

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

[LB455 LB492 LB498 LB595 LB614 LB655]

The Committee on Education met at 1:30 p.m. on Tuesday, February 27, 2007, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB595, LB455, LB498, LB492, LB614 and LB655. Senators present: Ron Raikes, Chairperson; Gail Kopplin, Vice Chairperson; Greg Adams; Brad Ashford; Bill Avery; Carroll Burling; Gwen Howard; and Joel Johnson. Senators absent: None. []

SENATOR RAIKES: Good afternoon and welcome to this hearing of the Education Committee of the Nebraska Legislature. I apologize for the delay in the start. I gave Kris, our committee clerk, ten seconds to get the books down here and get everything set up and he didn't get it done, so it is all his fault. We will hear six bills, as I count them, this afternoon. They will be heard in the order listed on the sheet outside the hearing room. Our procedures will be much the same. We will use the light system for testimony. As you come up to testify, please fill out one of the sheets and throw them in the box. As you begin your testimony, state your name and spell your last name for us. Proponent, opponent, neutral testimony, followed by a close. Did I say five minutes on the light? That is what we will do. Our committee, still scattered a little bit because of our exec session over the noon hour, plus I think at least a couple of them have bills to present in other committees. But our research analyst is Matt Blomstedt, will be along shortly; Senator Brad Ashford is from Omaha; Senator Gwen Howard, also from Omaha; Senator Carroll Burling from Kenesaw; Tammy Barry is our Education Committee legal counsel; I am Ron Raikes, District 25; our committee's Vice Chair is Senator Gail Kopplin from Gretna; Senator Greg Adams is from York; Senator Joel Johnson from Kearney; Senator Bill Avery from Lincoln; and Kris Valentin, our committee clerk. Our pages today are Sarah and Jeff? []

SENATOR AVERY: Joe. []

SENATOR RAIKES: Joe. All right, Sarah and Joe. Thank you for being here. Please disable your cell phones, and other than that I think we're ready to go. Our first bill this afternoon is LB595, and that will be introduced by Senator Gail Kopplin. Senator. []

SENATOR KOPPLIN: Senator Raikes, members of the Education Committee, my name is Gail, G-a-i-l, Kopplin, K-o-p-p-l-i-n, and I represent the third Legislative District. I am here today to introduce LB595. LB595 will establish the task force on school funding for economic growth. The purpose of this task force is to develop and propose a new system for the funding of public schools. The task force would be composed of 17 members, including the Chairperson of the Legislature's Education Committee, Revenue Committee and Appropriations Committee, the Governor and the Commissioner of Education. The remaining 12 members would be appointed by the Governor and would represent business, industry, education, community organizations, economic development organizations and postsecondary education, and I would say

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

that I am willing to work with the committee on the make up of this task force if it should need to change in some way. The task force would begin meeting no later than July 1, 2007 and present a preliminary report to the Legislature by February 14, 2008 and a final report by October 1, 2008. The report is to include recommendations and implementation strategies. The recommendations are to address how to provide sufficient funding levels to meet state accreditation standards and fund essential educational opportunities in each school district in the state; appropriate mechanisms to address special needs, sparsity and poverty; incentives to reward districts that employ more highly qualified teaching and instructional staff and to fund a nationally competitive starting salary; substantial reduction or even elimination of the property tax as the primary support for essential education; incentives for efficient organization administration of the public schools. Why do we need this study and this task force now? The current school funding formula, the Tax Equity and Educational Opportunities Support Act, or TEEOSA, has been in place for 17 years. In that time, it has been tweaked or revised a number of times. We continue to tinker with the formula every year, as evidenced by several of the bills we heard yesterday and will hear today. You could liken the current funding formula to a faithful but aging family car, it has served our needs well, but has become high maintain and difficult to maintain in running order, needs constant tune-ups, new parts, patches and adjustments to get us where we need to go. At some point, you have to ask whether it is worth the investment in efficiency, time, effort and money to continue to make the tweaks necessary to keep it running, or is it time for a new vehicle. LB595 will allow us to do the research necessary to find that new vehicle, or if need be, fix up the old one. A recent survey by the Nebraska Association of School Administrators reveal that 72 percent of the 144 respondents believe that it is time to initiate a formal review of the current school finance system. Only 8 percent said no and 19 percent weren't sure. I believe it is time to really study school financing, just as we did beginning in 1988. In 1990 at the end of the two-year study, LB1059 was introduced and the result was our current funding formula, TEEOSA. What I am suggesting is that it is time for a well-informed group of committed individuals to again study school financing outside of the glare and pressure of the legislative session and recommend to us the changes necessary to fund the public schools in an equitable and affordable manner. On one final point, the Governor has indicated he is willing to issue an executive order to create a study group to look at school funding. I believe that study would have a narrower focus than what we may wish to have and that we, the Legislature, should initiate and control such a study. Thank you for consideration, and I would be happy to answer any questions. [LB595]

SENATOR RAIKES: Thank you, Senator. Senator Avery has a question. [LB595]

SENATOR AVERY: Thank you, Senator Kopplin. I like your idea, and I like what you said at the end there where you think we, this body, ought to have a significant amount of control over this. Did I hear you tight then that you would have the Governor appoint most of the members of this task force? [LB595]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR KOPPLIN: That's the way the bill is written. But I also said I am willing to listen to the committee and make adjustment with that if it should be, and it may need to be. [LB595]

SENATOR AVERY: Yeah. I think when you get into the representatives of school boards, teachers, administrators, parents, I think I would like to see the Legislature have some input in who gets appointed. [LB595]

SENATOR KOPPLIN: We can work on it. [LB595]

SENATOR AVERY: Yeah, at least have more balance. One of the things that you propose here is to sunset...I am using a verb, a noun as a verb. I don't like to do that. Let me rephrase that. You would put a sunset provision in here, TEEOSA would actually end on June 30, 2009. Is that an incentive for the task force to get their job done? [LB595]

SENATOR KOPPLIN: The reason that was done, this is taken literally from LB1059 back in 1988 where they put a sunset on their present system of funding education, and it was done so that we didn't spread this out over years but instead that was the date we had to get something done. And when I say something done, that doesn't preclude that you might say that we aren't going to get anywhere and TEEOSA is probably a whole lot better than what we can come up. I mean that is always a possibility, too. But if you don't put that date in there, it can stretch out and do nothing. [LB595]

SENATOR AVERY: Well, you have a date for the completion of the final report, but you also have a date at which point TEEOSA ceases to exist. [LB595]

SENATOR KOPPLIN: Which is a much stronger point. [LB595]

SENATOR AVERY: Yes, it very much so, and I would think if I were on that task force, I would be looking at June 30, 2009 everyday. Thank you. [LB595]

SENATOR RAIKES: Other questions? Senator, what might this new car look like? [LB595]

SENATOR KOPPLIN: Well, it would be red. [LB595]

SENATOR RAIKES: Okay. That pretty much clears it up for me. [LB595]

SENATOR KOPPLIN: I believe that one of the important issues in what I am proposing is the discussion that always goes on, is property tax the proper way to raise funds, or should there be a greater reliance on local income taxes, those kinds of things. Now, I

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

can't answer that because I don't know which is best. But you hear that very often, and I think that would be one of the key points of this. Exactly where is the funding going to go? After that point, how it gets distributed to the state may indeed include many of the things that are already in existence. I don't know. [LB595]

