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TO: Brandon Metzler, Clerk of the Legislature
FROM: Dr. Brian L. Maher, Chairperson, School Financing Review Commission
SUBJECT: School Financing Review Commission Annual Report
DATE: October 30, 2026

To whom it may concern:

Pursuant to *Neb. Rev. Stat.* §79-10,147.02, I write to submit the required annual report of the School Financing Review Commission with the observations and recommendations developed pursuant to subsection (1) of §79-10,147.02. This report summarizes the Commission's activities for calendar year 2026.

The Commission met five times in calendar year 2026: February 11, April 30, August 4, October 5, and October 20. Detailed meeting agendas, minutes, and presentation materials are available at this link: https://www.education.ne.gov/commissioner/school-financing-review-commission/.

The Commission was organized into two committees, to conduct deep research and study of relevant topics. The committees were charged with meeting regularly and making recommendations to the Commission for consideration of final recommendations to be included in the annual report. One committee was charged with topics related to "needs and resources" and the other committee was charged with topics related to "spending and economic indicators." The following report includes recommendations proposed by the committees and considered by the full Commission for inclusion in the annual report.

The next report of the Commission will be provided no later than November 1, 2027. Should you have any questions about the contents of this report, please contact me.

Sincerely,

Brian L Maher

Brian L. Maher, Ed.D.
Commissioner of Education

School Financing Review Commission
Annual Report
Adopted by the Commission: October 20, 2026

Introduction

Pursuant to *Neb. Rev. Stat.* §79-10,147.02, the School Financing Review Commission (Commission) shall prepare and electronically deliver to the Clerk of the Legislature an annual report with the observations and recommendations pursuant to subsection (1) of the same statutory section. Subsection (1) includes the following:

> (1)(a) The purpose of the School Financing Review Commission is to study and provide advisory recommendations relating to school funding in Nebraska. The commission shall:
> (i) Evaluate the school funding formula for education under the Tax Equity and Educational Opportunities Support Act and make recommendations for adjustments or changes to such formula that may be necessary to help prevent the increase of property taxes;
> (ii) Regularly review the resources side of the formula under the Tax Equity and Educational Opportunities Support Act;
> (iii) Regularly review the needs side of the formula under the Tax Equity and Educational Opportunities Support Act;
> (iv) Analyze options for how to minimize the negative impact on schools during times when the state may be unable to fully fund the formula under the Tax Equity and Educational Opportunities Support Act;
> (v) Analyze the impact of funding for education on student achievement and outcomes, focusing on, but not limited to: Access to early childhood education; student attendance; literacy; graduation rate; college-going rate; and postsecondary workforce participation; and
> (vi) Analyze the impact of funding for education on issues and resources impacting students with relatively high needs, including, but not limited to, students who live in areas of high concentrations of poverty, students with an individualized education program, and students with limited English proficiency.
> (b) The School Financing Review Commission, to the extent it is practical, shall compare findings from subdivision (1)(a) of this section to similar policies from other states.

This document serves as the annual report of the Commission with the observations and recommendations developed by the Commission from calendar year 2026.

Background

In the 2025 legislative session the Nebraska Legislature passed LB 303, establishing the Commission to study and provide advisory recommendations regarding the state's school-funding formula and its interaction with local property taxes. The Commission is composed of 18 members representing state executive offices, the legislature (non-voting), higher education, school districts

of all classes, and at-large appointees. The membership of the Commission is codified in *Neb. Rev. Stat.* §79-10,147.01. The 2026 membership roster for the Commission is as follows:

