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Revenue Committee
February 22, 2008

[LB1007 LB1017 LB1080 LB1081 LB1098]

The Committee on Revenue met at 1:30 p.m. on Friday, February 22, 2008, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB1007, LB1017, LB1080, LB1081 and LB1098. Senators present: Ray Janssen, Chairperson; Merton "Cap" Dierks, Vice Chairperson; Carroll Burling; Abbie Cornett; Chris Langemeier; Don Preister; Ron Raikes; and Tom White. Senators absent: None. [LB1007]

SENATOR JANSSEN: Good afternoon, ladies and gentleman. Welcome to the Revenue Committee. I'd like to introduce the members of the committee that are here this afternoon. To my left is Don Preister from Omaha; to his right is Carroll Burling from Kenesaw; and to his right is Abbie Cornett from Bellevue; to my right is Senator White from Omaha; and Senator Langemeier has just stepped out; Senator Raikes; Ray Janssen; George Kilpatrick is legal counsel for committee; Senator Dierks is right here; and Erma James, is committee clerk. The pages for the day are Sarah and Tim. Turn off your cell phones, please. I know you hear that in every committee you're in but they are very annoying. Sign-in sheets for the testifiers are on tables in the back by both doors and you need to complete those if you're wishing to testify. If you're testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form prior to your coming up to testify. When you come up to testify, hand your testifying sheet to the committee clerk, Erma James, right over there on my right-hand side. There are clipboards in the back of the room to sign in if you do not wish to testify but would like to indicate your support or opposition to that bill. These sheets will be included in the official record. We'll follow the agenda as posted on the door. The introducer or the representative will present the bill followed by the proponents, then opponents, then those in a neutral capacity. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, please state your name, spell it for record. If you have handouts, please bring ten copies for the committee and the staff and if you have only the original, be more than happy to make copies for you. Give the handouts to the pages and they will circulate them to the committee. With that, we'll begin the hearings for the day. Senator Dierks has the first bill, LB1007. Senator Dierks. [LB1007]

SENATOR DIERKS: Thank you, Chairman Janssen, and members of the committee. My name is Senator Cap Dierks, C-a-p D-i-e-r-k-s, and I represent District #40. I'm here today to introduce LB1007. LB1007 would amend current law regarding the restricted fund lid and levy limits. It also amends levy limits for municipalities and counties. The restricted fund lid for political subdivisions other than school districts, is amended in three ways. One is to change the definition of allowable growth, the second is to change the definition of capital improvements, and the third is to exempt funds in excess of those budgeted to pay for any drug prevention or drug enforcement costs. An allowable growth change would give political subdivisions the opportunity to increase their lids by

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the amount of growth and taxable valuation due to improvements to real property as result of construction or annexation. Current law only allows increases in the lid for growth over 2.5 percent. The definition of capital improvements for the restricted fund lid is amended. This change would allow purchases of equipment with a useful life of more than five years to the outside of the restricted fund lid. This was the definition of a capital improvement when the lid was first imposed in 1996. Section 13-520 would be amended to exempt from the lid restricted funds budgeted to pay for any drug prevention or drug enforcement costs in excess of the amount budgeted for such costs for fiscal year 2007 and 2008. LB1007 applies this same definition of capital improvements to the levy law governing municipalities and counties. This bill would amend Section 77-3442 which sets the levy limits for municipalities and counties to provide that the maximum levy limits for the counties, cities and villages shall not include any funds budgeted for capital improvements under the new definition in lid law. LB1007 also excludes funds budgeted to pay for any drug prevention or drug enforcement costs in excess of the amount budgeted for such costs for fiscal year 2007 and 2008 from the levy limits imposed by this section. With that, I'll conclude my testimony. I'll try to answer your questions and I think that Lynn Rex is here to follow me and kind of explain the fine points. [LB1007]

SENATOR JANSSEN: Are there any questions? I don't see any, Senator Dierks. Thank you. [LB1007]

SENATOR DIERKS: Thank you. [LB1007]

SENATOR JANSSEN: We'll take proponents first, those in favor of the bill. [LB1007]

LYNN REX: Thank you, Senator. Senator Janssen, members of the committee, my name is Lynn Rex representing the League of Nebraska Municipalities and Rex is spelled R-e-x. We do hope that this is the year that this committee will consider advancing this measure. We think it's long overdue. I would just like to give you a brief background in terms of why we are in the position that we're in. In 1996 the Legislature passed LB1114, and Senator Raikes and a few folks and Senator Janssen certainly, and others have had experience in what's happened since that time and some of you are newer to this committee since those events occurred. But at that time, part of what occurred was that the levies for first-class cities were reduced from 87.5 cents down to 45 plus 5, 45 cents per \$100 valuation along with 5 cents allowed, additional 5 cents of levy authority allowed for interlocal agreements. And most of the first-class cities were not impacted to the same extent certainly that second-class cities and villages were. And that's because most of the first-class cities at that time, and almost all of them now except one I believe, has a local option sales tax. Sales tax revenues, of course, under the lid law but when you're dealing with levies, obviously that was a separate issue. So most of them were not close to the 45 cents plus 5. So the larger cities, and that includes Lincoln and Omaha, were not impacted the same way that second-class cities

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and villages were and we only have one city in the metropolitan class, obviously Omaha, one city of the primary class, Lincoln, 30 first-class cities, population 5,000 and up, and the rest are second-class cities and villages of the 532 cities and villages in the state of Nebraska. So hundreds of municipalities across the state were given two years from 1996 until 1998. The bill was passed in 1996. By 1998 they had to reduce their levy authority from \$1.05, maximum authority of \$1.05 per \$100 valuation down to 45 cents plus 5. Hundreds of them were at the maximum levy at that time because they had had...some of them were even over that amount because they had voter approved bond issues. So they went down dramatically and lots of cuts were made, lots of police departments were lost during that time frame because they couldn't afford to have a police department, they couldn't afford to have several officers, and we are here today because over a period of years we've been trying, each and every year, trying to get authority and some flexibility from this committee to address some of the needs, especially of these smaller communities across the state. And this bill addresses three very important ones. One, the issue of basically based limitation. If you look on page 2, line 6, of this bill, you're going to see that there's language that is stricken that was placed in here some time ago. It's basically, would strike the language, "in excess of the based limitation." Based limitation is that amount set by the Legislature of 2.5 percent. Basically the lid law says you have 2.5 percent plus 1. Based limitation is set by the Legislature and the problem, of course, is, this says you only get the growth above the based limitation of 2.5 percent. We have, we estimate less than 10 cities in the state that have over 2.5 percent. And Bill Lock may have additional information which I'd be certainly willing to have but with a show of hands of our city administrators recently, we could verify only four cities that had a growth factor above 2.5 percent. So what does that mean? That means nobody else is getting any growth at all. Schools and community colleges are at least afforded growth by virtue of increasing in pupils in terms of the number of students that they have but for cities, counties, schools, pardon me, cities, counties, NRDs and others, there's no capacity to get growth unless you have above 2.5 percent and for those few cities in the state of Nebraska that do have growth above 2.5 percent, they don't get to capture the first 2.5 percent. So to me that's always been an equity issue and we think this is something the Legislature really needs to address. And certainly in these smaller communities, if they're fortunate enough to have even 1 percent growth, should they not be able to capture that because with growth comes a need for infrastructure development, it comes a need for additional law enforcement, other needs come with growth. And I would think as a committee you want to encourage growth because at the end of the day that also encourages your revenues coming in on sales and income tax dollars as well to help fund the state of Nebraska. Senator Dierks has also outlined to you the definition of capital improvements which would be changed. Steve Waring, who's a city administrator of Broken Bow, is here today and he's going to talk to you specifically about that, so I'll let him address that. But definitely, but basically this will put back into play a definition of capital improvements that the Legislature did have in play when this bill was originally put in place. And also for some of you who are newer to this committee, you may remember that in 1996 when

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this law was passed, the law is putting in play the levy limits as well as the lid law. This was all part of a plan that Senator Warner was the author of that plan, and part of that plan, and I think that basically the underpinnings of that was that you would have a lid law on restricted funds in place for two years so that nobody would ratchet up their budgets and try to get to a maximum levy or whatever. Because in 1998, those levy limits were going to go into effect as an equalizer across the state because his philosophy was that some areas of the state were paying way too much in property taxes, other areas of the state were not paying enough. So that was the equalizer but the lid law was supposed to go off in 1998. That never happened so we've had this double whammy and frankly, the smaller cities in the state have had a more Draconian impact because of that. The lid law stayed on even though it was supposed to go off in 1998. It was in effect from 1996 to 1998, planned to go off in sunset but it didn't. It kept on going, the sunset was removed and so now we have this despair impact across the state of Nebraska. And part of the concern, and I would think that Larry Dix, as he's testifying today, can also address this. It doesn't have the same impact on everybody. It had a really unfair impact on virtually everybody. Some folks were not impacted hardly at all in terms of municipalities. Hundreds of them were though and, of course, those were the smaller entities. You'll also note on page 6, lines 12 to 15, 12 to 14, we would also exempt from the lid and also the levy later on in the bill, those funds that are necessary to pay for drug prevention and drug enforcement costs over the prior year. In other words, we're not exempting everything but give us something to help fight meth. I mean we're having a dramatic reduction in Byrne funds. We hope the Legislature and the Appropriations Committee, we testified before the committee earlier this year with law enforcement, asking that the Legislature replace some of those Byrne dollars that have been cut. Those fund the nine drug task forces in the state of Nebraska. Those are the drug task forces that are front lines in terms of catching people as they're coming in and basically up and down I-80 and U.S. 81 where most of the meth is coming. When the Legislature passed LB117 a few years ago, it had a dramatic decrease in the amount of meth labs in the state certainly, and that was a great thing to do. But we actually, law enforcement will tell you, we have more meth in the state than we've ever had. And because we've got, it's coming from meth down in Mexico and just funneling its way all the way through here. So the nine drug task forces are critical. This really is intended to address that as well as other drug enforcement issues too. The rest of this bill would apply those same things to the levy issue and I really do hope that this committee will seriously look at advancing this bill this year. I think it is desperately needed. I think we're at a point right now in our economy where cities have to help make things happen. And Steve Waring from Broken Bow will be talking about what they're going to try to do in Broken Bow, and they've actually had a ballot question passed to allow them to exceed the lid and the levy to do some things when they passed their sales tax to try to help create more growth. And with that, again, this also helps the state of Nebraska because that's where your growth comes predominantly is from the growth that happens in cities. I'd be happy to respond to any questions that you might have. [LB1007]

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SENATOR JANSSEN: Any questions? I don't see any, Lynn. [LB1007]

LYNN REX: Just one closing remark, Senator Janssen. Of the 531 cities and villages in the state of Nebraska, 530, I say 531 or 532, it depends on how you want to count Elkhorn. It's 531 if you count Elkhorn as what it is now which is part of Omaha but of the 530 some cities in the state of Nebraska and villages, 240 of them, over 240 are already up against the maximum levy, and they've been there for some time. And they're looking at the same kinds of things as the state of Nebraska, double-digit increases when it comes to utility, double-digit increases and some of them we've had, some of our villages that have had over 100 percent increases in healthcare costs. So we're looking at huge increases and things that need to be done, we think, to try to give them some relief and this is a very modest proposal. Thank you very much for your time today. [LB1007]

SENATOR JANSSEN: Thank you. The other proponents. [LB1007]

STEVE WARING: Senator Janssen, and members of the Revenue Committee. I'm Steve Waring with the city of Broken Bow, the second-class city with a population of about 3500 people. As Lynn Rex mentioned, we have passed a ballot issue to allow us to exceed both our levy and our spending limits, primarily off of a one and a half cents sales tax. One percent does go to finance infrastructure improvements in the city of Broken Bow. The other half cent was allowed to help the expenditures of the city. However, none of it can go for employees and that is a definite area of concern for all cities at this time. The three main issues, which have been pointed out already, I won't touch on those again. But the primary one I'm concerned about, is the second one which is the definition of capital improvements, and that's an area that affects us probably the most significantly. We see it in many things. It changes the lid law back to the way it was when we established the lid to begin with by allowing exemptions for equipment with the use of life of five years or more, we can stop the erosion of the funding level that we done our cities with. It's...there's quite a few issues that come into play when we look at what we've had to do with these. We've had to reduce our reserves of cash just to handle those things that the cities want to do to meet their constituents needs. I think you'll probably find almost all communities run at a lower cash reserve level than what they've run with in the past and I have seen it diminish in several communities really. We've had to use different methods to try to address these issues that come up with the fact that we aren't able to replace equipment as needed. We've had to use lease purchase methods to purchase the equipment over a three to five year period in most cases. And I think that actually what we're doing here is mortgaging our future as well as adding interest costs to the cost of doing business for the cities at this time. Other options we use, are buying used equipment. I can remember in the past, we always bought new police cars, maybe one every five years or something like that. Now we replace used cars with used cars. We, kind of ironic, but