SENATOR RAIKES: Okay. Thank you, Senator. We will go to proponents, LB595. Dr. Breed. [LB595]

ROGER BREED: (Exhibit 1) Yeah, I look forward to this too, Senator. [LB595]

SENATOR RAIKES: That's kind of starting out negative there. [LB595]

ROGER BREED: Kind of like a root canal. Time is on. [LB595]

SENATOR RAIKES: Oh, yeah. You are about half done. [LB595]

ROGER BREED: Oh boy. In more ways than one. Senator Raikes, members of the Education Committee, I am Roger Breed, R-o-g-e-r B-r-e-e-d, superintendent of the Elkhorn Public Schools. I am here to speak in support of LB595. It is time once again to thoroughly rewrite the way Nebraska funds its schools. The process suggested in LB595, as Senator Kopplin said, is the process the state used in 1988 to thoughtfully and thoroughly create the present Tax Equity and Educational Opportunities Act. Now is the time to return to this process, and overall, the school funding system. I offer two reasons for this proposition. First, the demographics of Nebraska students have changed significantly since the current state aid formula was put into place. Second, the expectations for Nebraska public schools has also changed significantly since 1990. I would like to elaborate on both of these points briefly. Looking at the chart that I had distributed and using the numbers from the Nebraska Department of Education, it is abundantly clear that even since 2000, because these are the numbers from 2000-2006, the makeup of Nebraska's students has grown increasingly diverse and increasingly poor. Both of these trends continue today and contribute to the stress on school resources designed and delivered for a very different time and a very different student population. The issues of children in poverty and the arrival in Nebraska schools of significant numbers of students whose native language is not English are not adequately addressed in the present funding of the state schools. Expectations. At the same time as the makeup of Nebraska students was changing, the fundamental purpose of public schools was also changing. Prior to the passage of the federal No Child Left Behind Act in 2001, the implied and accepted purpose of public schools was to provide universal access and opportunity to all students. With the passage of NCLB, however, that purpose was forever changed to one of universal achievement. Few educators quibble with this change. That change speaks to the heart of educators. But the reality of making this change, documenting it through standards, assessments and accountability reports, requires very different programming and considerably more

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

resources than those existing at the time TEEOSA was established. A broad discussion of the implications of these trends and a thorough review of the state aid system is necessary now. I urge the committee to send LB595 to the floor. I am available for questions. I would like to point out the chart shows significant increases in those students that qualify for free lunch. In October of 2000 it was around 65,891 students. In October of 2006, 93,300 students. At the same time, the overall student population in the state dropped by 3,000 students. Questions? [LB595]

SENATOR RAIKES: Okay. Thank you, Dr. Breed. Questions for Dr. Breed? Senator Kopplin seemed to focus in his comments a little bit more on where the resources might come, property taxes versus income taxes, that sort of thing. You seem to focus more on what it would cost or what it does cost to educate students, am I correct? [LB595]

ROGER BREED: Yeah. I would like a fancy red car, not just a red car. [LB595]

SENATOR RAIKES: Oh, I see now. That's interesting. [LB595]

ROGER BREED: Carrying through with the metaphor. I think the issue of not necessarily adequacy of funds but perhaps direction of funds, how we achieve need, how we establish need. When those needs have significantly changed and the expectations along with them have changed, I think it requires a further conversation and examination. We did not have that discussion in '88-'90. There we were seeking to take property taxes down, to add income and sales taxes in, and to try to create a formula that basically took us from where we were to a stand-pat situation into the future. We need a predictable, stable source of revenue for our schools. How that is comprised, I don't know. I am probably a lousy one to ask about that. But you have got Tim Kemper and Russ Inbody over here you can ask that question to most any day and they will give you an answer. [LB595]

SENATOR RAIKES: Yeah, but it's more fun to you. So we need a stable resource base, and certainly property tax is a stable... [LB595]

ROGER BREED: Is one of the more stable. [LB595]

SENATOR RAIKES: ...resource basis. But that is not popular to the extent we use it right now. [LB595]

ROGER BREED: Well, it's limited, and it is obviously not popular with many of our patrons. Again, when I became superintendent our levy was the second highest in the state in the school district. LB1059 created a situation where we were able to moderate our levy, continue to build our school program. It worked great for the Elkhorn Public Schools at that time. Now the situation where we have, I think, forced the levies across the state into a narrower range, it is time to look at are we providing the right resources

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

for the right direction to do what we are asking our schools to do? [LB595]

SENATOR RAIKES: Well, let me just ask you, to the extent that state funding ought to be used, and I think we are among the bottom states in the nation in terms of percentage of state funding for K-12 school districts. [LB595]

ROGER BREED: K-12 schools. [LB595]

SENATOR RAIKES: Would it make a lot of sense to you that the most stable, reliable part of our state revenue base, the income tax, we cut that by say \$200 million a year? [LB595]

ROGER BREED: Well, not being a candidate for governor, to me... [LB595]

SENATOR RAIKES: I saw one of my fellow revenue committee members sitting in the room so I thought I would ask that. [LB595]

ROGER BREED: Okay. You're directing that at someone other than me. I think the general principle in 1988 was to look at a third, a third and a third. Income, sales and property each bearing a third of the share of the public schools. I think we have gotten away from that a little bit, and maybe it is time to reexamine whether that is, first of all, the right percentages, or secondly, whether we can create a taxing structure to get us back to that. [LB595]

SENATOR RAIKES: Other questions? By the way, I think you have made the right decision in not being a candidate for governor. [LB595]

ROGER BREED: Or a candidate for anything else for that matter. Okay. [LB595]

SENATOR RAIKES: Thank you. [LB595]

ROGER BREED: Thank you, Senator. [LB595]

SENATOR RAIKES: Next proponent, LB595. Larry, welcome. [LB595]

LARRY SCHERER: (Exhibits 2 and 3) Thank you. Good afternoon Senator Raikes, members of the Education Committee. I am Larry Scherer. I work for the Nebraska State Education Association, and I am here to support this legislation on behalf of the NSEA. In addition, I was one of the people around in 1988 when the study was done then, and I think Senator Kopplin describes it very accurately how it came about. One other historical point, it also happened to be a year of a surplus, and there was talk about how do we find the use for \$100-and-some million, and the immediate response was to write a check to everybody for whatever, \$125. But the Legislature saw that that