Name	Representation Category	Role
Brian Maher, Chair	Commissioner of Education	Commissioner of Education
Sarah Scott	Property Tax Administrator	Property Tax Administrator
Grant Latimer	Governor's Representative	Policy Advisor to Governor Pillen
Senator Dave Murman	Legislature Representative (non-voting member)	Education Committee Chair
Senator Eliot Bostar	Legislature Representative (non-voting members)	Appointed by the Revenue Committee
Senator Jana Hughes	Legislature Representative (non-voting member)	Appointed by the Executive Board
Paul Turman	Postsecondary Education Representative	Chancellor, Nebraska State College System
Ann Foster	Class I District Representative	Superintendent, Brady Public Schools
Jason Dolliver	Class II District Representative	Superintendent, Pender Public Schools
Aaron Plas	Class III District Representative	Superintendent, Bennington Public Schools
Keith Runge	Additional District Representative	President, Columbus Lakeview School Board
Liz Standish	Class IV District Representative	Associate Superintendent for Business Affairs, Lincoln Public Schools
Shavonna Holman	Class V School Board Representative	School Board Member, Omaha Public Schools
Lou Ann Linehan	At-Large Appointee	Former State Senator
Tom Briese	At-Large Appointee	Former State Senator and Former State Treasurer

Name	Representation Category	Role
Shawna Koger	At-Large Appointee	Certified Teacher, Arlington Public Schools
John Schwartz, Vice chair	At-Large Appointee	Superintendent, Millard Public Schools
Vacant	At-Large Appointee	

Note: Fred Meyer resigned from the Commissioner on January 23, 2026, upon his appointment to fill a vacant seat in the Nebraska Legislature.

At the 2026 calendar year meetings, the Commission engaged in phase II of the three-phase approach proposed by the Commission chair, Dr. Brian Maher, in the 2025 calendar year meetings. The three-phase approach is described in more detail in the 2025 annual report. Phase II involves development of policy recommendations for changes to school funding in Nebraska, including potential formula adjustments, state funding targets, and other responsibilities as outlined in state statute. The 2025 annual report of the Commission outlined the following next steps to guide the phase II work, which was to emphasize determining a recommended balance between state and local funding and ensuring that future recommendations are grounded in a thorough understanding of potential components of any school funding formula. The next steps included:

- advocating to maintain the current levels of state contributions to school funding while upholding the structure and function of the Commission;
- recommending a target for the proportion of total school revenue to be provided by the state in support of school district operations;
- evaluating the "needs" aspect of the current and any proposed changes to the school funding formula, including factors such as poverty, English learners, early childhood, college-going, workforce development, literacy, and graduation rate;
- assessing the "resources" side of the current formula and any proposed future formula changes, including how various state and local resources available to districts function with a funding framework;
- reviewing spending (e.g., per pupil, impact of LB 243, analysis of potential efficiencies, and any other factors impacting spending) and comparison to economic indicators such as Consumer Price Index (CPI) or employment cost indexes, and other state data sets where applicable;
- recommending alterations to the TEEOSA formula to best serve Nebraska students; and
- examining any other elements as established in statute or requested by the Governor or Nebraska Legislature.

Commission Meetings & Agenda Summaries

Pursuant to *Neb. Rev. Stat.* §79-10,147.02 the Commission is required to meet at least four times a year and at least once per calendar quarter. The Commission met on February 11, 2026; April 30, 2026; August 4, 2026; October 5, 2026; and October 20, 2026.

At the February 11, 2026, meeting, the Commission chair proposed a committee structure consisting of two committees with the charge to meet regularly and report at the quarterly meetings of the Commission. The task of the committees was to make recommendations to the Commission for consideration to be included in the annual report. The Commission chair appointed the following committees:

Committee A Needs and Resources	Committee B Spending and Economic Indicators
Ann Foster	Tom Briese
Shavonna Holman	Jason Dolliver
Lou Ann Linehan	Shawna Koger
Aaron Plas	Grant Latimer
Sarah Scott	Keith Runge
Liz Standish	John Schwartz
Sen. Jana Hughes (non-voting)	Paul Turman
Sen. Dave Murman (non-voting)	Sen. Eliot Bostar (non-voting)

Committee chairs were selected from the respective committee membership. Ann Foster was selected as chair of the Needs and Resources committee and John Schwartz was selected as chair of the Spending and Economic Indicators committee.

