller schools have some advantages over their larger counterparts.¹ The 2005 session of the Nebraska Unicameral and proposals to be considered by the Legislature in 2006 appear to be ignoring these virtues, and may be placing the state and its rural communities down a path of extensive school consolidation through deprivation of much needed state funds. This report will take a look at the Unicameral's attempts to advance rural school consolidation.

Big Trouble reports in the past have looked at schools facing at least a 10 percent cut in state aid from one year to the next. This *Big Trouble* report will concern schools with an enrollment of 390 or less as it pertains to legislation introduced during the 2005 Nebraska Unicameral.

LEGISLATIVE ACTION

2004 Budget

In the 2004 session, the Legislature adopted LB 1091, a collection of cash transfers to assist in balancing the budget. Among the amendments adopted to LB 1091 was the use of state lottery proceeds for small school district reorganization incentives for one-time payments to school districts of fewer than 390 students that merge to become districts of more than 390 students. The initiative ultimately adopted by the Legislature and which became law was the transfer of \$8 million from the lottery for one-time payments to school districts of fewer than 390 students that merge to become districts of more than 390 students. The school consolidations would have to take place between May 31, 2005, and before June 1, 2007, to qualify for the incentive payments. The payments would be on a sliding scale from \$1,000 per student to \$3,000 per student based on a school district's size.

LB 126

LB 126 became law in the 2005 session. LB 126 will assimilate all elementary-only and high-school only systems into K-12 systems.

Another portion of LB 126 is the creation of the *Elementary Improvement Grants* program. School systems may qualify for elementary improvement grants for the 2007-08, 2008-09, and 2009-10 school fiscal years if voters approve a bond issue for at least \$2 million between June 15, 2006, and June 14, 2007, for a project to remodel an existing elementary attendance center or to build a new elementary attendance center. Among other criteria for these grants is that the final calculation of state aid for the 2005-06 school year included at least 390 students for the school district's local system and that the school district consists of at least 150 square miles.

Smaller school systems – often most in need of new and updated facilities – will be left out of this program unless they can consolidate to meet the 390 enrollment qualification.

¹See, for example, *A Case for Small Schools*, Center for Rural Affairs, January 2000.

LB 129

In 2005, the Education Committee of the Nebraska Unicameral introduced a significant change to the school funding formula. In its current form, LB 129² contains provisions that will force a Hobson's Choice for many rural districts – consolidate or face financial ruin.

LB 129 contains several provisions that will adversely affect rural schools, will not benefit rural schools, or may ultimately lead to no choice but consolidation.

LB 129 establishes a **Basic Funding** mechanism that creates a comparison group for each school system. Each district is compared to similar districts on the level of their general operating funds. While a step in the right direction for reliability, many small schools that were able to operate with inadequate funding will be expected to operate with comparable or less funding.

LB 129's **Teacher Education Adjustment** provides a real benefit to schools that can attract and pay teachers with advanced degrees. It is unlikely many rural systems will qualify for this funding bonus since teacher salaries are generally lower in rural districts, thus decreasing the ability of smaller, rural districts to attract teachers with advanced degrees.

The **Student Growth Adjustment** allows for an adjustment if a larger than normal influx of students is anticipated. Again, most schools that would qualify for this adjustment are large with increasing enrollments, not declining.

The largest impact on rural schools is LB 129's **Local Choice Adjustment** (also known as the "small by choice" factor). For school year 2006-07 and thereafter, systems that have fewer than 390 students, are not in the sparse or very sparse cost grouping, and do not receive federal funds in excess of 25 percent of their general fund budget of expenditures, will see a reduction in state aid. Some systems with fewer than 390 students stand to lose up to half of their per student state aid for each student below the 390 mark.

ANALYSIS

In our first report analyzing school funding for school year 1998-1999, there were 284 K-12 systems in the state.³ Today, there are 257 K-12 systems. Many schools have voluntarily dissolved only to consolidate with other small schools due to declining enrollments and declining state aid. However, this slow, but steady move toward consolidation in rural Nebraska does not appear sufficient for the Legislature.

State K-12 policy in the past two sessions of the Legislature shows a consistent policy direction for school systems to maintain an enrollment of at least 390 students. On one hand the state provides generous incentives, on the other the state provides potentially draconian state aid penalties. Ultimately, this combination of state policies may leave many rural school districts in a financial corner with no alternative but to succumb to consolidation.

During the 2004-05 school year, there were 141 school systems with fewer than 390 students⁴ or 55 percent of Nebraska's school systems. The chart on page three shows the school systems with less than 390 students by cost grouping.

² LB 129 was introduced during the 2005 session of the Nebraska Unicameral and remains within the Education Committee as a priority for the 2006 session, scheduled to commence January 4, 2006. This proposal would implement concepts developed by LR 394 (an interim study in 2002) and attempts to address many of the concerns raised by current lawsuits targeted at the state. The proposal would change how Nebraska schools are funded, starting with the 2006-07 school year.

³ Bailey and Preston. *Big Trouble for Small Schools: An Analysis of the Effects of LB 806 and LB 1114 on School Funding*. Center for Rural Affairs, May 2000.