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

was not a good long term answer and looked to a school aid formula for the property tax reduction in the long term. So that was a little bit of the historical background for that. In 1988 the Legislature created what was called the School Financing Review Commission, and it has membership similar to this, probably more school base. There was a representative from each class of school districts, and some of those are in a little bit of limbo right now. So this proposes five representatives of schools instead. But it has a balance of people from the Legislature and the Governor's office, the Department of Higher Education, very similar to this, and there was some funding to use to employ some consultants on specific aspects of it, and I think that is probably a good idea again to get in some outside perspective. At the time, and superintendent Breed commented that there was a great disparity in property tax rates. There was a 7-1 to one ratio, 50 cents at one place and \$3.50 at another place, and one of the primary goals was to scrunch that down so there was tax equity, and to that extent, LB1059 and all the legislation that followed it has been fairly successful. At that point in time, we had \$133 million total for state aid, and now we are about \$850 million. In fact I think at the time, special education funding was probably about almost as large as the funding for general state aid. It was a flat foundation program depending on per pupil, and there were only about \$33 million that went out equalized based on property valuations essentially. Nebraska was in the bottom ten in terms of its reliance on property tax and most of the money, far more than now even, came from the property tax. But we are still, I think, probably in the bottom third in terms of reliance on property tax. After a two-year study, and it was quite a process where there was give and take and a lot of meetings and a lot of road action, a lot of meetings around the state. There was a plan that was put together and, as Senator Kopplin mentioned, there was a sunset of the existing formula. Obviously, didn't have as much to lose then as we do now in terms of the amount of funding we put out, but it was still significant. There was a plan, and the goal was to reach 45 percent of funding for all of education from state sources of some type. We came close to that a couple of times and it has been up and down, but I think probably now we are somewhat under 40 percent. As I mentioned, there were a lot of positive outcomes from the LB1059 successors, LB1050, LB806, just a bunch and a few and I know there has been many since then, and it has a lot to do with funding for the property tax disparity being reduced. A concern I think has been well stated that we have a system now that seems to be difficult to make changes in and it requires a lot of constant attention. I think overall if there is one issue, the name of the act is the Tax Equity and Educational Opportunities Support Act. It has been mainly the tax equity act, and I think that one of the reasons for looking at this now is to look at the educational opportunities part of it. How far are we apart on equity and educational opportunities across the state? I see the little yellow light blinking. I like the Oscars better where they start playing a little song and you know that it's time to float away. But I'll try to close in the amount of time... [LB595]

SENATOR RAIKES: We'll take that in consideration. Yeah. [LB595]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

LARRY SCHERER: ...if possible. I would appreciate it, a minute maybe to go over. This bill asks to come up with a system that is predictable, understandable, further reduces the tax burden, addresses the special needs and provides sufficient funding to meet our standards that we have for education. We have much higher standards now than we did and much more explicit standards than at that point in time, and to create incentives for highly paid staff and efficient operation. So it is a lot to ask for from any formula, but those are the goals. I have attached to this just the cover sheet from the 1990 report, and it was called "Toward a More Rational and Equitable School Finance System for the 1990s." Well, as you can tell, the 1990s are over, and maybe we need a new little report that will talk about the future. Things have changed a lot demographically since then and in our school system. So we think now would be a good time to take another look. Thank you, and I will be pleased to try to answer questions. [LB595]

SENATOR RAIKES: Thank you, Larry. Questions for Larry? Don't see any, but thanks for your testimony. [LB595]

LARRY SCHERER: Thank you. [LB595]

SENATOR RAIKES: Next proponent, LB595. Brian. [LB595]

BRIAN HALSTEAD: Good afternoon Senator Raikes, members of the Education Committee. For the record, my name is Brian Halstead, B-r-i-a-n H-a-l-s-t-e-a-d. I am here on behalf of the Nebraska Department of Education and the State Board of Education in support of LB595. The State Board looked at this bill and recognized, number one, financing of schools is clearly the Legislature's responsibility, and the State Board has no inkling of trying to tell you how you should finance schools. But as we have watched over the past five to ten years, more and more of the discussion is going about on educational opportunity for students, closing the achievement gap, and that also implicates the educational opportunities that are out there. The board things that it has been almost 20 years, and that TEEOSA does do what TEEOSA was designed to do. The question is, that was in 1988. What is it for the 21st century that we need to be doing, and how should we finance it? Is property taxes the right way, the wrong way, sales, income? Those are all questions, and it is not necessarily that they have the answer or that I have the answer, but those are things that maybe in the 21st century we need to think about and discuss and try to come to some agreement upon. So with that, I would end my testimony and entertain any questions you might have. [LB595]

SENATOR RAIKES: Thank you, Brian. Questions for Brian? Thank you. Other proponents, LB595? Mildred. [LB595]

MILFORD SMITH: Thank you, Senator Raikes and Education Committee members. I am Milford Smith, M-i-l-f-o-r-d S-m-i-t-h, and I represent the Nebraska Coalition for Educational Equity. We support this bill, and I concur with much of what previous

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

speakers have said. I would offer one suggestion to the committee no matter how it's devised. I would suggest that you bring in a couple of outside-the-state school experts to explain to the committee how other states solved their problems and how they have moved to address the issues that we are facing in Nebraska. There are some states that operate entirely off of property tax. Some have a combination. Some of them have a different distribution formula. I think it would behoove this committee to look at how some of the other states comparable to Nebraska, specifically maybe Vermont and perhaps Minnesota, and look at their systems and maybe can get some ideas on how to address the issues in Nebraska. And that is the only suggestion I would have. I do concurrently urge this bill to be advanced. [LB595]

SENATOR RAIKES: Okay. Thank you, Milford. Questions? Thanks for your testimony. Any other proponents, LB595? Do we have opponents, LB595? Neutral testimony? [LB595]

JOHN BONAIUTO: I know. [LB595]

SENATOR RAIKES: Imagine you showing up neutral. [LB595]

JOHN BONAIUTO: I have been trying to swear off of that. Senator Raikes, members of the committee, John Bonaiuto, J-o-h-n B-o-n-a-i-u-t-o, executive director of Nebraska Association of School Boards. This would be a positive neutral. The issue of the sunset...and this is a daunting task. I don't think that the current formula is not doing what it was designed to do. What I am hearing is are we asking it to really stretch farther than it has the ability to stretch. With that, I could tell you that my members like the idea of something that is predictable and stable. I like those words. I also hear over and over in discussions how complex our current formula is. I believe if you are going to look at anything, including our existing formula, it is not going to be any less complex. I don't think there is a simple solution to address all the things that we are asking to have occur. So the complexity, I think, will continue. Again, the worry I have is that you decide to form a committee, and this should remain in the legislative branch, that looking at resources and distribution is going to be a real challenge and making the switch requires...and I haven't surveyed my members but I am going to go out on a limb here, but I believe my members would say we are going to like a different formula if it is going to allow us to have about the same resources that we currently have, and you notice at no time did I use the term hold harmless. But I wanted to describe that issue because that is the political reality of making a switch like this is that people are going to look at how are the resources distributed, and that is what makes it tough to make a change. With that, I will conclude my testimony. [LB595]

SENATOR RAIKES: Thank you, John. So a new formula would work as long as there is more money involved. [LB595]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

JOHN BONAIUTO: I think that is the foundation of any change that I have seen in school finance over the years and that is the tough one to have happen. [LB595]

SENATOR RAIKES: One other question. What is our formula not now doing that it should be doing? [LB595]

JOHN BONAIUTO: And I think that is a very fair question. And our formula is doing exactly what we have asked it to do. And what I was hearing from the testifiers and the proponents was how many more adjustments can we make and how many more things can we add to the current system without having a real hard look at how things fit. But I don't know that there are other states that are doing any better than we are. And listening to discussions from school finance in other states, Nebraska may be ahead of what is happening in many of the other areas. [LB595]

SENATOR RAIKES: Okay. Senator Avery has a question. [LB595]

SENATOR AVERY: Just one question. Thank you, Mr. Chair. You said that the formula is doing exactly what we asked it to do. Would you like to amend that, because it seems to me that it is not reducing reliance on the property tax the way we hoped and expected? [LB595]

JOHN BONAIUTO: You know, Senator, I would say that every time that we strive for the concept of equalization that we have to move more reliance back on property tax, and we have had to do that, and which is always dangerous. And so one of the things that I think that is school funding formula would be discussed would be what is the right balance between state and local responsibility in resources. But when we had the down turn and things go tight at the state level, the first thing we had to do was take a look at how much we had to move back to the local level, and when we do that, we disequalize. It makes it harder to have that balance and equalization. Equalization is the right path, but that really puts the state on the hot seat. [LB595]