Detailed meeting agendas, minutes, and presentation materials are available at this link: https://www.education.ne.gov/commissioner/school-financing-review-commission/. The committees provided reports at the April 30, August 4, and October 5, meetings, with Commission discussion following the reports. The recommendations from those committee reports served as the basis for this annual report. The annual report was considered by the Commission at the October 20, 2026, meeting and adopted for submission to the Nebraska Legislature.

Recommendations

The Commission proposes the following recommendations to the Nebraska Legislature as policy considerations for that body. The recommendations are organized topically by the two committees of the Commission.

Needs and Resources Committee

The Needs and Resources Committee (Committee A) completed a comprehensive review of the "needs" side of the Tax Equity and Educational Opportunities Support Act (TEEOSA) formula. Concurrently, the committee analyzed tax burdens and property tax relief mechanisms to formulate impactful recommendations on the "resources" side. These recommendations fulfill the Commission's core purpose: ensuring state funding meets the educational needs of Nebraska students, advocating to maintain, or increase, the current levels of state contributions to school funding currently at 51% based on 2024-2025 school year data, while helping to prevent an increase in property taxation (while the Commission agrees that the state's contribution should be maintained at a minimum of 51%, there is currently no consensus regarding the appropriate level of state funding beyond that threshold). This includes revenue inside and outside the TEEOSA formula. While the committee has established definitive recommendations for formula "needs," ongoing analysis will continue for the formula "resources" components.

Committee responsibilities and guiding criteria

Committee A was responsible for the following phase II next steps:

- advocating to maintain the current levels of state contributions to school funding while upholding the structure and function of the Commission;
- evaluating the "needs" aspect of the current and any proposed changes to the school funding formula, including factors such as poverty, English learners, early childhood, college-going, workforce development, literacy, and graduation rate;
- assessing the "resources" side of the current formula and any proposed future formula changes, including how various state and local resources available to districts function within the funding framework;
- recommending alterations to the TEEOSA formula to best serve Nebraska students.

To accomplish these next steps, the committee agreed upon the following criteria as a basis for making recommendations:

- simplify the TEEOSA formula;
- improve data accuracy using verifiable data sources when possible;
- align funding with student need; and
- model a "best case" scenario (transparently evaluating funding at the district level with a cost estimate for each change).

The committee operated with the following financial model assumptions:

- The 2026-2027 certified TEEOSA aid was the baseline for comparison without the prior year correction.
- The financial impact is based on if the recommended changes were in place for the 2026-2027 school year.
- Actual 2027-2028 TEEOSA aid cost will be based on a new year of data and will yield somewhat different results.

Recommendations on formula needs

In terms of "needs" elements of the school funding formula, the Commission offers the following recommendations, as proposed by the Needs and Resources committee:

Recommendation #1: Implement Multi-Year Basic Funding Averages. For 2027-2028 TEEOSA, use a two-year average of basic funding. For 2028-2029 TEEOSA and all future years, use a three-year average of basic funding. All prior years shall be trended to the current year by multiplying basic funding from the prior year by the growth rate of General Fund Operating Expense (GFOE) from the prior to the current year.

Rationale: Basic Funding is the largest portion of formula needs at approximately 80%. The calculation for basic funding includes peer school districts and trends in peer districts can shift funding for an array of districts. The committee proposes multi-year averages to increase the data points with the goal of providing greater stability in the calculation. Additionally, basic funding contributes to volatility within the TEEOSA formula. Volatility in school funding sometimes results in school districts maximizing property taxation authority, which is counter-intuitive to the goal of this Commission. Reducing volatility in the formula is good for school districts, the State budget, and Nebraska taxpayers alike.

Recommendation #2: Eliminate the Distance Education and Telecommunication Allowance (DETA).

Rationale: Allowances capture unique circumstances for a school district and isolate the cost from the basic funding calculation for comparability to peer districts. Many districts invest in distance education, and the costs are not what they were decades ago. Technology is more accessible and reliable than it was when the DETA allowance was added to the TEEOSA formula. All school districts bear some telecommunication cost; however, removing the allowance is largely offset by an increase in basic funding, making the allowance unnecessary.