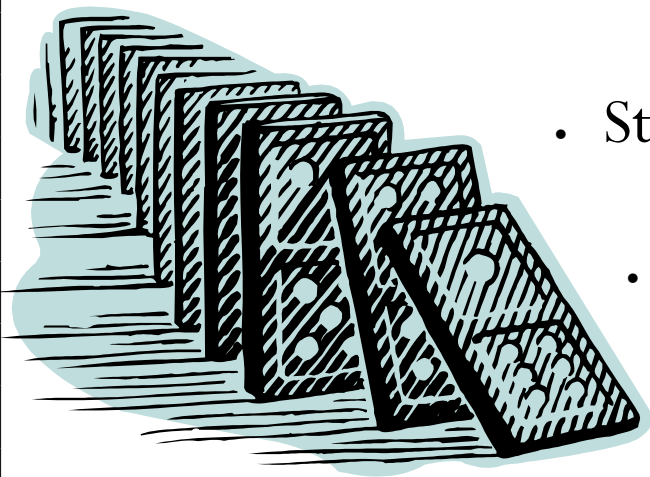
⁴ Ten schools included in this figure are Class VI (high school only) systems. These are fed by a number of Class I schools. Pursuant to LB 126, this number could change when Class I and Class VI schools are consolidated into Class II, III, IV, or V systems. Also included are two systems located exclusively on reservations. These may be exempt from these provisions because of their federal funding.

<http://ess.nde.state.ne.us/SchoolFinance/StateAid/Downloads/0506/0506StateAidDataElements.XLS>

<i>Cost Grouping</i>	<i>“Big Trouble” Schools (number of school systems with less than 390 students)</i>	<i>Percent of Cost Grouping</i>
Very Sparse	22	88%
Sparse	45	79%
Standard	74	42%

While the Very Sparse and Sparse Cost Groupings are made up predominately of systems with less than 390 students, LB 129 expressly exempts Very Sparse and Sparse systems from its “Local Choice Adjustment” provision. Therefore, the 74 Standard Cost Grouping school systems are those most likely to be impacted by the combination of carrot and stick policies and most likely to be in the financial corner leading to consolidation.⁵ Over seven percent of the state’s public school students attend those 74 school systems. See the chart on the last page for a list of these 74 school systems.

Goal: 390-Student School Districts



- State Budget Incentives
- LB 126 Incentives
- LB 129 Penalties

Result: Rural School Consolidation

⁵ The implementation of LB 126 may lead to some Very Sparse and Sparse school systems becoming part of the Standard Cost Grouping, leading to more than 74 at-risk systems in the Standard Cost Grouping.

2005-06 Big Trouble Schools

County	Schools	County	Schools
Adams	Kenesaw Public Schools	Johnson	Sterling Public Schools
Boone	St Edward Public Schools		Nemaha Valley Schools
Buffalo	Elm Creek Public Schools	Kearney	Axtell Community Schools
	Shelton Public Schools	Knox	Crofton Community Schools
	Pleasanton Public Schools		Niobrara Public Schools
	Amherst Public Schools		Santee Community Schools
Burt	Lyons-Decatur Northeast Schools		Wausa Public Schools
Butler	Rising City Public Schools	Lincoln	Brady Public Schools
	East Butler Public Schools	Madison	Newman Grove Public Schools
Cass	Weeping Water Public Schools		Elkhorn Valley Schools
Cedar	Hartington Public Schools	Morrill	Palmer Public Schools
	Laurel-Concord Public Schools	Nance	Fullerton Public Schools
	Wynot Public Schools	Nemaha	Johnson-Brock Public Schools
	Coleridge Community Schools	Pawnee	Pawnee City Public Schools
Clay	Harvard Public Schools	Phelps	Bertrand Public Schools
	Clay Center Public Schools		Loomis Public Schools
Colfax	Leigh Community Schools	Pierce	Osmond Public Schools
	Clarkson Public Schools	Platte	Humphrey Public Schools
	Howells Public Schools	Polk	Cross Country Community Schools
Cuming	Bancroft-Rosalie Community Schools		Osceola Public Schools
Dawson	Overton Public Schools		Shelby Public Schools
Dixon	Newcastle Public Schools		High Plains Community Schools
	Allen Consolidated Schools	Richardson	SE Nebraska Consolidated Schools
	Emerson-Hubbard Public Schools	Saline	Dorchester Public Schools
Dodge	Dodge Public Schools		Friend Public Schools
	Scribner-Snyder Community Schools	Saunders	Mead Public Schools
Douglas	Waterloo Public Schools		Prague Public Schools
Fillmore	Exeter-Milligan Public Schools		Cedar Bluffs Public Schools
Gage	Freeman Public Schools	Scotts Bluff	Minatare Public Schools
	Diller-Odell Public Schools	Thayer	Deschler Public Schools
Gosper	Elwood Public Schools	Thurston	Pender Public Schools
Hamilton	Giltner Public Schools		Walthill Public Schools
	Hampton Public Schools		UMO N HO N Nation Public Schools
Harlan	Alma Public Schools	Wayne	Winside Public Schools
Holt	Stuart Public Schools	Webster	Blue Hill Public Schools
Howard	Elba Public Schools	York	Mc Cool Junction Public Schools
Jefferson	Meridian Public Schools		Heartland Community Schools