SENATOR AVERY: That is all I had. [LB595]

SENATOR RAIKES: Thank you John. [LB595]

JOHN BONAIUTO: Thank you, Senator. [LB595]

SENATOR RAIKES: Any other neutral testimony? Senator Kopplin? Senator Kopplin waives, so that will close the hearing on LB595. We will move to LB455 and Senator White. Welcome, Senator. [LB595]

SENATOR WHITE: Why thank you, Senator. Good afternoon Senator Raikes, members of the committee. Thank you for allowing me to come and introduce LB455. LB455 is

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

introduced to raise the lid, remove the limitations on growth on school district budgets in two specific areas, and these have a commonality. They both inflate at sometimes unpredictable times and in dramatic amounts, and that is for energy and for health insurance. As you know, the schools have absolutely essential series of duties. They're also largely locked into fixed budgets. They enter into contracts with the federal government to provide certain services in order to get federal aid. They have constitutional obligations under the state constitution to provide an appropriate education to all children. As a result in order to meet their needs, their budgets are not very flexible, and the areas of energy costs and health insurance have caused substantial disruption in the ability of the school districts to meet those ongoing essential needs. This bill would allow them the flexibility in cases where you have truly extreme disruptions in increases in these areas to change the limitation so they can meet those needs. I hope that the committee will look at this bill. It will substantially assist in the rational operation of school budgets. One of the questions I had early on is could the schools not keep reserve funds available to meet these needs. And one of the issues you have with that is when such large amounts of reserve funds are maintained, for example, OPS where all of a sudden diesel quadrupled in a year almost or doubled certainly, is it makes it very difficult to justify to the taxpayers holding those types of funds. And indeed, I am not sure that money should be removed from the economy and held by the school districts. I think as an economic matter at least, I would submit this is the more conservative method to address that issue. If there are any questions, I will try to answer them. [LB455]

SENATOR RAIKES: Okay. Thank you, Senator. Senator Burling has a question. [LB455]

SENATOR BURLING: Thank you, Senator White. Is there any information available to tell us what percent of the average school district budget we are talking about here? [LB455]

SENATOR WHITE: If that information is available, Senator, I do not have it. I would suspect though in the case, for example, of health insurance, that would be pretty predictable across the state. However, on the cost of transportation, that could be wildly different given the geographical characteristics of the district. [LB455]

SENATOR BURLING: Okay. Thank you. [LB455]

SENATOR RAIKES: Any other questions? Senator Avery has one. [LB455]

SENATOR AVERY: Thank you. Very quickly, Senator White, what impact do you think this might have on property taxes? I like the concept, but I am worried a little bit about the property tax implications because I am getting hammered in my district on that. [LB455]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR WHITE: Yes, and there is no question that in the short term it could, but I think we really in the end leave the school districts no choice. They will have to take the money and hold it if they are to meet their constitutional obligations. I do not understand...let me rephrase that. I don't think anybody would understand if the schools simply said we ran out of money for diesel so we just won't be picking children up in busses. And yet what do they cut? Do they cut the school lunch program, which they are obligated to provide to get the matching federal government funds? Do they cut the special assistance in the classroom that are necessary to comply with One Child Left Behind (sic)? They can't cut contracts. They are locked into a contract over a series of time. The problem we have is these are entities that provide absolutely socially essential services, just absolutely socially essential. They are on the same level in my mind with fire and police, and they have to enter into long term agreements fixing their budget. So they have to do that. So now they don't have the flexibility to respond in these two key areas to wildly fluctuating prices. I don't think anybody would have anticipated the energy inflation of the last year when lids were contemplated, or what level they would take in the budget. So yes, they may have an adverse effect on property taxes. But I have often told my constituents, and I am fairly sensitive to the issue, that we have to deliver decent education to the students, and to the extent we can inside of a flexible tax structure, pay them back when we can. But in tough times if something bad is happening, we're going to deliver those services if we are going to stay a civil society. [LB455]

SENATOR AVERY: I agree. Thanks. [LB455]

SENATOR RAIKES: Don't see any other questions. Thank you, Senator. [LB455]

SENATOR WHITE: Thank you for your courtesy, and if the committee would be prefer, I would be happy to waive the closing. I know you have many bills. [LB455]

SENATOR RAIKES: Okay. Thank you, Senator. We will move to proponents, LB455. [LB455]

LARRY SCHERER: (Exhibit 4) Good afternoon, again, Senator Raikes. My name is Larry Scherer, and I am appearing today on behalf of the Nebraska State Education Association in support of this bill, and I appreciate Senator White introducing this on behalf of the public schools of our state. As was noted, this adds two additional exceptions to the budget lid on school districts for energy and health insurance, both of which the amount are beyond the CPI. And I understand that whenever you use the CPI there is always a question of what is the appropriate time frame for comparison, and if there are some minor adjustments in the language we would be happy to work with the committee on that. Russ brought that to my attention earlier. The major point, I think, of both of these is that certainly, in energy's case, it is an expense. Generally, the price of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

oil and gas, electricity is something you do conservation, there are certain things you can do to reduce it and hopefully school districts are doing that. Beyond a certain point though, you can only turn the thermostat down so far and you can only cut transportation so much. These things need to be done. So there is a certain amount of this that's beyond the control of the school districts. I've attached to the testimony some figures that I came to from the CPI. The second column there is the estimated energy and that is the amount the energy increased as a percentage, the component in the CPI. I think the question earlier was how much does this cost, how much of a school's budget? I asked that question of the Department of Education earlier, and the school finance report is not broken down that way where it's easy to tell. It would be possible, I think, probably to do a survey of school districts and get a pretty fair idea. But we haven't done that yet. If there is an interest in doing that, we would certainly help with that. But as you can see over a 14 year period, and I chose those 14 years just because that is the years the CPI went back on record that had sort of a uniform competition method, estimated energy component was about twice the amount of the general CPI for all items. Now, what the amount of growth in school district budgets, again, we can't tell because of the school finance report. But we know that it's significantly more than CPI. The other part of the bill, and probably a more complicated part, is insurance premiums for health insurance...it's a little bit different here. Health insurance is one of those things that is negotiated annually by the teachers associations and the school districts, and certainly it's a big part of total compensation. And as a part of total compensation, it's something the CIR is going to look at in establishing comparability and settling disputes when there is an agreement. But what generally happens when health insurance goes up, there's options of how can we reduce coverage to save some money, can we pass some of this onto the teachers, and both of those things have happened. The last sheet that you see is some pages from the annual report of the Educators Health Alliance, which shows that over the period from '97 to 2006 there are very few 100 percent no deductible policies left out there, if any. I think there aren't any right now. The majority are at \$250 deductible and an 80-20 kind of coinsurance arrangement. So there has been that shift in the insurance industry--and it is not just in schools, it's everywhere. With schools, the issue here is that there is a somewhat artificial lid that restricts how much school districts have to spend, and if you have to spend it on health insurance or you have to spend it on gasoline, selfishly from our perspective you are not spending it on teachers salaries or support professional salaries. So that is the rationale for looking at this specially. To be consistent with myself on the last bill, this would add more complexity to an already complex formula. So it certainly is an item that should be studied as well if the other study goes forward. Thank you for your time today, and I would be happy to answer questions if I can.
[LB455]