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we have to incur additional costs often going outside of the state to purchase our police cars because most of the towns and the cities in the state of Nebraska are running their cars into the ground. We just recently purchased one in Kansas, had to go down and pick it up and it does cost to do those types of things as well. We're also selling one of our police cars that we won't drive anymore because we don't feel it's safe. The reason we're selling it is, we had somebody come to us and say they'd be willing to buy it because they can fix it themselves and afford to do the repairs and use it as a local town car only. We're also selling a 1964 dump truck in the street department. These dump trucks, again ironic that when we sell these things we end up buying those, and we're buying these at the auctions that sell the state vehicles that are no longer adequate for state use really. So we feel that we are going to inferior equipment in a lot of cases and it does make it hard. Repair costs and so forth, of course, are accordingly increased. We've been doing these things and other cost saving methods for many more than the original two-year lid period that we were supposed to have been operating under. We anticipate in Broken Bow at this time that we will make cuts as we have been doing for the next two years, more than likely, just one is possible, before we start running into some real problems where we'll actually have to start cutting employees as well. And this is, it's been a steady, progressing...you can look back over the last five years and you can see these things coming down. In closing, I would just like to say, I believe in a representative government, not only on the state level as evidenced by support of the cities to not put a lid on state government but also on the local level, and we all have to answer to our citizens. Thank you. [LB1007]

SENATOR JANSSEN: Any questions of Mr. Waring? Ron. [LB1007]

SENATOR RAIKES: You said you now have overrides in place in Broken Bow? [LB1007]

STEVE WARING: Yes. [LB1007]

SENATOR RAIKES: On both levies and the budget? [LB1007]

STEVE WARING: Levies and expenditures, yes. [LB1007]

SENATOR RAIKES: And your current city levy is... [LB1007]

STEVE WARING: We're at the maximum, we're at 50. We've been at the maximum for some time. [LB1007]

SENATOR RAIKES: Okay. What's happened to the population of the city over the last ten years or so? [LB1007]

STEVE WARING: As far as actual population, it's been pretty stagnant. It's stayed right

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in that 3500 area. We have been able to maintain the population in the area. However, the city of Broken Bow has been landlocked. I've just started there in the last year as administrator. Prior to that time it has been basically landlocked. There's no more areas for development of new housing in the city limits. There's no area for industrial or other retail growth other than in existing buildings. Now you'll find that most of the buildings in downtown Broken Bow, we have the advantage over a lot of small towns, are basically full. There's, you know, less than a handful of empty storefronts in Broken Bow. [LB1007]

SENATOR RAIKES: Have you expanded the city services over the last, you haven't been there that long but five or ten years, as far as you know? [LB1007]

STEVE WARING: Not as far as I know. In fact, it's probably been decreased. It has...as far as numbers of employees, they have, they are down from what they used to be I know that but I don't know other than that. [LB1007]

SENATOR RAIKES: Do you know how you compare with other cities in terms of expenditures per capita, employees per capita, that kind of thing? [LB1007]

STEVE WARING: I would say we're probably pretty consistent with most towns of our size. You asked about the population. We probably have some growth in the area. However it's outside the city limits because, as I say, we're landlocked and there is development happening around Broken Bow. We probably have another 1200 to 1500 people at least within a five mile radius of Broken Bow. [LB1007]

SENATOR RAIKES: Okay. Thank you. [LB1007]

SENATOR JANSSEN: Senator Langemeier. [LB1007]

SENATOR LANGEMEIER: Thank you for your testimony. You did a great job. When you did your override, how did that vote turn out? Was that close or... [LB1007]

STEVE WARING: I think it was...I wasn't there at the time when they did that. That was a year and a half, two years ago when they did that and my understanding was that it did pass with a comfortable margin. I can't tell you the exact numbers so. [LB1007]

SENATOR LANGEMEIER: Okay. My only concern is, as we go home tonight, as we end this day, I probably won't even make it home without having at least two people tell me they're sick of paying property taxes, including the introducer of this bill might tell me that before the day's done. (Laughter) [LB1007]

STEVE WARING: I might tell you. [LB1007]

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SENATOR LANGEMEIER: But yet this bill expands property tax. It would allow you to increase your levy, it would expand property tax. [LB1007]

STEVE WARING: Well, in our case it won't because of...unless it's considered outside the lid, which it would for replacing some of that equipment, yes. But in most cases, it won't as far as the other areas go because the lids will still apply to some of those other areas because we are against the lid. [LB1007]

SENATOR LANGEMEIER: Thank you. [LB1007]

SENATOR JANSSEN: Any other questions? I don't see any. Thank you very much for your testimony. You did a good job. Any other proponents? Larry. [LB1007]

LARRY DIX: Senator Janssen, members of the committee, my name is Larry Dix, D-i-x. I'm executive director of the Nebraska Association of County Officials, appearing today in support of LB1007. Certainly, we want to thank Senator Dierks for introducing this bill and by this time, certainly the issues that the League covered, you're very much aware of them. They pretty well covered everything. I did find it, not amusing but I found the reality of it, that when Ms. Rex was up saying that a number of those cities lost their law enforcement component, many of those law enforcement components then shifted to the county through interlocal agreements through the cities and counties to provide that service. And I'm not saying that's a bad thing. I think that's worked quite well in many of those areas but it is one of those areas where cities and counties have tried to, over the years, find more and more ways to cooperatively work together on these issues. And we too, have a number of counties that are bumping up against that levy limit. Of course, ours is a little different in the fact that it's a constitutional limit. It isn't...it's set at the 50 cents and it's established in the constitution so it's a little bit tougher when we go after that trying to change that. The...it's sort of like what, when I was sitting there thinking about maybe the last four or five years, and we're starting to talk about equipment and capital purchases, some of our counties have sort of, we've sort of created a new market out there and it's almost like the hand-me-down market because we're starting to see road graders and some of these things that are being able to be afforded for in maybe some of the larger counties. And there's becoming a market where those counties look to other counties to sell their old equipment and then it goes down to yet the smaller counties. And it's enough of a market, in fact, that we had an auction company come to us and approach NACO about establishing a special auction where they would just market used equipment from larger counties so that smaller counties could have an opportunity to bid on it. And so, it's starting to become this hand-me-down mentality that we're starting to see in some of those areas, so it's a serious issue. When I look at it, I tend to try to look at this more of a big picture and say, you know, not necessarily where are we at today but where are we going to be in five years and maybe ten years. In that period of time, I hopefully everybody understands, there is no sales tax in county government. It is property tax. That is our source of

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revenue and over the history of it, we've been able to survive by increased valuations in those counties. But if we come to the day when that starts to go downhill, we're all in pretty significant trouble because there are some things that are a little bit out of our control as far as what we have to spend on that. So I ask you to consider this, to look at it over a long, long picture of time what it would do for us over a multiperiod years. Because we're sort of, I don't want to sit up here and say gloom and doom but the potential, the downside is much greater than the upside in many of these rural counties. So with that, I'll close my testimony and see if anyone has any questions. [LB1007]

SENATOR JANSSEN: Chris. [LB1007]

SENATOR LANGEMEIER: Thank you, Chairman Janssen. Larry, thank you. Let's use Colfax County for an example. We have three very, very large dirt operators that run used equipment. Do a great job. But our county has eight of the shiniest new cat graders in the state. Do they need those? [LB1007]

LARRY DIX: I don't know the specifics of Colfax County but... [LB1007]

SENATOR LANGEMEIER: Is that not that used market, is that used market bad? [LB1007]

LARRY DIX: I don't...you know I can't speak specifically of the Colfax County situation or know how long they went with used equipment before they replaced it with what you're classifying as the newer one. [LB1007]

SENATOR LANGEMEIER: We're on a lease. Every two years we get two new ones. [LB1007]

LARRY DIX: Yeah. You know, I don't know that specific situation but I certainly agree that that's true that they're doing that. What we typically, as county boards have asked them to do, they look at each of their own counties and say in their evaluation and the number of roads and bridges they have, is it better to develop that process to control those costs or is it better to develop a process where you buy a new road grader and let it go down to ten or fifteen years before you buy another one. My assumption is, it's been a policy of the Colfax County board to continually try to up, keep that equipment upgraded so they can reduce some of the maintenance costs down the road, similar to a computer system. When you get that to a certain point where it's so outdated, there's really no residual value and possibly if they're doing it on a two or three years basis, maybe that is their policy. That helps them out. [LB1007]

SENATOR LANGEMEIER: Thank you. [LB1007]

SENATOR JANSSEN: Ron. [LB1007]

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SENATOR RAIKES: Larry, my impression is that counties in the western part of the state tend more than those in other parts to be at their levy limits, is that true? [LB1007]

LARRY DIX: I would...I don't believe so. Let me give you a couple of examples. Sioux County, I think from a county perspective and Sioux County is as far northwest as we can go, is always in competition with Dodge County, Senator Janssen's county, for the lowest tax rate in the state, so that would do it. Now if you go two counties below Sioux County and go to Banner County, then I would tell you, they're right at their levy limit. As you come and move towards the east, I think of Webster County, who for probably three or four years has been at .50, last year I think they came in at .996, so they're southern central. My understanding, Dawson County which is starting to move this direction, somewhat west, they're pretty close. Dakota County has struggled in recent years so I don't...I've never been able to put a geographical component to those tax rates. [LB1007]

SENATOR RAIKES: What other explanations are there? I mean you've got counties clearly that are not pressed against their lids? [LB1007]

LARRY DIX: Yeah. Yeah. I...for the number of years I've been working with counties or in county government, I would tend to tell you, it is a management issue over maybe 10 to 20 years of decisions that were made at certain times. We know that some counties when the budget and levy lids came into being, and Dawson County is an example, they immediately went out and tried to get that levy as low as they possibly could and in doing so, they used, expended all of their reserves, just bareboned it. And now when we look at that ten years later, Dawson County is a struggling county because they've had some growth but they still are struggling because when they used all of their reserves, then that became their cap on which to base their budget increases year after year. So it's, in some counties it's a levy issue. Some counties it's a budget issue. [LB1007]

SENATOR RAIKES: But you're saying that it's a management issue. [LB1007]

LARRY DIX: I would tell you some of those, when you said, you know, why is it that some counties are different I would tell you over 10 or 20 year period of time, it's been how some of those counties have managed some of the resources that they have had. There's been decisions that have been made over that period of time. I would tell you some counties certainly have been fortunate in having some inheritance tax that they could use to offset some of the requirements that they need for capital purchases where other counties may not have had that revenue stream. So to look at that, I think you have to look at many, many things but what I'm trying, the point I'm trying to make is, I think you have to go back 10 or 15 years and analyze. I don't think you can look at the last three or four years to see why a county is at their levy limit. I think it's a 10 or 15 year study. [LB1007]

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SENATOR RAIKES: Okay. Thank you. [LB1007]

SENATOR JANSSEN: Larry, how many counties have, use the sales tax and have tried to get sales tax? [LB1007]

LARRY DIX: Tried to get it. Well, certainly Dakota County has a, sort of a component of that. There was some room under the city sales tax that Dakota County were able to pass that to use for law enforcement purposes. Deuel County, I believe, took it to a vote of the people and it failed in Deuel County. Some other counties have looked at it but when they've actually gone out and studied it, they have determined that so much of the property lies outside of a city or village that has a sales tax, that there is not significant revenue to come in for the county if they would have a sales tax option. There just are not hardly any businesses that collect sales tax that lie outside of the city limits. But those are the counties that I'm aware of that most recently have tried to utilize that sales tax component. [LB1007]

