

Finance

Background

Educational Service Units currently derive most of their funding from four sources: property taxes, state aid for core services and technology infrastructure, contracts with school districts, and grants from state, federal, and private sources.

Statewide the general fund revenues for 2004-05 were derived 14.6% from property taxes, 17.5% from state funds, 35.3% from contracted services, 32.7% from grants and other sources. See Appendix G for further information and for the individual E.S.U. breakdowns.

Property taxes for E.S.U.'s are limited to \$0.015 per \$100 of assessed valuation. The levy for E.S.U.'s prior to LB 1114 in 1996 was limited to \$0.035 per \$100 of assessed valuation plus an additional \$0.005 for technology infrastructure.

Core services funding was adopted in 1997 in response to the impending implementation of stricter levy limitations and a study conducted by the Department of Education. The formula for core services funding recognizes both the basic costs of providing core services and the costs associated with varying student populations. The formula divides the appropriation by the number of students served statewide and distributes the per student amounts to the E.S.U.'s based on the number of students served at the E.S.U., except that each E.S.U. is guaranteed to receive at least 2.5% of the appropriation.

The technology infrastructure funding was adopted one year later after it was discovered that there had been a misunderstanding about the removal of the separate levy limit for technology infrastructure. The same formula applied to both core services and technology infrastructure funding until this past session. The Legislature modified the infrastructure formula with the adoption of LB 1208 to recognize differences in the costs of telecommunications services and data transmission. The modified formula continues to distribute the appropriation based on the fall membership of member districts, except that the minimum amount to be received by any E.S.U. is equal to 2.5% of the appropriation plus 85% of the net costs for telecommunications services, access to data transmission networks, and transmission of data on such networks. Reimbursements from the Universal Service Fund, commonly called e-rate reimbursements, are subtracted from the actual costs to arrive at the net costs.

Three questions on the school district survey relate specifically to E.S.U. levy authority. School districts overwhelmingly indicated that the current levy should be retained and that the levy authority should rest with the E.S.U. Eighty-two percent responded "yes" when asked if the current levy authorized by statute to fund E.S.U.'s should be retained. With regard to where that levy authority should reside, only 1.9% of the school districts responded that the E.S.U. levy should be shifted back to local school districts. These results are consistent with previous surveys, (See Appendix I and Appendix J).

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Approximately 44% of respondents to the current survey felt that the E.S.U. levy is too low and none of the respondents indicated it was too high. This is a fairly dramatic change from the past two surveys. Previously, only 8 to 10 percent believed the levy was too low, 10 to 14 percent thought it was too high, and roughly two thirds felt the levy was adequate. In the current survey, a little less than 55% responded that the levy was adequate, (See Appendix I and Appendix J).

Issues

Overall Funding Level

E.S.U.'s have over \$17.5 million less potential funding under the current levy limits and core services funding than they had under the old levy limits without state aid. However, if the actual previous levies are used, the loss is reduced to \$9.5 million, (See Appendix G). A uniform answer from the E.S.U.'s about the appropriateness of the funding recognized the lack of overall resources, (See Appendix K).

State Funding

State funding has been unstable for E.S.U.'s. Core services funding began in the 1998-99 fiscal year with an intent for funding increases to reflect student increases and the basic allowable growth rate.¹⁰ If the funding had increased according to the intent language, the current appropriation would be \$3.6 million higher. Some of the reason for the instability in funding is a result of the most recent budget crisis.

Core Services Funding

Educational Service Units almost universally seem to believe that the state funding for core services is inadequate when they have to use property taxes to help fund those services. Core services are defined in statute, not as a state funded function, but rather as the fundamental services that each E.S.U. should provide to member school districts. State aid for core services was added to assist with providing these services, much like state aid to school districts assists the districts in providing education.

1% Funds

The E.S.U.'s have an interlocal agreement to pool 1% of their core service funding for joint projects. There have been concerns raised that the use of the 1% funds occurs outside of public scrutiny, (See Appendix F).

¹⁰ § 79-1241.01, R.S.SUPP., 2006

Reliance on Grant Funding

E.S.U.'s are currently very reliant on grants as a source of funding for the services provided. A concern with funding formula and overall funding of E.S.U.'s is expressed in a couple of responses as forcing E.S.U.'s to rely more on grant funding even in areas that might be considered core services, (See Appendix K).

Grants are a two edged sword in terms of funding sources. Grants allow E.S.U.'s and school district to provide services and educational opportunities that would otherwise not be available. However, grants are often only a temporary funding source used for experimentation or to promote prevailing political priorities. The amount of reliance varies between different E.S.U.'s, often due to levels of expertise in grant writing. The variance may also be due to the risk tolerance of the E.S.U. administrator, staff, or board.