SENATOR RAIKES: Thank you, Larry. Questions for Larry? Larry, I think year after year, school spending increases more than the allowable budget growth. How does that happen? [LB455]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

LARRY SCHERER: School spending...well, are you talking about... [LB455]

SENATOR RAIKES: The actual increase in school spending year over year will be...well, I don't have a recent...5 percent or something like that. If you look at the budget lid it's 2.5 plus 1, maybe you have got some weighting to get it up to 4 or something like that. But it's consistently more than... [LB455]

LARRY SCHERER: Right. Yeah. There's a range between 2.5 and 5.5 percent, depending on the relative wealth of the district. That accounts for a little part of it. The other parts are some of the lid exemptions that are already there. I think there's a number of them. I can't recall them all, but they would increase the amount over the state official lid percentage. Beyond that, I don't know for sure whether that answers all of your question, but that's... [LB455]

SENATOR RAIKES: Well, you've got interlocals. [LB455]

LARRY SCHERER: Interlocal is one. As I understand, that one is a fairly large amount of dollars. Also as I understand it, some entrepreneurial districts have looked at using interlocal as a way to address the energy issue. [LB455]

SENATOR RAIKES: Entrepreneurial districts. Okay. [LB455]

LARRY SCHERER: Entrepreneurial. So the two are definitely related. [LB455]

SENATOR RAIKES: You have got sparse, very sparse, and entrepreneurial. [LB455]

LARRY SCHERER: Yeah, and this is a straightforward, above-the-table way of looking at the energy issue as opposed to the interlocal, which probably serves a number of good purposes. But I am not here to talk about that one. [LB455]

SENATOR RAIKES: Okay. Any other questions for Larry? Thank you, Larry. [LB455]

LARRY SCHERER: Thank you. [LB455]

SENATOR RAIKES: Next proponent, LB455. Are there opponents, LB455? Neutral testimony? Oh, not even a neutral. Okay. Senator White, would you like to close? He'll waive closing, so that will close the hearing on LB455, and we will go to LB498 and again welcome our colleague Senator White. [LB455]

SENATOR WHITE: Thank you, again, Senator Raikes. Tom White, W-h-i-t-e. Thank you, members, for allowing me to come and introduce the next bill, which is LB498. LB498 is a bill that got lost on its way to the Revenue Committee, I think, and that is

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

probably why I am the sponsor. I actually got interested in this bill because to me, and when I agreed to introduce it, it is precisely what we hope to accomplish in the state of Nebraska and that we have been talking about. Number one, it affirms, in the most positive manner I can imagine, the close and important link between education and economic development. We regularly speak of that importance, how we are investing in our young people, on the floor of the Unicameral. This bill gives us absolute proof that the business community agrees with us. So it is an economic development bill primarily in my mind. It was also very important because it is focused, as we sit here, on rural economic development, which until the increase in corn prices had horribly lagged behind the rest of the state, the more urban areas. As I am sure the members of the committee are aware, two of the most impoverished counties in the United States are in Nebraska, and anytime we can substantially help and assist in economic development in the rural Nebraska, it seems a moral imperative that we do so. What this bill actually does is it provides a mechanism where a company can donate the credits that it earned from one or more programs, probably the Advantage Act most times, to the school district. Now, if it wants to donate, however, \$100 of those credits to the school district, it must come up with \$75 cash of its own money that it also gives up. In this case, a particular company, but there are other companies, carefully looked at all of the options they have for investment, and this is a company that is growing very rapidly indeed and could easily use all available tax credits in a number of different ways throughout the state. But it made a business determination that the absolute best investment it could make in order to get the people that it needed to compete going forward into a rural community was a good school. And rather than computers, new trucks, buildings, what they most need is a first class school so that the parents will come, stay in the community and will bring their children and contribute to the profitability of the company. It is absolutely what we have been talking about for decades around the Unicameral. And so this company, actually, the money talks, and they are talking with their money. This bill would propose a limit of \$10 million that could be used this way. The money would be paid in. The state would pay its share of the tax credits in only as they come overdue, and that is an important point because I believe there is a fundamental flaw in the fiscal note. I was told once arguing with the fiscal note is like going three rounds with Muhammad Ali. You can try but you are not going to get there. But in this case, I think there really is an error and I think it is some agreement. They have put in the fiscal note the entire value of the tax credit as though it comes due this year, but it won't. It will take ten years. So rather than \$6 million, it is \$600,000 a year spread over 10 years, which is a dramatically fiscal note. I strongly recommend this bill. I do not know of anything that I have personally seen that gives us a better hope of positively impacting both education and economic development throughout rural Nebraska. This is a bill that invites our businesses into the classrooms in the most positive way, and they have invited us into their business planning in the most positive way. I will try to answer any questions that the committee may have, and I appreciate your time. [LB498]

SENATOR RAIKES: Thank you, Senator. Questions? We got three of them. Senator

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

Avery, Johnson, and Burling. [LB498]

SENATOR AVERY: One quick question. Looking at the fiscal note, wouldn't this money be spent anyway? I mean these are credits, sales tax rebates and things like that under LB775 and the Nebraska Advantage Act. [LB498]

SENATOR WHITE: In the case of the corporate citizen, who I honestly cannot say enough about in terms of their integrity and what they have been to this state, that is absolutely true, Senator. They are growing at an exponential rate and they have no problem. They could spend this money in a variety of ways and then it is gone to the state. But they have chosen this just as though they are going to build an R & D center to do research and development, fill it with equipment. They have made an economic judgment. The best thing they can do is build a really good high school and a really good school in their community because that will return the best value for their investment, and they are putting their own new cash in and asking us simply to do exactly what you say, spend money that would have gone to a warehouse instead. [LB498]

SENATOR AVERY: Yeah. Thank you. [LB498]

SENATOR RAIKES: Senator Johnson. [LB498]

SENATOR JOHNSON: Just a comment, and a city to the south of us, their public school system was put on probation a few years back, and I know that that actually...or I guess, I heard might be a better way of putting it, that that had a very detrimental effect on their ability to attract new businesses and so on when their school system was on probation. So it would seem to me it would follow what you are saying. [LB498]

SENATOR WHITE: Absolutely, and those who follow will tell you that they have great people that they lose because the spouse becomes dissatisfied with the school systems, either they won't come or they are there and they are just not satisfied and they lose. One of the other things I would like to point out, I am a great believer in that we make investments as a state with eyes as wide open as the business community does. The folks that follow me will offer, if you wish I hope, information that shows growth plan, the existing number of jobs that are open right now they can't fill. These jobs, the highest one they mentioned to me starts at \$160,000 a year, and the lowest ones are open right now that they can't fulfill before they get to the hourly ones are down to \$30,000. They are bringing people by bus in from Scottsbluff, and they still have these jobs. None of the fiscal notes open talk about what this would mean if those jobs were fulfilled and income tax was paid on those kinds of incomes or if they buy homes and what the property taxes will mean or the sales tax revenues. All completely unreflected in the fiscal note. But if this bill goes through and they succeed in that, we will see substantial economic benefit with them for a very low investment cost. [LB498]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR RAIKES: Senator Burling. [LB498]

SENATOR BURLING: Thank you. Senator White, unexpired credits, now in the fiscal note here we have some dollar amounts of what we are talking about here. In the total scheme of things, you think we are talking about a lot of money or not a lot of money? [LB498]