SENATOR JANSSEN: Okay, Larry, thank you. Any other questions? Thank you, Larry. Any other proponents? How many more proponents do we have? How many opponents? Okay. [LB1007]

JOE KOHOUT: Chairman Janssen, members of the Revenue Committee, for the record, my name is Joe Kohout, K-o-h-o-u-t, registered lobbyist appearing today on behalf of the Nebraska Fraternal Order of Police. Our executive board reviewed LB1007 and specifically supports section 2 where we're talking about the funds for drug enforcement or drug prevention. We have, our members of our board have seen the benefits of those Byrne grant funds and really see the need to continue those kinds of programmings at the local level. And I think it's important to notice that this gives some flexibility to them to continue those programs. And Senator Langemeier, with regards to your concern, I think that, I think it's fair. I think it's fair to say that there's a lot of concern out there about increasing property taxes but I also think a lot of people...when you start to talk about public safety and those sorts of things specifically, and I'm specifically talking here about section 2, I think there is a desire to try to mitigate the effects of meth and other drugs on our local community so. With that, I will stand for any questions that you might have. And it's not very often that you see the League of Municipalities, the County Officials, and the Fraternal Order of Police, all lining up on the same side of any issue so. [LB1007]

SENATOR JANSSEN: Any questions? [LB1007]

SENATOR RAIKES: You should be wary if they do, I take it? (Laughter) [LB1007]

JOE KOHOUT: Perhaps. [LB1007]

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SENATOR LANGEMEIER: So if we strike section 2 that all goes away? (Laughter)
[LB1007]

JOE KOHOUT: I'm off the bill then, Senator. Thanks. Thank you. [LB1007]

SENATOR JANSSEN: Thank you, Joe. Any other proponents? Any opponents?
[LB1007]

JAY REMPE: (Exhibit 1) Senator Janssen, members of the committee, my name is Jay Rempe, J-a-y R-e-m-p-e, state director of governmental relations for Nebraska Farm Bureau Federation, here today on behalf of our members in opposition to LB1007. It seems like every year I have to make the annual trek in front of the committee to remind you that we have concerns about property taxes. Farmers and ranchers continue to have concerns about the level of property taxes in this state. If you look at the level that our farmers pay compared to the surrounding states or other states that have a, or ag dominated, we continue to be near the top in terms of the property taxes paid. And so anything that potentially relaxes the budget lids or the levy limits that could result in higher property taxes, we're going to look askance on, and this bill is no different. The fiscal note on this bill suggests that this bill could result in significantly higher property taxes and I guess, we agree. What I've handed out to you, real quick like, is a chart that's put out by the Department of Revenue Property Assessment Division and it looks at the total valuation growth, the taxes levy growth and net property tax relief over the, since 1992 and I guess I just want to point out the pink line and what's occurred in recent years. The last five years on the pink line, that shows the total property taxes levied in the state. And again, this is a statewide perspective and you can't really bring it down to a local level but I think it gives you an idea of what the trends are but you can see starting in 2003 the growth was 9.13 percent, 4.95 percent, 6.66 percent, 7, just over 7 percent, and then 5.71 percent. And that's with the budget limits and the tax levy limits that we already have in place and our fear is, if you relax those, we're going to see that growth, it'll exacerbate the problem. Also, I'd like to point, also some information from the property tax division. When you look at the last ten years since 1997, counties have been averaging just over 6 percent growth each year. This is not on the chart. This is some separate information I have. Cities and villages, just about 4.5 percent, NRDs roughly 9.5 percent, so that's the annual rate of growth that they've been averaging since 1997. So there seems to be already with the levy limits and budget lids in place, ample room for growth and we would ask the committee not to exacerbate the problem. I would be happy to answer any questions you might have. [LB1007]

SENATOR JANSSEN: Any questions? Jay, I have one, you know. You have any concerns with sales tax? [LB1007]

JAY REMPE: With the growth in sales tax rate? You know when we ask our members,

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and this will be no surprise, Senator, what tax they dislike the most, it's the property taxes. The only time we hear concerns about sales taxes is when a city imposes a sales tax and our members go in and do business in the city and they see the property tax relief that results in a city and they don't get to experience that and otherwise I don't hear any concerns with sales tax. [LB1007]

SENATOR JANSSEN: Not even on repairs? [LB1007]

JAY REMPE: Oh, yeah, once in a while, yeah. (Laughter) But that issue will come up especially folks along the border in those kind of issues, sure, yeah. [LB1007]

SENATOR JANSSEN: Okay. Sure, I understand. Thank you. I don't see any other questions. Thank you, Jay. Anyone else in opposition? How about neutral? I don't see anyone in neutral, okay. Cap, to close. [LB1007]

SENATOR DIERKS: Mr. Chairman, members of the committee, I think that sometimes we have a tendency to paint everything with the same brush and the same brush doesn't fit every situation. For instance, I think many of those overrides that you were talking about were initiated by voter approval so, I mean, it wasn't the county officials that did it so. You know, I just think that we have to make, I think we have to make this available. It doesn't mean that they're going to use it right away but I don't like those property taxes either, Chris, but the fact is we've talked about that we may try to change that next year. Anyway, any questions? [LB1007]

SENATOR JANSSEN: I don't see any, Cap. [LB1007]

SENATOR DIERKS: Okay. Thank you. [LB1007]

SENATOR JANSSEN: That ends the hearing on LB1007 and the next three are Senator Raikes. LB1017. [LB1017]

SENATOR RAIKES: Thank you, Chairman Janssen, members of the Revenue Committee, Ron Raikes, District 25, the prevailing district. (Laugh) You'll have to explain that to White. I don't think he...here to introduce LB1017 and I think it's going to become apparent to you that Senator Dierks and I have collaborated long and hard to make sure we present to you both ends of the spectrum here because as I think you'll see, the two bills go in somewhat the opposite direction. They deal a little bit with different issues but LB1017 eliminates the levy lid exception for bonds issued by political subdivisions to finance the costs associated with participation in an insurance pool pursuant to Section 44-4317. A little background here. As has been pointed out today, bonds are outside the levy limits, the levy lids. Some bonds have to be voted on, others do not and there is a provision in statute, which I referenced, which allows insurance cost to be bonded. There is no requirement or has been no requirement that they be voter approved so that

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is, in fact, what's happened recently. And I think it is recent. It has come to my attention that we have a few school districts and some ESUs that recently have elected to, well, have chosen I should say, election might be the wrong term, chosen to finance insurance costs with bonds thereby getting that expense payment outside the levy limit. And I think I can...you can see where I'm going right now. As far as I'm concerned, insurance payments are an annual expense. It's not a capital construction item or something like that. They are an annual expense. This is simply a way to take that annual expense from within a levy lid, and annual operating expenses for school districts and ESUs are within a levy lid, this takes it outside. It is troublesome, I think, because it, in some sense, breaks faith with the taxpayers, with the Legislature's effort to control property taxes, both through levy lids and, of course, through budget lids. It is, I think, particularly of concern because it, what I, or at least I suspect, it leads to financing insurance through a more expensive mechanism than would be the case if you simply paid it out of general fund operating expenses. So you're, in effect, allowing a levy exception here by choosing an alternative method of finance, one which is not particularly efficient anyway. What I've done or what is proposed here, is to take this levy or to include this levy, this bond levy, with inside, within the levy limits. Another alternative route we could have gone but which we did not here, is say, okay, you can bond it outside the levy limits but only with the vote of the people. That may, I mean, I'd be happy to discuss that with you. That may be a more appropriate way to do it because in fact, I would argue the way we provide for this sort of funding of an expense that a subdivision believes they need, is to allow that subdivision the opportunity to go to the voters in an override and request the authority to levy outside the lid. So this is an issue that again has come up, I think, relatively recently. It is at variance, I believe, extremely so with the intent in our policy regarding levy lids, so I think we should address it. This is a method to address it. I will just give you some warning that, some people have suggested to me, well, okay, it may be okay to address it but you ought to be respectful or you ought to be careful about somebody that is, or a subdivision that has gone to the, has chosen the route of bonding outside the levy lid. Well, if it's a five year bond or whatever, you don't put that back under the lid immediately. You allow it to go for three years or five years or something like that. That may be something you would consider, although I would caution you. You had a number of subdivisions that I think looked at this sort of an alternative and said, you know, this is possible but it seems inconsistent with the intent of the Legislature and our authority to levy taxes, so we're not going to do it. So if you allow a three or a five or some other time period for people to adjust, I think you've broken faith to some extent with those who simply said, this is not something that we ought to do. So with that, I'll stop and invite your questions. [LB1017]

SENATOR JANSSEN: Any questions? Chris. [LB1017]

SENATOR LANGEMEIER: I've got to ask one. If we were not to allow that three or five year phase back, as I'm going to call it, which you talked about, would that not break faith with those that did it? Or do you think they were just in violation of the intent of the

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Legislature when they did it in the first place so there's no obligation to allow them to keep it outside the levy limit? [LB1017]

SENATOR RAIKES: It is a close call. I think you can argue it either way. You could argue, that look, if it's needed outside the levy lid, then posthaste you initiate a levy override and if that passes, you're in good shape. If it doesn't pass, then it goes back within the levy. I'm not necessarily saying that's a good idea. It's just an idea but I do think, I do think, you're right, you can certainly argue that a subdivision that chose this route can say, well, it was legal. We didn't do something that was counter to what was lawful. On the other hand, I would argue, that I think it was not consistent with the intent of levy lids or the Legislature's actions over the past several years, so it should not be sort of given, you know, an acceptance because of that. Probably there's some sort of a middle ground that we could arrive at. [LB1017]

SENATOR LANGEMEIER: Thank you. [LB1017]

SENATOR JANSSEN: Any other questions? Abbie. [LB1017]

SENATOR CORNETT: Ron, with the rapidly rising costs of healthcare, because it's what we're talking about is the school districts that issue bonds for insurance, am I correct? [LB1017]

SENATOR RAIKES: Well, I think, I don't know the exact components of insurance. It may be healthcare, it may be property and liability, other items. [LB1017]

SENATOR CORNETT: At least the one I understood was healthcare because they were having trouble providing these same benefits to their teachers that they had in the past. How would you propose they do that? [LB1017]

SENATOR RAIKES: My general answer to that question is that we... [LB1017]

SENATOR CORNETT: I mean, I think they're trying to be creative here and trying to maintain health benefits and I don't think it's necessarily the right way either but how do they do that? Particularly if the vote of the people fails, they're going to lose teachers to other districts or... [LB1017]

SENATOR RAIKES: Again, my general approach to that as you can probably guess is that we do our best to correctly reflect needs of school districts in our calculation in the aid formula. And that equalization formula then has growth in it and has adjustments in it to allow for additional students, additional costs, and those sorts of things. Now it may not be what everybody wants but certainly it's a possibility. If it isn't enough, our longstanding policy is that the district, school district if that's what we're talking about, can offer or propose an override to the taxpayers and voters in the district and settle the

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matter that way. In a number, as you know, a number of school districts have done that and have overrides in place. [LB1017]

SENATOR JANSSEN: Chris. [LB1017]

SENATOR LANGEMEIER: Let me ask one Education Committee question since I don't sit on that committee. As I heard in Banking and Insurance Committee last week, all our schools health insurance predominantly comes through one administrator, one company out of Omaha. Would this not be the time to say, hey, we're looking at property tax relief. Let's pay for health insurance for all our teachers statewide by the state and account for it with... [LB1017]

SENATOR RAIKES: I think you can argue that we do. We provide school districts state aid and access to property tax resources and we allow them as school districts and school boards to make the decision as to how those funds are to be used to address the different needs that they have. I think you would run into a lot of flak, and appropriately so, if you said, well, school district, you have this much money and you have to spend this much of it on fuel for your bus, you have to spend this much money of it on health insurance for your teachers or pay for your teachers or whatever it is. We've never done it that way and I think, generally speaking, the way we have done it, has worked pretty well. [LB1017]

SENATOR LANGEMEIER: But I guess what I'm getting at, don't we expect them to use their state aid to pay for health insurance? In some aspect. [LB1017]