Recommendation #3: Streamline the Limited English Proficiency (LEP) Allowance.

LEP is an important component of accurately calculating a school district's needs and providing students with adequate resources. The current process to access LEP funds is complicated, and

subject to numerous adjustments impacting the stability of the formula and creating an element of uncertainty and workload for school districts. These recommendations significantly simplify the TEEOSA formula and are further explained below.

Recommendation #3a: Remove the non-qualified LEP Allowance and LEP Correction.

Rationale: The non-qualified LEP adjustment and the corrections are made outside of the current year LEP needs calculation to reduce current year needs when prior year expenditures do not meet specific thresholds. These adjustments increase the administrative burden of the school district, while complicating the formula, and compromising stability of calculated needs.

Recommendation #3b: Remove the three-year average and district maximum.

Rationale: The maximum LEP allowance and three-year average adjustment are part of the current year calculation of LEP needs. The maximum LEP allowance provides the district the opportunity to report its actual needs for LEP, however, the reported amount is not used if the amount is greater than the formula amount. The three-year average adjustment adjusts the number of actual LEP students by a calculation using the three-year average. It is designed to provide some stability in the LEP calculation, however, if districts are not penalized for prior year fluctuations (Recommendation 3a), this adjustment will no longer be needed.

Recommendation #4: Modernize the Poverty Allowance.

The committee spent a significant amount of time reviewing the poverty allowance and developed five recommendations that work together to simplify and stabilize the formula.

Recommendation #4a: Use Direct Certification as the data source.

Rationale: Direct Certification utilizes state agency data sets for programs such as Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Food Distribution Program on Indian Reservations (FDPIR), Children's Health Insurance Program (CHIP) [foster youth, homeless, or migrant children, or participants in Head Start.], which is readily available from the Department of Health and Human Services and is already subject to audit. Moving to this data set provides a measure of accuracy in the calculation while alleviating school districts of the need to rely on free lunch applications for calculated needs.

Recommendation #4b: Remove the Poverty Correction.

Rationale: Similar to recommendation 3a for LEP, this correction is made outside of the current year poverty needs calculation to reduce current year needs when prior year expenditures do not meet specific thresholds. These adjustments increase the administrative burden of the school district, while complicating the formula, and compromising stability of calculated needs.

Recommendation #4c: Remove the three-year average and district maximum.

Rationale: Similar to recommendation 3b for LEP, the maximum poverty allowance and three-year growth adjustment are part of the current year calculation of poverty needs. The maximum poverty allowance provides the district the opportunity to report its actual needs for poverty, however, the reported amount is not used if the amount is greater than the formula amount. The three-year average growth adjustment adjusts the number of actual poverty students by a calculation using the three-year average. It is designed to capture recent increases in poverty, however, if the data source is more stable (Recommendation 4a) and the district is not penalized for prior year fluctuations (Recommendation 4b), the growth adjustment is not necessary.

Recommendation #4d: Establish a four-tier structure with increased weights for each tier.

Percent of Poverty Students	Tier Weight*
Poverty Students 0-15%	at 15%
Poverty Students 15-25%	at 25%
Poverty Students 25-35%	at 35%
Poverty Students 35%+	at 45%

*Tier weight is multiplied by weighted statewide average General Fund Operating Expenditure per formula student.

Rationale: The number of tiers is reduced to simplify the formula, while better matching the tiers to the actual variation of the poverty population in school districts today. The weight of each tier is increased to maintain the existing poverty needs as closely as possible, recognizing that the direct certification numbers will generally produce a smaller number of poverty students in each district.

Recommendation #4e: Enact a Poverty Allowance Hold-Harmless Provision. Guarantee that no school district receives less in total Poverty Allowance funding than its certified 2026-2027 amount during the initial transition period.

Rationale: A stated goal of both the committee and the Commission as a whole is to avoid making recommendations that would decrease any school district's funding. After exhausting all possible scenarios related to the poverty recommendations, a small number of school districts would have lost funding without a hold harmless measure. A hold harmless provision will allow the committee to examine the direct certification data in the future for possible adjustments, without penalizing any district in the short term.