Budget Reserves

There is a wide range in the budget reserve percentage reported by individual E.S.U.'s. Responses range from about 14% to 30% with an average around 20%. Respondents with the lowest percentages indicated that the amount was the most they could afford. The preferred reserve amount was probably between 20 to 25%. There is a theme among the responses that reserves are important due to reliance on grant funding and other funding that comes in arrears, (See Appendix K).

Interlocal Agreements and Budget Lid Exceptions

As the Distance Education Enhancement Task Force discussed the transfer of responsibility for distance education services to the E.S.U.'s, it became clear that an important factor in the existing arrangement of distance education consortia was the reliance on interlocal agreements and the resulting budget lid exception. Because of this factor, additional budget authority was granted to school districts to accommodate the transfer to E.S.U.'s. Additionally, the visits with E.S.U.'s 18 and 19 revealed the use of interlocal agreements between the school district and the E.S.U. to allow both entities to access budget exceptions that would otherwise not be available.

Equity

There seems to be general agreement that there is not currently equity between E.S.U.'s. However, equity is challenging to measure due to the variety of needs of school districts across the state. The difference between \$88 of aid and taxes per student and \$248 of aid and taxes per student would seem to be quite telling in itself. However, the E.S.U. with the \$248 of aid and taxes per student has one of the smallest student bases and some of the higher transportation costs. Just like in financing school districts, there are more factors involved in addressing equity than the dollars per student. Some of the factors that may be considered could include: sparsity, total square miles, teacher salaries in the area, and the need for the E.S.U. to create economies of scale that do not exist within the member school districts.

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Most of the E.S.U.'s indicated that the funding formula does not address funding for E.S.U.'s serving rural school districts, (See Appendix K).

Reorganization

Surveys and E.S.U. visits indicate the rural E.S.U.'s with declining populations are under funded. However, others will argue that the 2.5% minimum in the distribution formula provides enough funding for smaller E.S.U.'s to continue and therefore discourages consolidations that could result in a more effective and efficient delivery of services.

The funding system with a minimum base also provides disincentives for E.S.U. mergers. However, the distribution formulas for core services and technology infrastructure funding provide a two year hold harmless following an E.S.U. merger.¹¹

Disparities in Resource Growth

As a general rule valuation growth often follows population growth. With the current funding system for E.S.U.'s, growth in students results in additional state aid and growth in valuation results in additional property taxes. With the rough correlation between student growth and valuation growth, there are great disparities in resource growth across E.S.U.'s.

Transportation Costs

Although the Legislature addressed telecommunications costs that are largely attributed to geographic factors, variance in transportation costs continues to be an issue that affects the services that can be offered by different E.S.U.'s.

Contracted Services

E.S.U.'s have generally avoided charging for services, except in the areas of special education and technology services. Contracting for services could allow E.S.U.'s to provide additional services and assure that the services provided were those desired by the school districts. When asked how E.S.U.'s would deal with a levy rate reduction, full state funding, or other shortfalls, most E.S.U.'s indicate that it is difficult to address, but they would generally rely on advisory councils to shift services from levy funding to contract funding. There are also general opinions that the priorities are based on core services funding and that equity and access are enhanced by statewide coordination, (See Appendix K).

Levy

Most E.S.U. respondents suggest that the levy rate is too low. It is also worth noting that many respondents suggested that the levy rate may be sufficient with increased funding from the state. Some point to a levy exclusion as a possible means to address the shortfall in core services funding. Also interesting is the notion that statewide collaboration is viewed as a better way to address total funding, (See Appendix K).

¹¹ §§ 79-1241, R.R.S.2003 and § 79-1243, R.S.SUPP., 2006

Policy Alternatives

Maintain Current Funding Structure

The current funding structure could be maintained.

Increase the Core Services Appropriation

The appropriations could be increased to reflect the legislative intent, including the past increases that have not occurred.

Eliminate the Levy

The levy could be eliminated with an accompanying increase in core services. Another alternative would be to eliminate the E.S.U. levy and increase the levy limit for school districts. The expanded levy authority could be limited to the purchase of services from E.S.U.'s.

Increase the Levy Limits

Educational Service Units often indicate a desire to return to their old levy limits. However, without an accompanying change in the distribution formula to equalize in relation to valuations, an increase in levy limits could further increase the disparity between the services that can be offered to different school districts. An increase in the levy limits could be accompanied by a decrease in core services funding.

Contracted Services

The Legislature could mandate that E.S.U.'s charge for certain services. This would relieve E.S.U. boards of the pressure to limit services to those that can be funded through their core services and property taxes.

Eliminate Interlocal Agreement Budget Exceptions

The budget exception for interlocal agreements could exclude interlocal agreements between E.S.U.'s and their member school districts.

Potential Formula Modifications

Just as telecommunications charges are considered in the formula, there are other factors that could also be added to the formula. Some of these factors could include: total square miles, square miles per student, and satellite locations. The funding formula could also be modified to take into account the property tax resources that would be available to an E.S.U. at a set levy. A model that includes one approach to adding factors and equalization is contained in Appendix H.