SENATOR RAIKES: We expect them to use the funds made available to them, yes, to pay for health insurance, property and liability insurance, workmens' comp or whatever other insurance they have to have, yeah. [LB1017]

SENATOR JANSSEN: Any other questions? I see none. Oh, Abbie, I'm sorry. [LB1017]

SENATOR CORNETT: That brings us back then to why, if they have these funds available, are they using a bonding mechanism to purchase insurance? [LB1017]

SENATOR RAIKES: Well, I think, I suspect we might hear from some folks, you know, to answer that question but basically the monies that are available are being used for other things and so, you know, when you, it's like you do at the, you know, at the household when you add up the wants versus the money, you come up short. [LB1017]

SENATOR JANSSEN: Don't see any other questions, Ron. Thank you. Take proponents first. [LB1017]

JOE ELLIOTT: Mr. Chairman, members of the Revenue Committee, my name is Joe

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Elliott, E-I-I-i-o-t-t. I'm a lobbyist with the Professional Insurance Agents Association of Nebraska. I want to thank Senator Raikes for introducing this bill. It's something that independent agents have been looking at for a long time because we don't feel we're on fair ground in competing for writing of insurance against the pools. Right now, the timing of this bill is very important because we are in a soft market. That means prices are good, they're low. And that's particularly true in the commercial lines and it's true in the insurance for all your public entities that we're talking about here. The city, counties, schools, community schools, so forth, that includes group life in there and group insurance and we have, for example, one of our agents in Kearney took a bid into the city of Kearney for their insurance program. And I think the three, I think it was three years, three years was \$800,000 that they had been paying and this bid, they came in at, Employers Mutual came in at \$500,000. Well, the big question was whether or not the lid was going to prevail and that they would be able to keep the amount of the \$800,000 under the lid and it turned out that that was too much of a savings for them to do that and the city administrator apparently didn't believe in it and so they went with the Employers Mutual Insurance Company out of Des Moines for this coverage. And there were several other companies that also beat the pool bids. I know of Berkshire Hathaway which is, they have a company called Cornhusker Casualty. That one was a lower bid as well. And there was a similar situation in Hastings about two years ago where there was some \$600,000 in premium and I know the insurance agent in Kearney said, you know, we're low bidder on this and we're afraid it's not going to come to us because of the lid exemption. And truly, that's what happened. They didn't get the business. And just within the last, oh, month, I was consulting with one of our agents down in Lincoln on a small community in this general area and it was about a 20, no \$50,000 annual premium and the insurance agency was \$5,000 low. And they didn't get the business because two of the, there's four on the council and two of them voted for it and they lost the business because they were going to use the money and one of the councilmen said something, well, we have certain projects we want to use this for and so forth, and that is another situation. So I'm sure there's many, many other cases that are existing around the state where some companies have even been reluctant to bid because they know they've got to come in with a much lower premium to compete against the lid. The...I try to think of a situation where the pool often advertises the fact that they pay dividends. Well, so do most companies pay dividends. Employers Mutual particularly has a sizable return premium for good experience and that helps them as well. We certainly don't think it's right for the taxpayers if they do an override. That's something else but there's a very competitive situation out there now. I think there's companies I was going to mention that are available for agents to work with now and even as big a company as Travelers, which never would look at business like this. Another one is Hawkeye Security, a new company in the market place. Columbia Casualty is another one and Continental Western. So there's six, seven companies, so I think their entities are in an opportune situation where they can get some competitive quotes and we're talking about companies that do pay income taxes. The pools don't and so there's a tax revenue source there as well. So I think that's my comments and

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we're very interested in seeing this change take place because I think it's fair to the taxpayers and it's fair to a competitive market place. [LB1017]

SENATOR JANSSEN: Thank you, Joe. [LB1017]

JOE ELLIOTT: You bet. [LB1017]

SENATOR JANSSEN: Any questions? I don't see any. Thank you for being here today. [LB1017]

JOE ELLIOTT: Okay. [LB1017]

SENATOR JANSSEN: Next proponent. Any other proponents? Any opponents? [LB1017]

GEORGE ROBERTSON: (Exhibit 2 and 3) Senator Janssen and Revenue Committee, I am George Robertson, R-o-b-e-r-t-s-o-n. I'm superintendent of schools at Mead, Nebraska. And I want to tell you a little bit about why we elected or how we found out about some of these things and why it's important to us. First of all, in the paperwork that's being handed out, there will be a page of graphs and the first graph on that is our state aid graph over the last several years and our second graph is our annual ADM membership, our school enrollment. And as you will see, there's some correlation between the two numbers as our enrollment went up a little bit so did our state aid. As our enrollment went down, so did our state aid but part of our problem was we went in and out of equalization status. Right now we're a nonequalized school district. All the credits that you can put into the state aid formula don't help us because we're a nonequalized school district. Part of the problem with the fluctuation then in enrollment and in the state aid formula, creates a situation for us where it's hard to plan with any consistency for more than one or two years out. And our board has been looking for a way of how we're going to deal with this over, to get some time to actually sit down and think in the long range, five to six years, rather than one or two years. Prior to 19, or excuse me, prior to 2005 our enrollment was pretty steady. After 2006 we predicted it would go down, which it has started to do. And we anticipated losing about \$310,000 in state aid, which we have done. In looking at the time needed for planning, we looked at sharing with a neighboring district, sharing staff, sharing students, sharing programs but when we held our public meetings to talk about the sharing portion of that project, our local patrons indicated they wanted their own school. They didn't want to be somebody else. We had to come up with a way to adjust our programs, our curriculum, and our staffing with fewer dollars. We had to balance rule 10 with the parents expectations and demands for our curriculum. Mead has a history of providing more than what most small schools do in our curriculum offerings. We offer two or three science classes that most class C schools do not offer. We have an ag program that a lot of schools do not offer and up until this last year, we had two ag instructors to help provide that. But one of

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those instructors was a victim of our loss of revenue. We've also exceeded the rule 10 requirements in curriculum offerings because the Mead patrons view education as being very important. We found out, in a meeting that I attended, that there was a tool out there in 44-4317 that would help us maybe deal with this. We also found out that there is other general obligation bonds available to other municipality groups in other units, subdivisions, that they can use without a vote of the people to pass general obligation bonds. And I think there's a, our bond counsel provided a list of those, some of those aren't...there's no way, in any means, all inclusive but there are some of the ones that are not requiring votes of the people to have general obligation bonds. We worked with our attorney to find out, first of all, if this could help us and how it could help us. And what we found was that this tool was amended in 2001 by the Legislature to help subdivisions deal with the spiralling cost of insurance, and they added the health insurance to the list of insurances being able to be used with this statute. We started our process. We determined that our insurance costs would be about equal to our loss of state aid. We also considered the rifting of a staff member and we looked at sharing some staff in addition to just the insurance bonds. We found that the bond insurance, in bonding the insurance premiums actually gave us some stability financially so that we could do some long-range planning for more than one or two years. We ended up rifting one teacher. At this point in time, we're sharing a Spanish teacher. We are looking at additional sharing opportunities with staff and we use the insurance premium bonds to pay for our insurance. In the same time, we're still continuing to look at what will the Mead public schools be in five to six years. When we started working with this, we found out that you didn't need a vote of the people to issue these bonds. That concerned us. We worked with our school attorney, we met with a fiscal agent and bond counsel. We met with Russ Inbody from the Department of Education to work out concerns of how it should flow through the budget. And we decided we needed to involve the public in this, some way, since we weren't going to be taking a vote. We sent out a special letter to all the patrons in our district that outlined what the plan was going to be. So we did this with full public knowledge. We held a public meeting to receive their input. Again, this wasn't a requirement. We wrote an article in our local newsletter after we had the public hearing explaining what the board's next steps would be. After the board meeting, they voted to approve the bonds. Then we had a 30-day wait period after the resolutions were all in the right places for people to object. We published a legal notice so they would have that opportunity. Again, few, if any, of those steps were required in the existing statute. We also realized this was a short-term fix for a short-term problem, not something that would be used long-term. We also realized that others may have the similar needs so we felt it necessary to form the Nebraska Insurance Premium Bonding Corporation to establish a procedure that would involve the public if they were going to try to take these steps. We have eight schools and three service units that have done this. The one major change that we made, instead of having a public meeting, we now...and our guidelines for doing this require them to have a public hearing and do it as a formal hearing rather than as just a public meeting. We relied on attorneys, bond counsel, and fiscal agents for legal advice, fiscal opinions and the authority to use the

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existing statute. Mead has taken a conservative approach through the course of years. The third graph on that is our general fund budget for the last 18 years. We have gone up less than 3.5 percent on average per year. Even though we've had some good increases toward the end here we have been very fiscally responsible. We've had trouble staying within the lids and if you actually look at our current levy, which I don't have graph, it is actually less than it was in 2001, 2002, which was the fourth year of the levy limits. Most of the organizations using these bonds, and you have a list of all of those, we don't want to hide anything. We believe this should be out in the open, the list of the amount that they bonded and what their estimated levies were for that in that spreadsheet that you have. I don't think there's many of those in that group that used the entire authority that we would have been allowed to use under the statute. We elected to use only the health insurance costs. We understood the law allowed all insurance costs. We could have gone for more. We did not. We wanted to be somewhat fiscally responsible to our patrons. We urge you to not advance this out of committee. It's a tool that our elected board has chose to use and if our patrons don't like it, they can take our board members and remove them from office or they can express their opinions at our board meetings, which they have not done. We've had a chance for them to have their input and we wanted the public involved in this. That's why we formed the corporation. Thank you. [LB1017]

SENATOR JANSSEN: Any questions? I don't see any, George. Thank you. [LB1017]

GEORGE ROBERTSON: Thank you. [LB1017]

SENATOR JANSSEN: Any other opponent? Any other opponents? Good afternoon. [LB1017]

AL SCHNEIDER: Senator Janssen, committee members, my name is Al Schneider, I'm the educational service unit administrator at ESU 5 in Beatrice, Nebraska. We chose to elect and to follow the bonding process primarily because we have a major need in the area of technology in the school districts and in the service unit at Beatrice. Most of our schools are extremely small. We have one school district that is about 110 to 120 students, grades K through 12. In the fact that we are small and providing services to small schools, we've been very dependent upon using technology as a method of delivering those services. We created a wide area network about ten years ago that serves a geographic area that is from Omaha on the northeast corner to Henderson, which is on the northwest corner, follows a line down to Deshler on the southwest corner, and back to Falls City on the southeast corner. That takes in about 65 entities that are served through technology. And I only give you that information as background as to what we were wanting to do utilizing the bond fund as a way of doing that. We provide through this wide area network distance learning. Most of the activities that we've been able to do through distance learning has been through federal grant funds. They have not been funds that have come from the state nor the local government

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entity. We support a high band with audio video media service which is a data process of transferring what used to be the VHS format tapes, and we used to send those tapes all over. Now we can do this using the technology to provide that service. We also have very high speeds for use of computers for network services so all of the CPUs that support the school districts, along with the file servers, are all at very high speeds, very costly and they do have a very short life expectancy, unfortunately. Most of them are two to three years, sometimes four depending on what the edge device is that we use but for the most part, they become obsolete either functionally or physically in about three to four years. So to assist the school districts, we used some of the bond fund to assist them with the purchase of some of the equipment that they so much needed. The architecture of this network is such that where, in most cases, the speeds are fairly slow, this system runs on a full gigabit backbone and it has been upgraded to two gigabit to each one of the service units, and we have 100 megabit speeds that go back into each one of the school districts. We've gone to very, very high edge router devices and switches which in turn allows us to do much of what we needed to do for this system. We have created an elementary Spanish program which this bond fund has helped to fund. We also have in operation a program for elementary science which will be delivered using this network, and we're also working on secondary Spanish. The school districts in our area just cannot find elementary or secondary foreign language teachers. This network system will allow us to do that. The board was very, very careful in the process of making this decision. We did this through our superintendent advisory committee, which is all of the school districts that are part of the ESU 5, which is ten school districts. And you know, we did this with very, very careful decision making processes. It wasn't something that we just arbitrarily put into place. We have had three calls related to this bonding process. We had one of our patrons who had questions. After listening to the information, he felt okay about what we had done. We had two calls that were in support and, in fact, one of the calls was to ask where they could purchase the bonds from because they were interested as an investor and being able to hold these bonds. So it was very, very accepted inside of the ESU 5 area. Do you have any questions that... [LB1017]