<u>Recommendations on formula resources</u>

With respect to the "resources" elements of the formula, the committee spent significant time studying the income and property tax burden of Nebraskans by school district relative to school funding. A key finding from that analysis was that every school district receives more than 20%

of individual income tax paid by residents within the district in the form of state aid, including equalization aid, foundation aid, and property tax credits.

An additional finding was that all school districts have received an increase in funding from the state and the disparity between funding by district has narrowed, meaning that policy changes enacted between 2020 and 2024 are working to provide state funding to all school districts.

In terms of "resources" elements of the school funding formula, the Commission offers the following recommendations, as proposed by the Needs and Resources committee:

Recommendation #5: Implement a Cost-of-Living Adjustment to Foundation Aid by at least 4% for the 2027-2028 school year and continue to study annual adjustments for future years.

Rationale: Foundation Aid has been stagnant since its introduction in 2023. In order to begin to fulfill the Commission's statutory duty of ensuring that funding under TEEOSA is adequate to prevent an increase in property taxes, an inflationary adjustment must be made to Foundation Aid for the next school year, and every school year thereafter.

The following materials are found at the following webpage under the heading "Meeting Materials": https://www.education.ne.gov/commissioner/school-financing-review-commission/.

1. Model of State Aid for the 2026-2027 with all of the Committee Recommendations Implemented (October 20, 2026 meeting)
2. School District Percentage of Tax Burden Offset by State Funds defined as Total State Receipts divided by Income plus Property Taxes (October 20, 2026 meeting)
3. Tax Burden as a Percentage of Adjusted Gross Income defined as: (October 5, 2026 meeting, Needs and Resources committee presentation, slides 14-15)
    a. Income Tax Burden the Ratio of Income Tax Liability to Adjusted Gross Income (AGI) in the District
        i. Note. These analyses compare tax liability paid in a school district to individual AGI. It should be noted that property taxes paid within a school district do not necessarily represent property taxes paid by individuals in that district.
    b. Property Tax Burden the Ratio of Property Taxes to Adjusted Gross Income in the District
    c. Total Tax Burden Equals Income Tax Liability plus General Fund Property Tax Asking divided by the Adjusted Gross Income in the District
4. Data Definitions
    a. Total State Aid includes TEEOSA Aid (Equalization Aid + Foundation Aid + Income Tax Rebate + Net Option Funding + Community Achievement Plan Aid), School Age Special Education Reimbursement, School Age Special Education

Transportation Reimbursement, Homestead Exemption and Property Tax Credits paid to the School District

b. Income Tax Liability includes the Personal Income Tax Liability for Addresses in the school district boundary

Spending and Economic Indicators Committee

The Spending and Economic Indicators committee (Committee B) operated under the following phase II next steps from above:

- advocating to maintain the current levels of state contributions to school funding while upholding the structure and function of the Commission;
- reviewing spending (e.g., per pupil, impact of LB 243, analysis of potential efficiencies, and any other factors impacting spending) and comparison to economic indicators such as Consumer Price Index (CPI) or employment cost indexes, and other state data sets where applicable; and
- recommending alterations to the TEEOSA formula to best serve Nebraska students.

Summary of the committee work: Primary discussions throughout 2026 centered on a comprehensive analysis of school spending in Nebraska, and in evaluating and making recommendations related to the School District Property Tax Limitation Act, *Neb. Rev. Stat.* §79-3402. Members examined school spending trends in comparison to various economic indicators and analyzed where schools spend and how that spending can vary across schools of different sizes and in other states.

Related to the School District Property Tax Limitation Act, the committee considered options for setting base cap thresholds, procedures for initiating cap overrides, and policies regarding how unused taxing authority should be handled or restricted over time. The scope of discussion extended to initial analysis beyond the primary revenue cap to include potential secondary caps and lids operating elsewhere in the school finance system. Future discussions of this committee may provide additional opportunity to more fully evaluate these other caps and lids.