SENATOR WHITE: Well, in this case we would hope that the bill in this particular case that brought it, we are talking about \$10 million. Actually, do I think a lot? No. I think you will see this happen in circumstances where you have a viable, growing company in communities that don't have adequate educational resources, and I would suspect the economic picture has to fit before a business will do this. But when a business tells you the best way they can spend their money, Senator, like they have here for R & D or this, then you have a very good investment. Do I think that situation will exist many times over? I doubt it. I think it may increasingly if it works for this company and they then can talk to other business people and say look, we had this horrible personnel problem. We don't now or this substantially improved it, it might occur more often, but it will be far down the line, I think, before that comes. [LB498]

SENATOR BURLING: What happens to these expired tax credits now? [LB498]

SENATOR WHITE: Well, if the company doesn't use them then they are no longer valid. We don't have to buy them back. But I can assure you this company can use them and would use them. They are giving away real money, not just their own, which are matching, you know, 75 cents versus the state's tax credit dollar, but in terms of they could use this. They are growing all over the country at an exponential rate. So they would have no problems spending it. [LB498]

SENATOR BURLING: Do you know how they came up with that 75 percent? [LB498]

SENATOR WHITE: I do not. [LB498]

SENATOR BURLING: Okay. [LB498]

SENATOR WHITE: I do not. But it is very generous in my mind. Not only do they want to give away a valuable commodity of tax credit, but they want to put the money in as well immediately too, all into a public facility. [LB498]

SENATOR BURLING: Thank you. [LB498]

SENATOR KOPPLIN: Are there other questions? Senator Avery. [LB498]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR AVERY: Very quickly, Senator White, I know you almost answered the question I am going to ask when Senator Burling was questioning you, but I know of companies in this state that have unused credits that they will never use. I have had them say we have credits here that we can't possibly use all of them because we just don't have that much capacity to grow. Do you think that this legislation might be an incentive for some of these companies to say, okay, we have got these unused credits and we probably are not going to use them, and I know the company you are talking about, they can use them, they would. But there are others that have unused credits they might actually say this is an opportunity for us to make a payback. [LB498]

SENATOR WHITE: I would have no problem if they did use them. The state granted them saying they are for economic development. Let's take a hypothetical manufacturing company that said we want to fund a CAD computer program because we need CAD drawers to keep our factory running in a rural public school and they said we can't use this money right now. But if they want to come up with 75 cents on the dollar and give those unused tax credits so we can do better industrial training, I will find the money in the state budget with a song in my heart because businessmen are not going to do that unless they really think they are giving some kind of reward back. [LB498]

SENATOR AVERY: Well there is usually a close relationship between the business community and the school boards. You might see school boards going to these businesses say we have a tool here, we have an instrument here, you can help the school and in the process help the community and your business. [LB498]

SENATOR WHITE: And if that happens, I think we will see the same kind of reward we are going to see in this case if it goes through in this community. You are going to see real growth on an economic level because you are going to be targeting education in a manner that will help businesses later, either attract and maintain good people or train the replacement people that they need to carry their business on. [LB498]

SENATOR AVERY: Let the record show that we now agree on two bills. [LB498]

SENATOR WHITE: This is frightening. [LB498]

SENATOR AVERY: It is. [LB498]

SENATOR KOPPLIN: Other questions? Okay. Thank you, Senator White. Are there proponents for LB498? [LB498]

DENNIS HIGHBY: It says "please sign in." What does that mean? [LB498]

SENATOR KOPPLIN: This sheet that you just filled in. [LB498]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

DENNIS HIGHBY: I don't have to push a button or anything up here. [LB498]

SENATOR KOPPLIN: No. You are fine. [LB498]

DENNIS HIGHBY: Okay. Good. [LB498]

SENATOR KOPPLIN: We are ready for you. [LB498]

DENNIS HIGHBY: Well, we had this whole thing scripted and I was going to be the closer. My name is Dennis Highby. I am the president and CEO of Cabela's. They thought I should go first, so I am up here to talk first. I just want to give you a little history about myself. I started working for Jim and Dick in 1976, almost 31 years ago. When I started working for them I was their 40th employee and I was the very first person to ever draw a paycheck, they call it an exempt employee. I don't know how Jim and Dick got paid, but they weren't drawing a regular paycheck. But I was their first exempt employee. When I started working for Cabela's back in 1976, they were a \$4 million company. A lot of people see in the new lately we have grown that company to be a \$2 billion company, and our plans are to continue to grow Cabela's well into the future. We have many opportunities to keep growing this company. I am married, same wife from 1970. I have four children, seven grandchildren. We all live in Sidney, Nebraska. Some of these kids have grown up with the Cabela's family. They currently work in the corporate office. Our headquarters in Sidney right now has 1,250 people. Imagine the growth in all those years starting from just 40 people. That doesn't include other people in the distribution center in our retail store. Total population right in Sidney is about 6,000. We employ 2,000 of those people approximately. We have facilities throughout Nebraska. I talked a little bit about Sidney. We have facilities in a little town called Oshkosh, Nebraska. We have a return center there. We have call center in North Platte, Nebraska. We have call center in Grand Island. We have a call center in Kearney, Nebraska. We have World's Foremost Bank in Lincoln, Nebraska, along with a call center there. And then we opened a retail store in La Vista, Nebraska not too long ago. Right now, our plans are at the year 2011 to add another 600-800 jobs in a little town of 6,000 in Sidney, Nebraska, and these are good paying jobs. It is kind of hard to explain, but to attract people to Sidney, Nebraska you have to have good benefits, you have to pay them well. And it has been difficult, to be honest with you, all these 30-some years I have been there, to get people to come out to the high plains of Nebraska. It has been very difficult, and one of the things that has been so frustrating and it is almost we are at a turning point when this company was growing. What do we do? I was talking to a headhunter this morning and he had somebody that was interested in working for us from Ventura, California. He is married and has a couple of children, and I don't know if I can even get him to come to Sidney to interview. We sent him a packet and it has a picture of the school system. And that is one the first things they talk about is what is the school system like? I have got kids that are in athletics. We

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

want to make sure that they have a great education, and it is been very, very frustrating for us to...all through these years. I am not just talking about somebody that I talked to yesterday. But we are hoping this partnership, that we can put some money together and help build a school in Sidney. Something that will be good for my grandkids in the perpetuating what goes on at Cabela's in years to come. So we are excited about the bill. We hope that you support it, and it will be a tremendous opportunity for Cabela's in the future. Anybody have any questions? [LB498]

SENATOR KOPPLIN: Okay. Any questions for Dennis? Thank you very much, sir. Next proponent. [LB498]