SENATOR JANSSEN: Any questions? Chris. [LB1017]

SENATOR LANGEMEIER: Thank you for your testimony. And you're in this nice handout that's provided here. You bonded out \$2.265 million. What percent of that might have went to that technology? [LB1017]

AL SCHNEIDER: It will be probably, for the most part, all of it will go into either support for the technology process through staff or it will be equipment that needs to be put in place to do what we're doing. [LB1017]

SENATOR LANGEMEIER: In that...you bonded that with a call date of 2011. Will that technology be obsolete by 2011? Will it be obsolete by the end of this year? [LB1017]

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AL SCHNEIDER: We're really encouraging our schools now to begin to put money back so that they will have funding. As far as the staffing and the creation of the instructional units that we use in the Spanish and the elementary science, those things will not have to be recreated. We'll just have to have staffing to take care of that. [LB1017]

SENATOR LANGEMEIER: I just find the bonding of the technology problematic as, if we don't have the money to buy it today, how do we pay to update it tomorrow? [LB1017]

AL SCHNEIDER: We're encouraging schools to put more back so they'll be able to do that. [LB1017]

SENATOR LANGEMEIER: But we've been told before they don't have enough for health insurance let alone put more back. We're spending everything. We can't save any to upgrade. How do we jump start this archaic system two years from now when it's obsolete. How do we jump start it again? [LB1017]

AL SCHNEIDER: Well, I don't have a specific answer to that. I just know that right now we have a major issue and major problem. [LB1017]

SENATOR LANGEMEIER: Okay. Thank you. [LB1017]

SENATOR JANSSEN: Any other questions? Abbie. [LB1017]

SENATOR CORNETT: Your situation with technology reminds me very much of a bill that I introduced for law enforcement around the state in regards to upgrading on technology. What...because they were not able to afford for upgrades of the technology as they came along, the system they were using has become obsolete and now needs to be completely replaced. How are you paying for upgrades as you go now. [LB1017]

AL SCHNEIDER: As we go now, quite often they go without and we have a number of school districts that, unfortunately, are still working on ten year ago technology. We had a number of schools that have not had enough to use to pay for this and therefore, were using outdated Macintoshes' and in many cases they were using old operating system computers that didn't do what needed to be done. [LB1017]

SENATOR CORNETT: So basically, you can't afford the technology...to upgrade the technology you even have purchased already, correct? [LB1017]

AL SCHNEIDER: Sometimes, in some schools, yes, that's true. [LB1017]

SENATOR CORNETT: Thank you. [LB1017]

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SENATOR JANSSEN: Any other questions? Thank you, sir. [LB1017]

AL SCHNEIDER: Thank you. [LB1017]

SENATOR JANSSEN: Any other opponents? [LB1017]

FRED A. MEYER: (Exhibit 4) Good afternoon, Senator Janssen, Revenue Committee members, my name is Fred Meyer, M-e-y-e-r. I'm a current member of the Tri County Board of Education and served as president the last two years. I will try to explain to you why Tri County used the insurance bonding program and why we are against this bill. The Tri County Board decided to put a three year extension of our 2001 override on the 2006 general election ballot in the fall of 2006. At that time it made sense to us, since it would be of little cost to the district because it was a general election over, rather than holding a special election. Little did we realize that the mood, what the mood of the public was, and what they did at the polls in November. And as I recall, about every proposal, amendment, that was voted on, was voted down. And I think, if I am correct, one of the amendments was to raise your salaries and by the way, I voted for that. (Laughter) Our levy override lost by less than a dozen votes. And as we were discussing what to do at our December board meeting, this insurance bonding program came up with an informational meeting to be held in January at the ESU 5. As we gathered more information about this program through the first part of 2007, it seemed like the right thing to pursue. It's a process that is spread over the first seven months of the year of 2007. It is a lengthy process and it's one we involved our patrons in, as my fellow opponents have spoken, with the two gentlemen that preceded me. We have tried our best to keep our patrons in a loop on this process. We have had it...it started with the informational meeting at the ESU, followed by...it was a discussion item on our monthly board meeting agendas, and we had also a presentation by a bonding agent, and then we had a public hearing in July. And followed by that was the approval or disapproval at the regular board meeting in July. And then at the August meeting then the issuance of, the approval of the issuance of the bonds. Along with this, the, I guess, that the patrons of our district were kept informed of this process. Also we have a school monthly newsletter that goes out which is delivered to them in their mail box. The hearing that we had in July, it was posted well in advance. It was set up in the fine arts auditorium to accommodate a large crowd. No one showed up. No one showed up. Later that same night when we voted for this, it was clear to us that we were doing the right thing. The district also had a bond that was coming off in December, 2007, so that this would not impact our levy request significantly. As it turns out, our levy request, we lowered it from \$1.16 to \$1.13. I have, you have a handout that you can just follow along and take a look at. It'll probably answer some questions you might have for me. We, as a board, have always tried to keep our patrons informed and represent them the best way we know how. We also, as a board, represent the children of our district who have no voting rights but whose lives are impacted by the decisions that the board and the

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patrons of our district that we make. I would like to thank this committee at this time for allowing me to speak today and I'll try to answer any questions you have. [LB1017]

SENATOR JANSSEN: There be any questions? Senator Langemeier. [LB1017]

SENATOR LANGEMEIER: You talked about that vote that went down with all the others. By the way, if everybody voted for the pay raise that has told me they voted for it, it would have passed by 90 percent, but that's beside the point. (Laughter) I find it problematic that you had a vote but we just ruled that vote off as voters had a bad day. And you talked about the patrons of your district and listened to the patrons. I would assume those patrons are the ones you had voting. And we have another issue that comes before us all the time, is we had class one's had a vote and we're all getting chastised as a body, and the introducer of this bill more so than any of us, to honor the vote. And we just overrode a veto on a petition process to honor the vote but yet your school took an opportunity to go without a vote, even though they had a vote that lost. I find that very problematic. [LB1017]

FRED A. MEYER: Well, I can understand that. We also had people that came up after the general election that said if we would have had it at a special election, that they would have voted for it. A lot of people, younger people in our district, are so dissatisfied with the voting process and I'm, you know, I'm very upset by the way and it's just our nation as a whole, that the people that just don't vote. You know, we try our best to get them out to vote but they still do not vote. The people that are against something will come out and vote but the people who are for something, sometimes will not do that. And we just felt that this was not a good reflection of our district because of the negativity of the general election in all its essence. [LB1017]

SENATOR LANGEMEIER: But you didn't want to risk it and have another vote. You didn't want to risk that you might not succeed again and have another vote. [LB1017]

FRED A. MEYER: Well, I don't, you know, at this time we saw this as an opportunity to look at it as a different way but we also saw that it was a lengthy process and they could have stepped in at any time, at any time during the process and told us, no. [LB1017]

SENATOR LANGEMEIER: But if you didn't honor their vote the first time, why would I step up and think they're going to care what I have to think the second time? [LB1017]

FRED A. MEYER: You know, again, I don't know how to answer that question, Senator. All I can say is, we just thought it was a good process to go through. We opened it up to the public in our newsletter. We thought the public was more informed this time with this than they were the last time with our, with where our levy was put in the general election on a ballot. A lot of them had told us that if you would have put it in a special deal, it would have made more sense. They would have come to vote for it but in essence, they

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didn't come to vote because of all the other stuff that was involved on the general election and they didn't even want to be part of the process so. You know, it's a very, it's a good question, Senator. [LB1017]

SENATOR LANGEMEIER: Thank you. [LB1017]

SENATOR JANSSEN: Any other questions? I don't see any. Thank you, Fred, for being here today. [LB1017]

FRED A. MEYER: Thank you. [LB1017]

SENATOR JANSSEN: Any other opponents? [LB1017]

LYNN REX: Senator Janssen, members of the committee, my name is Lynn Rex, R-e-x, representing the League of Nebraska Municipalities. And we strongly oppose this measure but I want to take it from just a little bit different perspective. The League of Nebraska Municipalities has an interlocal agency comprised of 55 cities and villages across the state of Nebraska. That's the League Association Risk Management. This is, this was created. NACO has one, the schools have one, others have them as well. And this was put in play after Senator Landis, after years of effort, passed LB398 to allow pooling. Let me tell you why that happened. That happened because we weren't in a soft market. That happened because the private insurance industry in a cyclical fashion, some times they won't even submit a bid. Scottsbluff, as late as even a few years ago, they couldn't even get anyone to bid and they had not been a LARM member before but the reality is, nobody wants them when you're having dilemmas and problems. The private insurance market is more than happy to come in the front door when, in fact, it's a soft market, when based on whatever the national standards are, it's okay to represent municipalities and try to offer them insurance. But when the hard market hits, we have cities that are not renewed, cities that have increases that are astronomical. One of them that comes to mind is a city of first class that had over 800 percentage increase in premium with less coverage. I'm glad that Mr. Elliott brought the Kearney example forward because insurance agent after insurance agent has made a decision to talk about Kearney, and how basically the private market saved them so much money. In fact I was there the night that Kearney made that decision. They were a LARM member. We regret that they decided to go into the private market but they had some other reasons for doing that but it wasn't money. I don't know if it was keeping it local. I don't know what it was but that night the private insurance industry put up the numbers of basically the pool charging \$800,000 roughly and they're coming in at \$500,000. Well, I was there, others were there representing the League Association Risk Management and asked the Kearney city council to wait two days so the LARM board could make it's decision. As an interlocal agency, we're subject to the Public Records Law, the Open Meetings Act, everything is done in open. It's not like a private company. We don't go behind closed doors and make decisions. Everything is in the

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open. But they had, their meeting was two days later. And had Kearney decided to wait two days, they would have found out that they would have saved more money than by going with the private insurance market but at that time they weren't prepared to do that. But the bottom line in all of this is, frankly, number one, I'm unaware of any city or village that has issued bonds to pay for their risk management cost of being part of the League Association Risk Management, and we have saved municipalities across the state hundreds of millions of dollars. We don't have bonuses to pay corporate execs, we don't have, we don't worry about basically whether or not we're going to get a rate of return on the investment, other than the investment from the pool itself. We are regulated by the Department of Insurance but at the end of the day, what we know is that any day of the week we would be happy to make a deal with the private insurance industry that we literally have a sealed bid and whoever is lowest, that's who the city goes with because nine times out of ten we beat them every time. But they don't want to agree to that. Why? Because most of the time, they're higher than we are and right now, as Mr. Elliott said, we are in a soft market. They're out everywhere. They went to Scottsbluff this year and said, we're willing to take you now. And the Scottsbluff city council said, where were you five years ago when we needed you? So bottom line is, the reason why we oppose this measure, and strongly oppose it, is basically because of the provisions on page 2 basically saying that it's outside the levy. When Senator Landis put this in play, along with the, obviously the other colleagues that were in the Legislature at that time, the whole context of this was, let's save money. Very simple concept. The broader the base, the more you can negotiate because we have to buy reinsurance. We have to go through that whole process. And even in Kearney, by the way, the private insurance consultant indicated that the coverages offered by the League Association Risk Management were superior to those offered by the private insurance industry because everything is tailored for municipal governments. Hastings is a member. Other cities are too. We don't market this because it's outside the levy but again, I don't know of anybody that's ever issued a bond for the purposes of being a member of LARM. Matter of fact, I would almost say, I'm certain that they haven't. So our concern is though, that there's a reason, there's an incentive here to have it outside the levy. Over 240 of our members are up against the levy limit right now and so our concern is not the issuing the bond part or not, our concern is simply making sure that that, that we basically have the authority to go outside the levy to participate in these sorts of things. And we have members, they're very concerned about these efforts. With respect to bond issues, there's no question, cities have issued bonds for any number of purposes too. I can't comment on how they structured this system. I'm unaware of how the schools have structured this system so I can't comment on that in particular. But we've had...the city of Hastings, you may remember, Senator Burling, issued bonds to pay off a huge unfunded liability on their police pension system several years ago. I mean, so cities issue bonds and they went to a vote of the people on that but there are several opportunities for...but we just think this is a bad bill for government because we do think you need to have stability of rates. Our cities simply could not withstand, Fremont is a member, a lot of cities in the state are and we simply could not withstand