Summary of findings related to school spending: An analysis of Nebraska school financing over the past decade revealed that total education spending in Nebraska grew within a range consistent with selected inflationary (cost growth) measures. While real school spending increased at a rate slightly higher than general consumer inflation (CPI-U Midwest), it closely tracked regional labor cost growth (ECI-WAG) and expanded at a slower pace than broader state and local government consumption expenditures (SLCE). Detailed information related to these findings can be found in materials presented at the April and August 2026 Commission meetings. These materials are found at the following webpage under the heading "Meeting Materials": https://www.education.ne.gov/commissioner/school-financing-review-commission/.

The committee found that personnel costs were responsible for the greatest portion of school district budgets, with salaries and benefits historically accounting for greater than 80% of total school spending in nearly all of the years examined. Within this analysis, it was found that instruction accounted for approximately two-thirds of all spending. Instruction costs include support services for students and support services for instruction.

The statewide average cost per pupil is $17,665, though the committee found actual spending per pupil can vary significantly in districts across the state. District student enrollment size accounted for roughly 53% of this variance. When making comparisons regionally and nationally, the committee learned that calculation methods can vary significantly across states and even within national databases since there can be differences in what each state submits as raw data. Therefore, in the committee's presented findings, it was generally recommended to be cautious when making state-to-state comparisons as a basis for evaluating spending.

The committee and Commission will revisit initial recommendations related to school spending made in 2026 and will consider additional formal recommendations to the legislature in its November 2027 report.

Summary of findings & recommendations related to the revenue cap: An analysis of the School District Property Tax Limitation Act indicated that most districts were collecting revenue within or slightly greater than the calculation of their base revenue cap. The analysis also revealed that unused authorized property tax authority more than doubled over the three-year period since the law's inception. This accumulation of property tax authority was primarily driven by the accumulation of unused authority derived from revenue cap overrides that went untaxed.

Additionally, the committee examined the formula components in *Neb. Rev. Stat.* §79-3402. Findings revealed that student enrollment growth factors in statute typically generated adequate revenue cap growth relative to increases in student population, though it was noted that the formula sometimes overproduced authority in smaller school districts. Conversely, the formula's growth factors for poverty and Limited English Proficiency (LEP) populations were found to be having less of an impact on the revenue cap than would have been anticipated given typical cost pressures associated with these student population changes.

The recommendations below related to the School District Property Tax Limitation Act are proposed in response to the findings from this analysis.

Recommendation #6: There are five proposed adjustments to revenue cap growth factors in *Neb. Rev. Stat.* §79-3402, listed below:

Recommendation #6a: Student Growth - Tier I: Unchanged

Rationale: There are a limited number of schools who are experiencing the rapid student enrollment growth required to qualify for this provision of the revenue cap. In these districts, they

are frequently opening new schools, changing boundaries, scaling systems and programs, and adding additional staffing resources to accommodate growth. The features of this provision align adequately with the needs of the districts in this category of student enrollment growth.

Recommendation #6b: Student Growth - Tier II: Utilize a three-year average in enrollment as one factor in the calculation of this provision instead of the year-by-year percentage change presently in statute. Additionally, change the multiplier from seven-tenths (.7) to six-tenths (.6) within the formula.

Rationale: In evaluating the districts qualifying for this provision, it was noted that grade-level enrollment fluctuation within smaller districts was triggering the growth components to a greater extent than necessary. By using a three-year average in the formula, it smoothed the aberrations in the data that were evident in smaller school districts. A three-year average still ensures that any district actually growing at the rate in this provision was receiving the intended additional cap authority. The shift from seven-tenths (.7) to six-tenths (.6) was a measured adjustment to the formula to better capture the additional revenue cap authority that would be necessary to generally accommodate the corresponding student enrollment growth.

Recommendation #6c: Student Growth - Tier III: Utilize a three-year average in enrollment as a factor in the calculation of this provision instead of the year-by-year method presently in statute. Retain the existing four-tenths (.4) multiplier in the calculation as it is currently reflected in statute.