RALPH CASTNER: (Exhibit 5) I will give you one of these, including some numbers that aren't here. My name is Ralph Castner, C-a-s-t-n-e-r. I am the chief financial officer for Cabela's, located in Sidney, Nebraska. I am one of the people Dennis talked into moving out to Sidney about seven years ago from Omaha. I would like to spend some time sharing with you today our current levels of employment and some of our plans for the future. If you turn to page 1 of the presentation that I just handed out, today in Nebraska we have \$123.7 million payroll, approximately 4,000 people. This makes us the 13th largest employer in the state of Nebraska. As you can see on page 2 to just give you some impact of what the economic impact is in Cheyenne County, of our \$123.7 million payroll in Nebraska, \$85 million of that is in Cheyenne County. And I guess because I am a numbers guy, I took the liberty of comparing that to the total salary and wages paid in each of those counties, and those percentages are on page 2. Our payroll of \$85 million represents 43 percent of the total payroll in Cheyenne County. But what probably is even more amazing is the impact it has in the surrounding counties. We do have a return center in Oshkosh, Nebraska where our payroll makes up 10 percent of the total salary and wages in that county. We have no operations in Deuel, Kimball, or Morrill County. Those are all people who commute into Sidney, and our payroll is 2.8 percent of the total in Morrill County, 4.3 percent in Kimball, and 12.8 percent in Deuel County. As Senator White said earlier, page 3 goes through their open positions that I had somebody take a snapshot of earlier this week. But we currently have, just in our corporate building, we have 141 open positions right now that we can't fill. To give you a sense for what those jobs pay, and this is what Senator White was referring to, the four grade H jobs, which are the first jobs on there, range from a salary of \$70,000-165,000. Pay grade E, as you move down the page, is \$41,000-83,000 job, and pay grade A are \$25,000-44,000 job. Dennis spent a little bit of time sharing with you some of the challenges we have in recruiting some of those people in, and our manager of recruiting is going to speak to you in a little bit. But I would like you to focus a little bit on page 5. Page 5 isolates just those jobs in our corporate headquarters. For those of you that have been to Sidney, that is generally the jobs in the building behind the retail store. We have gone from 790 positions in 2003 to 1288 today. We expect that to be over 2,000 jobs just in our corporate headquarters by 2011. But as you can imagine when you already are responsible for 43 percent of the payroll in the county,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

virtually all of those jobs will come in from outside of the county are people that we need to recruit to the area. Just to give you a little sense for the condition of our schools, and there are some pictures in the back, but the current school system in Sidney, and this may not be dissimilar to other parts of the state, but the high school in Sidney was constructed in 1929, and our three elementary schools were constructed in 1929, 1959, and 1964. Like many areas of the state, Sidney operates in aging or substandard facilities when compared to their urban or suburban counterparts. This makes it very difficult to attract new employees. One of the challenges we have in trying to get a bond issue passed, and we have tried twice in the past. One of which was a \$16 million bond issue, whether it was \$1.8 million of private moneys donated to get it passed, but it has to do with the aging of rural Nebraska. For example, Douglas and Sarpy County residents over the age of 65 comprise 10.7 percent and 7.6 percent of the residents, respectively. Residents over the age of 65 comprise 15.7 percent of the residents of Cheyenne County and almost 28 percent of the residents at Garden County. And these are residents of our communities that feel disconnected from the school district because they no longer have children involved and it is very difficult to get a bond issue passed with that high percentage of elderly residents. The Business Partnership and Rural Education Program Act, LB498, would provide corporations in Nebraska that receive tax credits a significant incentive to partner with their local school districts to provide more resources to local systems. Businesses that have earned various tax credits in Nebraska would be able to donate these tax credits under three conditions: the school district would have to be in a community of less than 30,000; the employer would have to make a cash contribution of 75 percent of the credits; the tax credits would be paid in equal installments over ten years; and there would be a cap over four-year period of \$10 million to any one school districts in Nebraska. I would encourage the committee to support LB498. This bill helps to address three major issues in rural Nebraska: property tax relief; improving our school systems; and economic development. And I know I need to wrap up here, but I would like you to just focus a second on page 9 of my presentation. Page 9 of my presentation outlines the Fortune 1,000 companies that are headquartered in Nebraska, and as you will notice as you look down the list, 7 of those 8 companies are located in Omaha. Only one of them is located in rural Nebraska. With LB498 about is about whether or not it is possible for Fortune 1,000 companies to operate outside of the Omaha metropolitan area. And as you heard from Dennis and myself, we of Cabela's believe that is possible, but we are asking to partner with the state to make that a reality. So with that, I will take any of your questions. [LB498]

SENATOR KOPPLIN: Questions for Mr. Castner? I see none, so that you, sir. Next proponent. [LB498]

JOHN HAKONSON: Members of the Education Committee, I am John Hakonson, superintendent of schools in Sidney, Nebraska. I am here representing the school board of Sidney Public Schools as well the Nebraska Council of School Administrators. Ralph and Dennis have done a great job, I think, of elucidating the major points of this bill. I

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

would only add a couple of points. One is Sidney, despite having this fantastic company in our midst, has one of the lowest property valuations of all schools in our class and the 28 Class B schools in the state. We have the fourth lowest valuation. We have a \$436 million tax base. The average for Class B is \$741 million. This is a \$305 million variance from the average, or about 41 percent below that average. A similarly sized school district, like Waverly, has over \$1 billion in valuation. So when you get to setting bond levies, it is a lot easier, I think, to pass a 10 or 12 cent levy than it is 20-25 cents, which is the range that we have had in the last 2 failed bond attempts. I think that contributes to the challenge that we face in getting a bond issue to pass in Sidney. The other point that I wanted to make was in addition to Cabela's recruitment challenges, the school district also faces recruitment challenges in the Panhandle. We are but an hour's drive from the state of Wyoming that has made a huge investment, both in terms of teacher pay and in, actually, the construction of schools in that state. And we compete with Chadron State College and the University of Wyoming for those graduates, and I have got a teacher right now that is debating leaving because the base pay in a neighboring Wyoming town is \$35,000. So I think LB498 helps to level that playing field not just for business in Nebraska, but also for education, our interest. I guess those are my two points. I won't be redundant, answer any questions. [LB498]

SENATOR KOPPLIN: Okay. Thank you. Are there questions from the committee? Seeing none, thank you, sir. [LB498]

JOHN HAKONSON: Thank you. [LB498]

SENATOR KOPPLIN: Next proponent. [LB498]

LORY POPPS: Good afternoon. I thank you guys for letting us speak with you today. I am Lory Popp, last name P-o-p-p-s. I am the senior HR manager for recruitment for Cabela's. I have been with Cabela's about four months now, and I already see the challenges that we have with the company. I formerly was a senior director for a \$2.5 billion recruiting firm out of West Palm Beach. Very fortunate to be able to live here in Lincoln as my base for those years and raise four children in the Lincoln school district. So it was great. I appreciated the school system that we have. But very challenged out there in Sydney, Nebraska at this point. I guess I think about the recruiting needs that we need in a population of 6,500, and what we have to do is sell the low crime and the family atmosphere, a great company to work for that is growing. And that is about the only way we can sell because when someone asks us over the phone we start recruiting for them and ask what about your schools, what are they like, and we actually try to avoid that subject. What happens is they come on-site and we have to give them a tour, not that we have to, we do give them a tour of town, and if they ask about the schools, we go by them. And a situation that we had recently was a couple that came in, they were both actually coming in to talk about two different positions. The husband and wife and total salary between the two of them about \$150,000. They had a child that

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

was three years old and after the tour of the town...the morning went great. We had interviews set up all day with them. We took them to lunch. After that we gave them the tour and on the way home they called us and said we are not interested. We just don't want to raise our son in the schools. It is just not something that we want to do. And you would be surprised how many candidates we have lost because of that. And I think of all the different things, the four months that I have been there, with my team what we are doing actually, we are attending 60 different job fairs this spring and summer. We are joining college partnerships and having night before meet and greets during these career fairs. We are developing new college cooperative internship programs. We are advertising our opportunities in our catalogs and our outfitter magazine. We are using billboard advertising. We are posting all of our jobs on college web sites, move back to Nebraska web site, Lee Hecht Harrison, and many job placement boards including Monster and All Retail jJobs. We are working with 48 recruiters right now to get people to come out to Sidney and including my team of 6. So we are constantly struggling with getting people out there to Sidney. We are even building an assessment, a Cabela-specific assessment, to be able to see if they are a fit culturally to see what kind of school system that they need. So we don't waste the money. We spend about \$1,000 for every candidate that interviews with us, by the time we fly them in and spend all the time and everything that we do with them. So these are just a lot of the different steps that we are taking. And I guess what I am asking is, for something like this for us, we could bring many more individuals and candidates to Sidney and work for Cabela's and to be able to move to Nebraska. Thank you. [LB498]