Services

Background

Educational Service Units are service based agencies that respond to the needs of their member school districts by providing core services and other services requested by member districts. As a part of the Department of Education study in 1996 and the development of the provisions implemented through LB 806 in 1997, a definition of core services was developed to help focus on the services that needed to be provided by every E.S.U. Core services are defined according to the service areas of staff development, technology, and instructional materials services. Core services are required to improve teaching and student learning and to provide schools with services that are necessary, but difficult for districts to provide efficiently with their own personnel and resources. Special education was not included in core services, partially because the contractual arrangements for special education seem to work well.

According to this year's survey of school districts, the most received services statewide include staff development workshops, computer training, and technology training. Distance learning and media services are also among the top five utilized services. The highest priority rating was attributed to school age special education followed by staff development, CO-OP Purchasing, below age five special education, and distance learning. The most effective services were rated as CO-OP purchasing, school age special education, staff development, below age five special education, and the administration of federal programs, (See Appendix I and Appendix J).

Generally, it seems that the most used services are in the same or at least similar areas as those found in the 1986 and 1995 studies. Few respondents suggested many new services. However, it does seem as if the services offered are more widely used by school districts in the state. There is a strong indication that E.S.U.'s have expanded services in special education and staff development over the last 20 years, (See Appendix I and Appendix J). E.S.U.'s also indicate that they are expanding services to school districts in the area of special education, including services for the hearing and visually impaired. Services for autism and behavioral intervention, as well as response to intervention, were mentioned as growing special education services. In several cases, E.S.U.'s are operating alternative education programs for their region or expanding into early childhood education, (See Appendix K).

A few E.S.U.'s also listed new services related to staff, such as professional learning communities, mentoring, and administrator training. One E.S.U. indicated that it has recently been working on a substitute teacher program, (See Appendix K).

The expansion of these services has not apparently diminished the demand for or the provision of services in other traditional E.S.U. functions including co-op purchasing, media, and technology. Distance learning and coordination of distance learning technologies and

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services have certainly increased with the improvement in technology, (See Appendix I and Appendix J). The E.S.U.'s also listed several services in the area of technology and distance education as new. Among these are video streaming, virus and SPAM filtering, content filtering, network and technology assistance, and a variety of distance learning offerings via synchronous and asynchronous environments, (See Appendix K).

There is an indication that E.S.U.'s are increasingly being viewed by school districts as an important source of expertise in grant writing and administration for state and federal programs, (See Appendix I and Appendix J). One manifestation is the implementation of the School-Based Teacher-Led Assessment Reporting System (S.T.A.R.S.). Approximately 80% of the school districts responding to the survey access S.T.A.R.S. grants through their E.S.U., (See Appendix I and Appendix J). Most E.S.U.'s also indicated that they were involved in assessment reporting, staff training and development, and school improvement in some fashion. This includes roles in the collection and reporting of data related to NCLB and S.T.A.R.S., (See Appendix K). For example, the E.S.U. 5 PowerSchool Cooperative integrates S.T.A.R.S. assessment results with other data in the Cooperative's PowerSchool data system.

School districts strongly indicated that both supplemental services determined by the local school districts and statewide mandated services should be among the services offered by E.S.U.'s. No respondents suggested that only the mandated services be offered by E.S.U.'s, while just 9.3% indicated that E.S.U.'s should offer only supplemental services. The remaining 90.7% of respondents believed that a combination of both was appropriate. This may reflect a change from the 1986 survey when nearly 28% of the respondents indicated that E.S.U.'s should offer only locally determined supplemental services, (See Appendix I and Appendix J).

The staff group found that many of the E.S.U.'s have unique programs. E.S.U. 5 has a School Transition Specialist to assist school districts with students 15 through 21 with a verified disability. E.S.U. 3 operates the Gifford Farm Education Center to provide students throughout the metro area with an interactive experience in agricultural education. E.S.U. 4 serves as the administrative agency for the Nebraska Center for the Education of Children Who Are Blind or Visually Impaired. E.S.U. 11 hosts an annual Summer Honors Program. ESU #16 (#15 may be involved also due to joining of advisory councils) provides a mentoring program for superintendents.

Statewide initiatives also assist the provision of core services. E.S.U. 5 is the headquarters for I-Mat E.S.U.P.D.O., which is a cooperative for the purchase of media with duplication and digital rights. The cooperative ensures equitable access to media materials statewide with cost efficiencies and access to the newest releases. The titles have been aligned to the Nebraska standards. Digital media is being distributed over the Internet or through establishment of a series of computer servers at E.S.U.'s or district sites. Cooperative purchasing is another service that is coordinated out of a single E.S.U. for the benefit of school districts across the state. Co-op purchasing is consistently rated as a high priority, very effective service, (See Appendix I and Appendix J).