Rationale: In evaluating the districts qualifying for this provision, it was noted that grade-level fluctuation within smaller districts was triggering the growth components of this provision to a greater extent than the real growth districts were experiencing. By using a three-year average in the formula, it smoothed out unintended aberrations in the application of this provision that were evident in smaller school districts while still ensuring that any district growing at the corresponding rate was receiving the appropriate additional cap authority.

Recommendation #6d: Limited English Proficiency: Change the factor in *Neb. Rev. Stat.* §79-3402 (3)(c) from 0.15 to 0.25.

Rationale: The adjustment from fifteen hundredths to twenty-five hundredths better aligns with anticipated expenses related to changing LEP enrollments. Additionally, increasing the multiplier within the statute for LEP services corresponds with increases in intended funding to districts identified by the needs and resources committee.

Recommendation #6e: Poverty: Change the factor in *Neb. Reb. Stat.* §79-3402 (3)(d) from 0.15 to 0.25.

Rationale: The adjustment from fifteen hundredths to twenty-five hundredths better aligns with anticipated expenses related to increases in enrollment of students in poverty. Additionally, increasing the multiplier within the statute for services related to poverty corresponds with increases in intended funding to districts identified by needs and resources committee.

Recommendation #7: Three recommendations related to *Neb. Rev. Stat.* §79-3406.

Recommendation #7a: Eliminate any existing unused property tax authority currently held by school districts that originated from past revenue cap overrides at the local level.

Rationale: When the property tax limitation act was created, it gave local boards of education and voters the power to override the base revenue cap in *Neb. Rev. Stat.* §79-3402. Currently, the law allows districts any unused authority from a revenue cap override to accumulate to create a buffer against revenue volatility without actually raising taxes. However, because of how this unused authority is calculated year over year, it results in a greater than intended carry-forward property tax asking authority. This proposed change updates the formula to prevent the accumulation of unused property tax authority from locally approved revenue cap overrides, while ensuring districts still have the flexibility to authorize and access additional revenue in the year it becomes necessary.

Recommendation #7b: Maintain past and future unused property tax authority, provided it was generated under the cumulative base cap provisions of *Neb. Rev. Stat.* §79-3402.

Rationale: Allowing the accumulation of unused base authority under *Neb. Rev. Stat.* §79-3402 (e.g. when a school district increases its total revenue by less than 3% when its base cap is 3%), provides a structural balance to the limitation act. Without a carryforward mechanism, the law would incentivize districts to utilize their maximum base authority annually to protect future baseline taxing authority. Maintaining this provision provides an incentive for school districts to tax less than their base cap would allow (e.g. less than 3%) without risking future revenue availability.

Recommendation #7c: Prospectively prohibit the accumulating and carrying forward of any unused property tax authority that results from a revenue cap override at the local level.

Rationale: Similar to 7a above, this recommendation aligns revenue cap overrides with the specific fiscal year in which they are needed, approved, and actually taxed. Because overrides are generally intended to be authorized to address point-in-time revenue needs, restricting the carryforward of unused override capacity makes these authorizations single year mechanisms. This structural change ensures that the baseline calculation for a district's long-term tax authority relies on a district’s base cap with actual utilized property tax authority, and not any unused property tax authority from local overrides.

Combined rationale for recommendations 7a-c: These three recommendations work together to refine the calculation of unused property tax authority by separating base cap authority from override authority. By distinguishing these two elements within the statute (base cap authority versus local override cap authority), the proposed changes establish a balanced framework which fulfills the intent of the law while retaining important elements of local control to account for unique needs which may exist in Nebraska school districts.