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the wide swings. So again, we hope that you kill this bill and address it in a different fashion if there are really concerns about bonding or other kinds of issues relative to that. [LB1017]

SENATOR JANSSEN: Abbie. [LB1017]

SENATOR CORNETT: This is just a quick question and it doesn't really have to do with the bill. When you said that the bids are not sealed, aren't most bids accepted by cities for other projects sealed bids? [LB1017]

LYNN REX: If it is a, if it's a project, yes. If it's for personal services, no. So, we'd love to have that. (Laugh) We'd love to have that. [LB1017]

SENATOR CORNETT: I thought they were sealed bids. Thank you. [LB1017]

LYNN REX: We'd take low bid any day based on comparable coverages. [LB1017]

SENATOR JANSSEN: Any other questions? I don't see any. Thank you, Lynn. [LB1017]

LYNN REX: Thank you very much. Appreciate your time. [LB1017]

SENATOR JANSSEN: You bet. Any other opponents, please? Any opponents? Don't see any. Anyone in a neutral position? Seeing none, that ends the hearing. Ron to close and open on LB1080. [LB1017]

SENATOR RAIKES: I'll make up the ground on proponents on my next bill. (Laughter) Thank you, Chairman Janssen. I would like to thank the people who came to testify. You know, the, George Robertson, Al Schneider, I know for a fact, do a great job. And the board member from Tri County I certainly commend him and the board for their efforts as well. I think, I'm going to have to do some digging but I think I somehow stepped into a crossfire between the League of Municipalities and the private insurance industry some way. I'm not sure how I got there or that this bill really affects or is intended to affect what they do. But this is clearly a case where, maybe not clearly, but I'm going to interpret this as a case where with these kinds of opponents, I don't need proponents. If you look at the information handed out and I would think, we've got one school district that is levying over 20 cents, 20 cents outside or at least potentially outside the lid. We've got a couple more that are 13.5. We've got one ESU that's levying 2.6 when their levy lid is a cent and a half. This is remarkable. There's no way, in my view in good conscience, we can condone this. If we're going to do this, then we need to drastically change a whole lot we do with levy lids and so on. Just a couple of points and I'm, you know, thinking about George Robertson's situation. He has a tough situation. But he absolutely described the situation where if you need extra levy authority when you got that kind of community support, you go for an override, and you

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do it above board, everybody knows, you take the vote, and you proceed accordingly. Now the folks in Tri County tried that and it didn't work. I don't see how you can say, well, you voted but the wrong people voted or they didn't vote the right way so therefore, we're going to ignore the vote. And particularly for us to condone that, that doesn't make any sense. With AI Schneider in ESU 5, they do a great job on technology. This is insurance. This is insurance. And ESUs, I think, quite often in the state charge school districts fees for the services provided and certainly if those school districts are using lots of distance education to justification for that, is they can do that for a lot less money than they can position teachers directly in a classroom in a school building. So those school districts presumably would have the ability to pay for this more efficient delivery of, I think, in their case at least, a very high quality service. So again, I...this is something that, at least in my opinion, we need to address. I hope I've made that clear. [LB1017]

SENATOR JANSSEN: Questions? I see none. Okay. Ron, go on to the next bill, LB1080. [LB1017]

SENATOR RAIKES: Senator Janssen, members of the Revenue Committee, Ron Raikes, District 25, here to introduce LB1080. LB1080 pursues the same topic, and let me background it as follows. Maybe some of you are recently aware of, and maybe not, how we do levies for school districts. We have a 95 cent levy which we equalize to. The levy cap is \$1.05. There's a 10 cent difference. The 10 cent difference is a nonequalized levy authority available to school districts. Meaning, for example, that if we have a school district that has lots of valuation, particularly lots of valuation per student, they can use that 10 cents levy to levy quite a bit of money. One, that was on the other end of the scale in terms of valuation, would not be so fortunate. They could levy a lot and really not collect a whole lot of money. But at any rate, that's what we do. Why is there 10 cents between the cap and the local effort rate? Well, as folklore would have it, there's at least a couple three reasons. One of them is, that when we charge school districts in the state aid formula for a resource base, we use adjusted valuation. Valuation that's brought up to 100 percent of market value. As you know, not all assessors in all counties covering all school districts do the same job, and in many instances the amount actually assessed is less than that. So school districts are charged with being able to assess 100 percent of market value in the aid formula but in fact, they may be able to actually assess something less than that. Now TERC is working, not a whole lot less, but less. So that's part of that gap. There's also a gap in there to provide school districts an opportunity to do building fund or repairs and maintenance on their buildings, which is not part of the equalized operating expense at the 95 cent level. A third category often mentioned is, other. Other particular circumstance that a school system, may. So we have, we have the assessment practices in that gap. We also have building funds. My concern here is that we also have, like we did and we find out with insurance, we had opportunities for school districts to levy outside the lid with bonds for other projects, oh, one of them is called

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QCPUF. I hope you won't ask me to actually spell out that acronym but there's an opportunity for a 5 cent, up to 5.2 cents, I believe, levy authority outside the levy lid. Again, not voter approved, it's a bond, so it's not voter approved. It's outside the levy lid. This proposal in a nutshell is to say, okay, here's what's going to happen. Rather than have these varying amounts of levying outside the lid, we're going to grant school districts another 2 cents from \$1.05 to \$1.07 to levy to cover, and actually what we're saying in here, they've got 2 cents more levy authority. They got to use 5 cents of that for building funds but there is no more outside the levy lid. So \$1.07 is it. You got to use a nickel of it to do your special building fund but that's it. So that's the proposition here. I think it's something we need to address. We've again, you know, if you, I don't want to overburden this but you've got 95 cent levy that's equalized, you've got another dime that's not, and now with, for example, the qualified whatever, Q whatever, you've got another 5.2 cents, it's similar. So you're getting up to 15 cents over and above, it's a nonequalized value available to school districts. I'm saying, let's give them a little bit more room but then cap it and not do anymore outside the levy limit. [LB1080]

SENATOR JANSSEN: Tom. [LB1080]

SENATOR WHITE: Would that include, for example, the bonding thing that we just heard? [LB1080]

SENATOR RAIKES: Yes, any bonds. [LB1080]

SENATOR WHITE: So this bill kind of does the same thing the previous bill would do and more. [LB1080]

SENATOR RAIKES: You could...yeah, certainly, that would be the case. You could also...if you increase the levy authority 2 cents and you could have the other bill which says that, okay, you can bond insurance if you want to but it has to be within the levy limit. [LB1080]

SENATOR WHITE: How many school districts in the state right now would be beyond, on everything inside the limit or outside the limit, \$1.07? [LB1080]

SENATOR RAIKES: Quite a few. I think there are 60, well, although, let me back up. It's a good question. I don't have the answer off the top of my head. I think there's 60 that use the QCPUF. Whether they use is all of it or not, I don't know. But that's the ADA, asbestos, mold, we had something about every year in the category. [LB1080]

SENATOR WHITE: How about interlocal agreements? Would they be pulled into this as well? [LB1080]

SENATOR RAIKES: Well, right now school districts don't get additional levy authority for

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interlocals. [LB1080]

SENATOR WHITE: So it wouldn't affect those. [LB1080]

SENATOR RAIKES: They get additional budget authority but I got another idea for you on that one. (Laughter) [LB1080]

SENATOR JANSSEN: Ron, could this help you in any way with new buildings? [LB1080]

SENATOR RAIKES: Well, building funds...school districts vary in their philosophies on new buildings and equipping those buildings. Some of them will bond for both the building and the contents, the equipment. Others don't. Others use building fund which now has to be inside the levy lid. They use the building fund to buy the desks and chairs and whatever else they need to equip the building. In terms of a capital project, I don't think there's any, there's a prohibition from using money inside the levy lid to build buildings. Although, I think, and I need to be corrected on this, I think if you're going to bond it, a lot of bond counsel would be iffy about bonding something within a levy lid. [LB1080]

SENATOR JANSSEN: Because of the risk of it going away? [LB1080]

SENATOR RAIKES: Probably. It getting crowded out by other expenditures. [LB1080]

SENATOR JANSSEN: Or other legislation. [LB1080]

SENATOR RAIKES: Yeah. Yeah, that too. [LB1080]

SENATOR JANSSEN: Okay. All right. I was just thinking about districts that are having a terrible time passing an expansion bond, you know, and historically stay within the \$1.05 and below it. [LB1080]

SENATOR RAIKES: I might dig up some...that's kind of an interesting thing. You have, certainly, some parts of the state, the metro area for example, most every school district has bond issues. If you go to outstate, greater Nebraska, I would almost say most of them don't. Most of them... [LB1080]

SENATOR JANSSEN: There are a few. [LB1080]

SENATOR RAIKES: Yeah, there are some that do. But almost half, I think, do not. [LB1080]

SENATOR JANSSEN: Okay. Carroll. [LB1080]

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SENATOR BURLING: Thank you, Senator Raikes. Did I hear you say that the basic intent of this bill was to raise the levy limit 2 cents and then eliminate the bonded indebtedness that was not voter approved? [LB1080]

SENATOR RAIKES: Yes. Bonds outside the levy lid, yes. [LB1080]

SENATOR BURLING: Any grandfathering here or they'd all have to come back in the corral when this bill passed? [LB1080]

SENATOR RAIKES: That's a good question. I think that...I'll have to look a little more carefully. It slipped my mind what we've actually done in terms of allowing but certainly if you've got a bond in place, you'd have to let that play out. [LB1080]

SENATOR BURLING: Okay, or I'll give you the weekend to decide. [LB1080]

SENATOR RAIKES: Thank you. [LB1080]

SENATOR BURLING: You're welcome. (Laugh) [LB1080]

SENATOR JANSSEN: Any other questions? I don't see any. Thanks, Ron. Do we have proponents? Any of those in favor? Any opponents? Any neutral? Ron, do you want to close? Close and open on your next bill? You didn't draw a very big crowd on this one. [LB1080]

SENATOR RAIKES: If I close with proponent testimony, do I count as a pro... [LB1080]

SENATOR JANSSEN: No. (Laughter) [LB1080]

SENATOR RAIKES: Oh, okay. I think I've gone enough on that. The next bill is... [LB1080]

SENATOR JANSSEN: LB1081. [LB1081]

SENATOR RAIKES: Okay. Senator Janssen, members of the Revenue Committee, Ron Raikes, District 25, here to introduce LB1081, and LB1081 is actually a little bit different issue and idea. LB1081 proposes an alternative method of allocating budget authority to educational service units and in LB988, which is in the Education Committee, a similar method procedure is used for determining budget authority for school districts. In the case of LB1081 and ESUs, we passed, as you remember, last year, LB603. LB603 created basically an equalization formula for funding ESUs throughout the state. As a part of that process, there is a needs calculation for ESUs and it's based on a number of items. By the way, I do have some...I have a letter of

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support here in case... (Laughter) Why would that draw laughter? (Laughter) [LB1081]

SENATOR WHITE: We just wondered if your mother wrote it. (Laughter) [LB1081]

SENATOR RAIKES: (Exhibit 5) She didn't sign it though. In LB603 there's a needs calculation which is based on a number of characteristics of ESUs in the areas they serve, sparsity, distance, satellite offices, and so on. The important point is, that we come up with a needs calculation for each ESU. This proposes that budget authority or the spending lid under that ESU is set at 110 percent of that needs calculation. We do a similar thing in LB988 for school districts. Here's the needs calculation, here's the budget authority to go along with it. That is a significant change from what we've done in the past. As you may know, what we've done in the past, particularly I'll give you the example of school districts. You've got the budget authority this year, you're allowed to increase it 2.5 percent or the basic allowable growth rate if the board votes by a, what is it, super majority, then you can add an extra 1 percent to that budget authority. We have subdivisions, particularly school districts, and probably ESUs, where they've refused to do that. And in the case of school districts, we have a situation where, because of increasing enrollment or changing demographics in the enrollments or whatever, you end up with a situation where the needs, the dollar amount required to operate that school district, is more than the spending authority. So in effect, what the state is saying, the school district or the political subdivision, you really need to spend this amount of money in order to do the functions that you're supposed to do and oh, by the way, you can't spend that much because you don't have enough budget authority. So what this says is makes, I think, the logical tie between the needs calculation and the budget authority. In the case of ESUs, we're saying 110 percent of that needs calculation or and this is the transition, or whatever they have now. So that there, at least in the transition period you can't lose. You've got the budget authority you have now or 110 percent of needs, whichever is greater. [LB1081]