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There have also been instances where a program developed at an E.S.U. for its own member districts has had a statewide impact. E.S.U. 3 developed the writing assessment that is now used statewide.

The E.S.U.'s were mandated to provide internet access to school districts and are now being asked to assist with distance education through LB 1208 (2006). Many of the current distance education consortia are currently housed in E.S.U.'s, but the E.S.U.'s will officially be responsible for distance education services beginning July 1, 2007. Smaller districts tend to list distance learning among the highest priorities and most effective services, while larger districts tend to indicate that distance learning is a lower priority, (See Appendix I and Appendix J).

Most E.S.U.'s indicated that services will continue to expand to address state and federal accountability and reporting requirements. Other trends include increased services for special education, staff development, and curriculum coordination. Technology and distance education also seem to be major trends for the future according to the respondents, (See Appendix K).

Services that appear to have been reduced over the course of the three surveys include nursing and bus driver training. Those are two services that do not appear in the top 25 from at least one of the prior surveys and do not do so currently on a statewide basis. In the case of nursing services it went from among the highest priorities to among the lowest from 1986 to 2006. Materials and equipment loans remain very low in priority and effectiveness ratings statewide as is the case for data processing, (See Appendix I and Appendix J). In a few cases, E.S.U.'s also indicated a move away from equipment repairs and older technologies (i.e. mainframe data hosting). Most E.S.U.'s indicated that they have to do more with less, as they have reduced staff but not services, (See Appendix K).

Only 6.5% of school districts indicated that their E.S.U. had denied a request for services. The most common reason for denial was that the service was cost prohibitive. The types of services denied included substitute teachers, special education, staff development, health services, technology support, Title III consortium, workshops, and support for the student information system, (See Appendix I and Appendix J).

The school districts were asked to respond to two questions about private or public cooperative arrangements outside of E.S.U.'s. Nearly 44% indicated that they receive services under such an arrangement. They typically listed such services as special education, physical and occupational therapy, insurance, utilities, distance learning, technology, busing, and online assessment. When asked if these services received were more beneficial than services received from their E.S.U., the response was about 14% "yes" and nearly 65% "no". Respondents who answered "yes" and elaborated on why the service was considered more beneficial indicated that the service was a) not provided by the E.S.U., b) less expensive than the E.S.U., c) more convenient, or d) that the service quality was better. Distance was also cited as a factor, (See Appendix I and Appendix J).

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It seems clear that school districts believe that E.S.U.'s are important for the future delivery of special education, staff development, technology and distance learning. The previous surveys also had similar findings as to the importance of these types of services in the future. The 1986 survey indicated a strong role for E.S.U.'s in staff development, in-service, curriculum workshops, and coordination of shared staff. By 1995, some of the focus had shifted to technology and distance learning as a means to address shared staff and curriculum. That emphasis remains in the 2006 survey results, (See Appendix I and Appendix J).

Issues

Mandated Services

There is a misperception of the intent for core services funding. The Legislature does not require E.S.U.'s to provide any particular core services, but rather provides funding that can only be used for core services. Core services funding is designed to be used in combination with other funding sources to provide such services. The complaints regarding the use of property tax funds for core services may in part be fueled by the struggle to meet local needs in an environment where resources are being directed to meeting state and federal requirements at an increasing rate.

S.T.A.R.S.

The implementation of the S.T.A.R.S. assessment system is not listed as a specific core service, but is being carried out through core services as the primary objective of staff development. Technology services are also being used to assist in the implementation.

Variability in Available Services

The availability of services varies between E.S.U.'s. Part of the variation is due to differences in the member districts being served. However, some of the variation is due to the financial circumstances of either the E.S.U.'s or the school districts.

Policy Alternatives

Maintain Current Service Delivery

The current service structure could be maintained.

Statewide Coordination

State and/or regional structures could be formalized. One possibility would be to rename the Distance Education Council and to expand its duties to include those currently performed by the E.S.U. Administrators Association. One difference would be that the current Distance Education Council does not have Department of Education representation. Another difference is that with a statutorily based structure the open meetings laws would apply.

Another alternative would be to require that services where there is the potential for centralization be provided by a single designated E.S.U. With this concept, the designations would need to be equitably distributed among the E.S.U.'s.

Modify the Definition of Core Services

Additional service areas could be added to the definition of core services. The support for S.T.A.R.S. could be specified as an additional service area or included under the category of staff development.

Specialists

All E.S.U.'s could be required to provide specified specialists, which are difficult to hire in some parts of the state. Examples could be nurses, psychiatrists, occupational therapists, physical therapists, transition specialists. If all districts contributed to the retention of the specialists, the specialists would be available when needed. The costs of retaining the specialists could be an excess allowable cost for the school districts.