Summary of findings and recommendations related to the revenue cap: The proposed modifications to the School District Property Tax Limitation Act make adjustments to both the revenue cap growth factors and the carryforward provisions. To calculate student growth allowances, the changes introduce a three-year enrollment average for Tier II and Tier III districts to stabilize cohort fluctuations, while adjusting the Tier II multiplier to 0.6. The multipliers for Limited English Proficiency and students in poverty are increased from 0.15 to 0.25. Regarding unused tax authority, the recommendations separate: (1) standard base cap capacity from (2) locally approved revenue cap overrides. Moving forward, overrides under these proposed changes would operate as single-year authorizations, prohibiting any unused override amounts from carrying forward into subsequent budget years. Collectively, these proposed changes reflect measured changes to the existing revenue cap which are intended to better align with the intent of the legislation while preserving local control. These changes also make adjustments to reflect the impact data on the operation of the cap since its inception.

Conclusion

This report fulfills the requirement under *Neb. Rev. Stat.* §79-10,147.02 for the School Finance Commission to provide an annual report to the Nebraska Legislature. Covering the periods from the Commission's first report submitted November 18, 2025, through work completed as of October 2026, this report summarizes the Commission's organizational activities and provides initial recommendations for changes related to the school finance system in Nebraska.

Phase I of the Commission's work summarized in the report submitted on November 18, 2025, focused largely on understanding the evolution of Nebraska's current school finance system and the effects of recent legislative changes. In that report, the Commission found that, for the first time in decades, the state now provides a majority share of school funding to Nebraska schools. Recent legislative actions, including the introduction of per-pupil foundation aid, increased special education reimbursements, and frontloaded property tax credits, collectively reduced school property taxes collected by approximately $600 million comparing fiscal year 2023-2024 to 2024-2025. Findings of the Commission also noted that frontloaded tax credits need to be included for an accurate measure or comparison of local property tax obligations.

Phase II of the Commission's work, which is highlighted in this report, outlines initial recommendations regarding Nebraska's school funding formula (TEEOSA) and the School District Property Tax Limitation Act. The proposals aim to reduce year-to-year funding volatility, utilize more stable data sources, preserve the progress made on the proportion of state funding for schools, and refine the provisions of the School District Property Tax Limitation Act.

On the "needs" side of the TEEOSA formula, the Commission recommends shifting basic funding calculations to a multi-year average. Because basic funding accounts for roughly 80% of formula needs, applying multiyear rolling averages will minimize swings caused by the current method of

calculation. The Commission is also recommending the elimination of the Distance Education and Telecommunication Allowance (DETA).

For the Limited English Proficiency (LEP) and Poverty allowances, several recommendations were made to simplify the formula. For the poverty allowance, it is recommended that the calculation include the use of state-level Direct Certification data. To mitigate any unintended consequences of this shift, the proposal includes a revised four-tier weighting structure alongside a temporary hold-harmless provision to ensure no district loses poverty funding during the transition. On the "resources" side of the formula, the Commission advises applying a 4% adjustment to Foundation Aid for the 2027-2028 school year to account for inflation that has occurred since the allocation amount of $1500 per pupil was instituted in 2023. Further recommendations for how to systematize any annual changes in this amount will be further studied in the work of the Commission moving forward.

Regarding the School District Property Tax Limitation Act, the report proposes adjusting the revenue cap growth factors in *Neb. Rev. Stat.* §79-3402. To address grade-level enrollment fluctuations in smaller districts, the Tier II and Tier III student growth calculations will shift to a three-year enrollment average, and the Tier II multiplier will adjust to 0.6 from 0.7. Further, the multipliers for LEP and poverty populations will also increase from 0.15 to 0.25 to correspond with the expected costs of serving those students, and to be in better alignment with changes made to both of the corresponding allowances.

Finally, the Commission recommends a structural change to how unused property tax authority is handled under *Neb. Rev. Stat.* §79-3406. The proposal separates base cap authority from unused locally approved revenue cap override authority. In the proposed changes, historical balances will be recalculated to remove any unused authority originating from past overrides, and all future overrides will be restricted to single-year authorizations. However, any past or future unused authority generated under the base cap formula will be preserved. This policy structure preserves local flexibility and refines the incentive structure originally envisioned with this provision.

The next report of the Commission will be provided no later than November 1, 2027. The next report is anticipated to include any remaining recommendations of the Commission’s work related to phase II.