SENATOR LANGEMEIER: Are you done? Are there any questions? Senator White. [LB1081]

SENATOR WHITE: Thank you. I have a question. How do you calculate needs calculation as opposed to budget authority? How does that happen to have broken up anyway? [LB1081]

SENATOR RAIKES: We do that as a part of the formula that is now imbedded in state statute to fund, to fund ESUs. [LB1081]

SENATOR WHITE: So the needs base is in that statute? [LB1081]

SENATOR RAIKES: Yes. [LB1081]

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SENATOR WHITE: But a different statute controls the formula base. A different, an underbudget base is controlled by growth, things like that. [LB1081]

SENATOR RAIKES: Well, the historical, yeah. The way we've done it historically, you're right. You...it was spelled out in statute that you've got a certain budget base and you're allowed to expand that budget base in school districts and I'm not sure about ESUs. But in school districts you had the 2.5 percent basic, you had the 1 percent voted upon and then if you were a low spending district, there was, I've forgotten exactly the term for it, but you got some extra budget authority to allow you to catch up with the pack, so to speak. But that is what is currently in statute. This would replace it by making the budget authority a percentage of the needs calculation. Hundred and ten percent for ESUs. [LB1081]

SENATOR WHITE: Got it. [LB1081]

SENATOR LANGEMEIER: Are there any other questions? Seeing none, thank you. Proponents? Before he starts, we will recognize we did get a handout here from ESUs 16 administrator and the ESU #16 board of directors. Go ahead. [LB1081]

WAYNE BELL: (Exhibit 6) Well, good afternoon, members of the Revenue Committee, my name is Wayne Bell. I am administrator of Educational Service Unit 10 located in Kearney, Nebraska, and I'm here to speak in behalf of the ESU groups across the state who are affected by this bill. I tell Senator Raikes I'm in strange waters. I speak in support of him today and wholeheartedly. Little did the ESUs realize last year when the Legislature passed LB603 that the positive changes made in the core service appropriation fund would cause ESUs a fiscal challenge. The formula change is very much appreciated and will benefit the ESU programs of service across the state beginning this year. The challenge for us came when it was discovered that the legislated formula increases could not be fully realized due to the current lid restrictions in the budget document. Seven of the 17 service units found that change was needed to access all available funds. Senator Raikes graciously drafted this legislation which allows ESUs the flexibility and the leeway to receive the funds already allocated to our institutions by the new funding formula. The ability to exceed the budgeted restricted funds by 110 percent or access the unused budget authority in the present budget document is an important piece in this revenue process. We thank you for your consideration of LB1081 and do support it, and its passage would be very much appreciated. [LB1081]

SENATOR LANGEMEIER: Thank you. Are there any questions? Seeing no questions, thank you very much. [LB1081]

WAYNE BELL: You're welcome. [LB1081]

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SENATOR LANGEMEIER: Further proponents? Seeing no proponent, opponents? Anyone? Seeing none, anybody in neutral testimony? Seeing none. Senator Raikes, you're recognized to close, and with that I turn it back to our Chairman too. He waives closing. That concludes the hearing on LB1081. [LB1081]

SENATOR JANSSEN: Senator Hudkins is here to open on LB1098, the last bill for the day. Senator Hudkins. [LB1098]

SENATOR HUDKINS: Thank you. [LB1098]

SENATOR JANSSEN: They hurried up as soon as you left, Carol, and then you were sitting waiting for us and all of a sudden... [LB1098]

SENATOR HUDKINS: Well, I was just hoping you'd take pity on me because you all have to stay for the whole afternoon. I wouldn't have had to but that's okay. [LB1098]

SENATOR JANSSEN: Well, it's your last bill. (Laughter) [LB1098]

SENATOR HUDKINS: (Exhibits 7, 8, 9 and 10) I have some handouts. I would like these read into the record. One is from the Gordon Rural Fire Protection...I should start over again. Senator Janssen and members of the Revenue Committee. My name is Carol Hudkins, H-u-d-k-i-n-s, and I represent the 21st District. I have some handouts that I would like put into the record. One if from Myron Paul, who is the secretary treasurer of the Gordon Rural Fire Protection District. One is from Jack Andersen. He's connected with the fire department. I'm sorry, I don't remember which county but it's Lakeside, Nebraska. The Cheyenne County Board of Commissioners signed by Harold Winkelman, Chairman and two other members. There's also, after you decide to advance this bill, there is an amendment that changes the date. All right. Senator Janssen, thank you very much. This legislation, LB1098, if passed, would be a huge benefit to fire protection districts in Nebraska. And I thought it would be helpful to provide you with some background information as to why this bill is before you, and also provide you with examples of the negative impact that the current law has on fire protection districts and volunteer fire fighters and volunteer rescue personnel serving in those negatively impacted fire districts. So first the background. LB1114 passed in 1996, which became effective in 1998, placed new constraints on local government finances. The 1996 legislation placed levy limits on seven categories of local governments and required all other political subdivisions to be allocated taxing authority by either cities or counties. So generally speaking, the entity, which created the political subdivision or assented to its creation, is the entity which is responsible for allocating the levy authority. Fire districts were authorized to be created by county boards so counties are responsible for allocating levy authority to rural and suburban fire districts. According to Section 77-3443, counties may allocate up to 15 cents of levy authority to all miscellaneous political subdivisions. And this is, for some reason, called the funnel

group. What that includes are fire districts, ag societies, airport authorities, and hospitals. So the funnel group may be allocated up to 15 percent of the levy authority, which are subject to county allocation. Therefore, with the passage of LB1114 from 1998, county boards were authorized but they were not required to allocate amounts of taxing authority to the group based on local priorities. Unfortunately, the law does not require counties to fund any districts in this group. The law was specifically designed to grant county boards flexibility to determine the priorities of the county first and foremost, and then determine the priorities of those districts in the funnel group, and then fund them to the extent that there is levy authority available to allocate, if any. The next point I'm going to make is critical. Any funds that a county allocates to a district, to the district of the funnel group is subtracted from the county's own capacity to pay for county services. As a result, a county may require the entire 30 cents of levy authority or 35 cents if the county maximizes the interlocal levy to fund its own operation, and may choose to reduce the levies allocated to the districts in the funnel group rather than cut the counties own operations. Since LB1114 became effective in 1998, some counties have completely obliterated the taxing requests of fire districts. Why? Emergency fire protection districts and emergency medical services are absolutely necessary in each and every part of the state. However, if the counties are up against their levying authority for funding the counties own operation, some counties have refused to provide its fire districts with any levy authority. And what they're doing is assuming that the citizens of the county will recognize that fire suppression services and emergency medical services are critical. And so, therefore, the citizens would support a vote to allocate levy authority to the fire protection districts. There would have to be a vote. However, when a fire district is forced to go to a vote, either through a town hall meeting or a regular election, the burden for promoting the levy falls on the volunteer departments that are serving in the county. The volunteer fire departments and rescue squads have to conduct the informational meetings. They have to go door to door to solicit support. They take out the ads in the local papers or radio stations and do everything in their power to educate the citizens on the reasons why the vote is essential to continue with emergency fire and medical services, and why the county left the fire protection district holding the bag with no levying authority whatsoever. This is exactly what happened to Perkins County in approximately 2002. The Perkins County commissioners determined that the county would need to retain its entire levy amounts to fund the counties operations. Fire districts were left completely out of the counties budget allocation. The Grant Suburban Fire Protection Board decided to conduct an election which would establish a maximum levy for the fire protection district for a period of five years. The members of the volunteer fire department in Grant participated in public meetings in order to advise the public of the dire circumstances placed on the fire protection district by the county board. Correspondence was mailed to each registered voter residing in the fire district. The members of the volunteer fire department obtained newspaper coverage to advocate the need to vote for a separate levy for the fire protection district. They spent approximately \$2,000 in order to raise \$80,000. The individual members of the volunteer department in Grant contributed an average of 13 hours per member in an

attempt to educate the citizens in their fire district of the critical need to vote to support the five-year levy authority. This additional manpower used to educate the public was, in addition to the hours of responding to emergencies, fire and rescue, and the hours of training already donated by each of the members. So not only was each member of the department contributing time for responding to emergencies and participating in training, they also had to use their own time to try to establish support to create levy authority for the fire district, all for the good of the people in the fire district. This vote was taken in 2002. It was for five years. That brings us to 2007 and they are going to be doing this again because the county isn't giving them any authority to levy. In another situation, the Sheridan County Board of Commissioners was squeezed so badly in funding its own operations that the county only had 1 cent of levy authority to fund the annual budgets of the fire districts. This levy authority was obviously insufficient. Two of the counties four fire districts had to go to a separate vote to obtain a sufficient amount of tax levy to support their operations. It looks as if the two remaining fire districts in Sheridan County will be forced to go to a vote of the people this spring. These consequences, though perhaps unintended, have created huge burdens on counties fire districts and members of volunteer departments in the state. I would ask your consideration of this bill and would answer any questions that you may have but there are others behind me who can answer the more technical questions. Before I said that there were several other counties in the same dire straights as Grant and Sheridan. They include Franklin, Morrill, Deuel, Nuckolls, Webster, and I think there's a couple more. So that's my story and I'm sticking to it. [LB1098]

SENATOR JANSSEN: Any questions? Chris. [LB1098]

SENATOR LANGEMEIER: We're on a roll here so I'll keep this short. Carol, I should say, Senator Hudkins, my concern is, is if the local counties and the...we all hear of this local control issue. And if the local people in the local counties aren't communicating enough to get this passed but yet you want us, from a state mandate, which I argue we don't know to the detail of what these counties are doing with their money but we want to mandate they just give them money. Yes, no? [LB1098]

SENATOR HUDKINS: Probably, because the counties are saying, we need all of the money that we are entitled to have for our own operations. So you fire departments out there, you just figure out a way to get your own money and, you know, we all realize how important the volunteer fire firefighters and rescue squads are. So those people have to take their own time to educate the public that the county isn't giving us any money. We've got to do all of the educating. We've got to do all of the radio and advertising that we need to do. We have to take our time to convince you that you really should vote for this available, or the authority on our part to raise the money. [LB1098]

SENATOR LANGEMEIER: Okay. [LB1098]

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SENATOR WHITE: Carol, were you aware that Urban Affairs put out a bill that will allow fire and rescue to charge for ER, bill for ER ambulance runs and use the money for recruitment and retention? [LB1098]

SENATOR HUDKINS: Senator White, I was not aware of that. I can see just right off the bat one problem in charging. Malcolm, and this has happened, Malcolm Fire and Rescue is a very well trained, very proficient department. There...well, there's been more than one case but I'll talk about one. There was a case of one individual who was working, doing some repair work on the sewer system repair, not, what you call it, the water treatment system. He fell off the roof and, of course, the 911 call went in and the Malcolm Fire Department were there just in a couple of minutes and they got him, were transporting him to Lincoln. They were met somewhere along the way between Malcolm and the hospital by a Lincoln rescue squad. They transferred him from one truck to another. This particular, the second rescue people removed the neck collar that Malcolm's people had put on him. They put on their own neck collar and then finished the transport. Now anybody who has ever been on a volunteer rescue squad knows, you do not mess with a neck collar when there's an injury. That's what happened. Now whose going to pay for that? Is he going to have to pay twice? Is he going to pay the Malcolm people? Is he going to pay the Lincoln people? I don't know. [LB1098]

SENATOR WHITE: So you think we shouldn't give them their money then? [LB1098]

SENATOR HUDKINS: That's up to you. [LB1098]

SENATOR WHITE: Okay. Thank you. [LB1098]

SENATOR JANSSEN: Any other questions? Carol, what about fire districts that go across county lines? Say they're in...this fire district, half of it is in Washington County and the other half is in Dodge County. How would that work in between counties? [LB1098]

SENATOR HUDKINS: And Senator, I don't know. There's someone behind me that can answer this question so I would, if you don't mind, defer to them. And again, in the case of Malcolm and Raymond volunteer departments, they are responsible for anything at Branched Oak Lake, which is north of Malcolm. They are responsible...Malcolm is responsible for Pawnee Lake, which is south of town, and they are also responsible for a certain segment of interstate. So they are... [LB1098]

SENATOR JANSSEN: Pretty busy. [LB1098]

SENATOR HUDKINS: Yeah, they sure are. They're providing their services for people who are not local residents and are not getting the necessary funding to do that. [LB1098]

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SENATOR JANSSEN: Okay. All right. I don't see any other questions. Are you going to stick around and close? [LB1098]

SENATOR HUDKINS: Okay. Thank you. I'll stay, yes. [LB1098]

SENATOR JANSSEN: Sure. Okay. Take proponents first. [LB1098]

JAMES EGR: Good afternoon, Senators, my name is Jim Egr. I am one of the professional liars in Senator Langemeier's district or otherwise, a lawyer. (Laughter) And I have been legal counsel for the, no offense to the counsel, been legal counsel for the Nebraska State Volunteer Firefighters Association for over 30 years. And in that process, I travel around the state doing seminars with rural fire protection districts with volunteer fire departments. I have taught a class for over 25 years at the State Fire School and do an article every month for the association paper, and so forth. Just wanted to give you that kind of background. I've probably spoken in every one of your particular districts at one point in time or another over the years, even in Omaha because of Tri-Mutual Aid, and so forth. By and large, I have found in dealing with rural fire protection districts, and they really don't have anybody other than this association that really takes an interest in them. They don't come under the League of Municipalities. They don't come under the Association for County Officials or anything else. By and large, rural fire protection districts have been very conservative. When they needed money, they raised the money. And once they, you know, got their things taken care of, what they needed taken care of, they brought it down, and so forth. With the change in the law where now they have to be at the mercy of the county boards and Senator Hudkins brought that out, it's getting more and more difficult. We're seeing more and more counties saying, well, our fuel prices are going up, our insurance rates are going up. People are not going to not vote for fire and rescue protection so we'll just cut down what they need. If they need extra monies as a rural district, they can go to the vote of the people. Except it's falling not upon the shoulders of the rural district but the volunteer fire department people who are already giving up time, their bodies, family and everything to provide the services. One example that happened in Perkins County, and I'm having a senior moment right now, excuse me, for the district, that part of the district that was in Perkins County, the people were very upset that the county board did not give them, give any money to the rural districts. So what the people did, they wanted to send a message to the county board. They went to a ballot vote and that district voted not to give any levy to the district. So here the district is sitting with no money to operate. They called me up. I looked at the statutes and I said, well, you can only go through a vote, a ballot vote once every 12 months but there's a side angle there and that's the town hall meeting. So they went through the town hall meeting, got the money raised for the one year and got the information out to the people. But the ones who end up doing the work and so forth, is the volunteer fire departments. By and large, your rural boards, I have found, are very conservative. Usually your rural board members are

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probably some of the bigger landowners in that rural district in there, and they don't like to pay taxes any more than anybody else does. And I know that's a big button that affects everybody is real estate taxes throughout the state of Nebraska. However, I believe that historically the rural boards have shown that they are conservative, that they're not going to abuse their discretion. I think that by including them in this so-called funnel group, and that's what they've been called, it takes away their ability to act. And I know you're going to say, I know you had four other, four or five other people ahead of us today that said, well, we, our things are important also and so we need to be exempted from there also. But I think historically, rural districts have shown that they can handle the situation without a problem. I'll take any kind of questions and be happy to answer them. Yes, Senator. [LB1098]

SENATOR JANSSEN: Senator Cornett. [LB1098]

SENATOR CORNETT: This isn't really to do with this bill per se but It is germane to another discussion we are apparently going to be having Monday morning on the floor. How does the Bellevue Fire Department handle the Good Luck Fire District? [LB1098]

JAMES EGR: That, I have to be honest with you, Senator... [LB1098]

SENATOR CORNETT: It is a rural fire district, correct? And they collect... [LB1098]

JAMES EGR: It is, correct. What I understand, and I don't do work for the Bellevue Rural Fire Protection District or for the Bellevue volunteer fire department, what my understanding has been is they have a contract with them. [LB1098]

SENATOR CORNETT: They have a contract with the city of Bellevue to provide field (phonetic) service. [LB1098]

JAMES EGR: I think that the Good Luck, that district, I believe they have a contract with them. I could be wrong. I don't do any work for them from that standpoint. I do work for Scottbluff Rural Fire Protection District, Superior, Fort Calhoun, Valentine, Kearney... [LB1098]

SENATOR CORNETT: Do the rural fire districts collect squad fees and fees for service? [LB1098]

JAMES EGR: It depends. In most areas the Rural Fire Protection District letterhead is used in sending the billing out on emergency medical services and they have passed a resolution that says, we will allow the billings. This is how we're going to do the billings. The monies will then be used by the department in training, vaccinations, in replacing equipment and so forth. And at least, and that's been advice I have given. [LB1098]

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SENATOR CORNETT: That money goes back basically into the fire department's budget though. [LB1098]

JAMES EGR: That's correct. [LB1098]

SENATOR CORNETT: All right. Thank you. [LB1098]

JAMES EGR: That's correct. And the money stays there for those kinds of purposes and of course the rural district is a single purpose body. They exist unlike a city or a village... [LB1098]

SENATOR CORNETT: Correct. They're separate. [LB1098]

JAMES EGR: They exist for fire and rescue protection. [LB1098]

SENATOR CORNETT: Yes, I understand how they're set up but I was wondering how they support themselves other than through the board, through service, through squad fees, service fees. [LB1098]

JAMES EGR: That's correct. That's correct. And they get donations, yeah. They get donations. [LB1098]

SENATOR JANSSEN: Any other questions? Senator Langemeier. [LB1098]

SENATOR LANGEMEIER: One more quick question. I've heard in the testimony a lot about going to the vote is expensive because you've got to advertise and whose going to pay for that and...what if this bill doesn't advance, and I'm not speaking for anybody because I have no idea how I stand here but what if we made the county say, okay, they've got to put up \$5,000 for advertising for these kind of votes? [LB1098]

JAMES EGR: My concern is, those counties already who have not given the districts any money all have taken the position, we will generate. If we get full control of the 15 cents, that amount that we're going to have to pay as a county is insignificant compared to what we're going to be able to raise to keep our county going. I don't know if that answers your...I don't know, I don't believe that that's going to make any difference to the counties. [LB1098]

SENATOR LANGEMEIER: I wasn't so concerned about the counties. I was thinking more for the fire departments to have the money to run the votes. Wouldn't that demonstrate to the county that there is support for counties if they get voted over by the people? [LB1098]

JAMES EGR: Well, the people... [LB1098]

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SENATOR LANGEMEIER: Or do you think they would ignore that like we've heard earlier today? [LB1098]

JAMES EGR: I think they're going to ignore that because that's not affecting the county, in my opinion, on there. The counties saying, look, you people want to raise your own taxes, you raise your own taxes. We're not going to allocate any monies out there. [LB1098]

SENATOR LANGEMEIER: But what if we took that vote out of their 15 cents? [LB1098]

JAMES EGR: I don't think in relate...I would say that that figure is not significant enough to have an effect on them. You got... [LB1098]

SENATOR LANGEMEIER: But it's significant they won't give you 5 cents. If you run a vote and you get the 5 cents through a vote, and that comes out of theirs, that wouldn't be significant? [LB1098]

JAMES EGR: Depending upon the valuation on the district, Senator, which you could...I mean, you've got some districts that have a \$80,000 budget, \$125,000 budget because the amount of valuation they have. If they get 4.5 cents that would generate that kind of money, depending upon the valuation. And if the county takes that away and uses it for their operations, I don't think that saying, you know, we're going to make, we will be the ones that take care of the vote on that and the cost of the vote. Sure, they will when you can get \$80,000 into your budget as a county. [LB1098]

SENATOR LANGEMEIER: I think we're on two different tangents but thank you. [LB1098]

JAMES EGR: Okay. Okay, I'm sorry. [LB1098]

SENATOR JANSSEN: Any other questions? I don't see any. [LB1098]

JAMES EGR: Okay. Thank you. [LB1098]

SENATOR JANSSEN: Next proponent. [LB1098]

JERRY STILMOCK: Senators, Jerry Stilmock, S-t-i-l-m-o-c-k, lobbyist on behalf of the Nebraska State Volunteer Firefighters Association in support of LB1098. Probably the biggest message I'd like to at least convey is the unintended consequences. I don't believe it was the thought that back in 1996 when LB1114 was passed, that members of volunteer fire departments would have to go out on behalf of the fire districts that they serve and ask for support, ask for money, not because there wasn't enough. I mean, it

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wasn't that they received an allocation of 3 cents and that wasn't enough. It was...it's the statement that they get zero. And then the seven counties that we're aware of, that's what's happened. The county has said, we have no money left in our own budget. We have to fund our own county operations. There's no money left. You fire districts are denied any levy authority and go have a vote. And the Senator asked a good question. Well, what if the cost of the vote was pegged back then to the county, the volunteers are the ones that are still out knocking on doors and going to rotary meetings and going to Sertoma and spreading the news and having meetings in order to educate the people so that the vote then is passed by the public. And I just don't...it's hard to imagine that that was the intended result. There's a problem in at least seven counties, possibly more but those are the seven I'm aware of, that the county board's have said, we don't have any more room, you receive nothing, go to a vote. I thought the vote was used that if the county gave a certain levy amount that that vote was used to rise above that to let the people vote after the people were educated. Well, when you start off with a goose egg, a zero levy authority, you don't have anywhere to go. Senators, I believe that this bill is important. My client believes it's important and I'd ask your support in advancing it to General File. [LB1098]

SENATOR JANSSEN: Any questions? Seeing none, thank you, Jerry. [LB1098]

JERRY STILMOCK: Thank you, Senators. [LB1098]

SENATOR JANSSEN: Next proponent. Any other proponents? [LB1098]

LYNN REX: Senator Janssen, members of the committee, my name is Lynn Rex, representing the League of Nebraska Municipalities. We do support LB1098 and I do agree with the interpretation that Jerry Stilmock has given to you. In 1996 when the levy limits were put in place with an effective date of 1998, the 15 cent allocation, the intent was, as that obviously there would be several different entities that would be funded through that, and we're dealing here with basically eight paid fire departments in the state. The rest are volunteers and it seems to me rather unconscionable that you're in a position where not only do you volunteer your time, and service everyone but oh, by the way, go out and spend time fund raising. Go out and spend time trying to get the fund raising so you can have the election but it seems rather absurd. I mean, to me this is just a very appropriate response to what needs to happen. And I think what is happening too, is that this does relate to some of the other legislation we've talked about today in terms of trying to provide more authority, more flexibility for cities and counties in particular, because counties, I think, are getting extremely strapped. I don't think that it's mean spirited on the part of the counties. I think that they've got issues they have to deal with and so my guess is, that's what's happening here. Because I would really hate to be the county board member that decides to tell the fire district, you're on your own. Good luck for you and then they have a fire. Their acreage catches fire. Something like that happens. And those things happen all the time. So in any

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event, I just think this is a very modest proposal as well and we strongly support it. I'd be happy to answer any questions. [LB1098]

SENATOR JANSSEN: Questions? Seeing none, thank you, Lynn. [LB1098]

LYNN REX: Thank you. [LB1098]

SENATOR JANSSEN: Any other proponents? Any opponents? Anyone neutral? Senator Hudkins waives closing. That ends the hearings on this particular bill and ends the hearings for the day and the week and we had a good Exec. All have a nice weekend. Sayonara. [LB1098]

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Disposition of Bills:

LB1007 - Indefinitely postponed.
LB1017 - Advanced to General File, as amended.
LB1080 - Indefinitely postponed.
LB1081 - Advanced to General File.
LB1098 - Indefinitely postponed.

Chairperson

Committee Clerk