SENATOR KOPPLIN: Okay. Thank you, Lory. Are there questions for Ms. Popp? Senator Johnson. [LB498]

SENATOR JOHNSON: I guess, again, more just a comment than anything. Isn't it kind of neat really that people are that concerned about their kids' education that that has becomes a big factor in where they want to raise their families and so on? [LB498]

LORY POPPS: I think it is very exciting. [LB498]

SENATOR JOHNSON: I think that should tell us quite a bit. [LB498]

LORY POPPS: Yeah. It does. Well, you would be surprised, if it is the husband actually coming to work to Cabela's, he is pretty excited on the whole culture and the excitement of the company. But the wife will say, I am not moving out there. I am not going to have the children go through that school system. So it is exciting. Yes, it is a family decision. But I can see it is just one more challenge that we have. [LB498]

SENATOR KOPPLIN: Okay. Other questions? Thank you very much. [LB498]

LORY POPPS: Thank you. [LB498]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR KOPPLIN: Next proponent. [LB498]

JOHN BONAIUTO: Senator Kopplin, members of the committee, John Bonaiuto, J-o-h-n B-o-n-a-i-u-t-o, here to support LB498, and Senator Avery is always so kind because he helps me whenever I am in this position. He asked the question about school board members. This is a school board member's dream. One of the things that we have had in our little booklet that you all have in our resolutions and standing positions is a standing position that is called our business and education partnerships, and the NASB encourages boards of education to develop mutually beneficial partnerships with businesses to ensure mutual understanding and cooperation to improve the school system. To have Cabela's and the Sidney Public Schools come forward and working with Senator White on this bill, it opens up a much-needed door to allow school boards to have discussions with local businesses to help bring something back to the community to improve the school district. Such positive communications and relationships and partnerships. We talk about these things, but here is a bill that actually allows something to happen. And so we wholeheartedly support this and would urge the committee to ascend LB498 to the floor. [LB498]

SENATOR KOPPLIN: Questions for John? This is beyond a positive neutral then? [LB498]

JOHN BONAIUTO: You bet, Senator. I really felt bad that Senator Raikes was out of the room when I was...you know, I am trying to do better. Thank you. [LB498]

SENATOR KOPPLIN: Okay. Thank you, John. Are there any other proponents? [LB498]

SHELLEY NIENHUESER: Hi. I am Shelley Nienhueser, N-i-e-n-h-u-e-s-e-r. I am here as a concerned citizen in support of LB498. Currently, I have two children in the Sidney Public Schools. This is our third year in the district. A little bit about how we got there, I graduated from Burke High School in Omaha, and my husband graduated from Sidney Public Schools. Our children have attended elementary schools in OPS, in Gretna, prior to being transferred to Castle Rock, Colorado. For six years, our children attended Douglas County Schools in Colorado, and this district was known as the fastest growing school district in the country. It actually utilized year-round schools to accomplish that growth. Bond issues were passed and schools were built, similar to what has been happening in Millard, Elkhorn, and Gretna. So my family has been a part of several districts that have been growing. Four years ago, my husband and I were contemplating a move to Sidney, Nebraska. Of top priority was the school district. Since my husband was born and raised in Sidney, we were familiar with the schools. Class sizes were good, they were at 20 kids. Average ACT scores that particular year were higher than Douglas County in Colorado and also higher than the average Nebraska state ACT score. We weren't really concerned with the quality of education, we knew it was good,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

nor the quality of teaching, but we were very concerned with the age and the condition of the buildings of the schools. Our high school is 78 years old right now. But needless to say, we made the move to Sidney despite the condition of the schools, knowing that a second attempt to pass a bond issue was coming. We worked very hard to pass the bond issue. It became clear that the Sidney school district was dealing with a tough and unique issue, a small tax base trying to pay for a new schools yet at the same time maintaining the affordable property tax rate. The attempt failed. I believe that citizens of Sidney agree that there is a need for new schools, but they simply cannot afford higher property taxes. More people moving into Sidney would help with the tax base, but that is a hard sell if they have school-aged children. Some families have chosen to live in Sterling, Colorado, which is like 30 miles south of Sidney because of the schools and the high property taxes. These people commute 40 miles to work in Sidney. Our experience before Sidney was every bond issue brought before the vote passed, but the difference is urban school districts versus rural districts, a large tax base versus a small tax base. LB498 is a solution to rural school districts who do not have the tax base that urban school districts have, and I would certainly appreciate your support of LB498. Thank you. [LB498]

SENATOR KOPPLIN: Questions from the committee? Seeing none, thank you very much. Are there other proponents? Are there opponents? How about neutral testimony? Okay. Then that will end the hearing on LB498...wait a minute, Senator White, did you want to close? [LB498]

SENATOR WHITE: I waive, thank you. [LB498]

SENATOR KOPPLIN: Okay. That will end the hearing on LB498, and we will turn to LB492. Is Senator Harms here? Okay. He'll be here in a moment. [LB498]

SENATOR KOPPLIN: Okay. Senator Harms has arrived so we will open the hearing on LB492. Senator Harms, your opening. [LB492]

SENATOR HARMS: (Exhibit 6) Thank you, Senator Kopplin. Senator Kopplin and committee members, my name is John N. Harms, H-a-r-m-s. I serve as a legislative representative from the 48th District. Senator Kopplin, thank you very much for allowing me to come in and share with you my view on LB492, which is a Schools Facilities Act state aid program. One of the things that I have become very aware of over the years, particularly in rural America, that our schools are deteriorating, our facilities are no longer appropriate, our teachers are not being given the appropriate tools to use. Some of our facilities, classrooms are so small and so old that we can't even put the up-to-date new technology in there. We can't afford the technology. We cannot afford the remodeling. And a lot of that is caused because people are tired of the increase in the property tax. And I know what the arguments are on both sides of this issue. But it is an issue for us, and it is something that I think is extremely important. I think that we

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

need to put our children in a learning atmosphere that's conducive to learning, and when your facilities are poor, when some of them are not completely handicapped accessible, it does not say much of what we are thinking in the state about our children's education. I think the environment that you find yourself in, there is a relationship to how you learn and how you accept what is being taught to you and whether you end up being a good student. One thing about this bill, one thing it will do is it will bring about equal access to educational opportunities. The Nebraska policy will be that it is not going to be based on the wealth of a community. And the way that this formula works, if you have a high assessed value, you probably will not be rated real high in qualifying for some of these funds. There are many states that have already are contributing in a variety of different ways for state aid to construction or remodeling of the public school facilities. We are one of the only few states left that is not contributing in this manner. One thing that it will do in the future, it will assist us in our property tax. It will also make sure that the communities that need the help most will get the help. The funding formula will self-sort out any communities which may not need new buildings. But I think it would encourage consolidation. One of the things you will find in this bill is that if you are willing to create a learning community that should get another 15 percent added on. It's an encouragement and I think it is so very important, particularly in rural America, when you go to the State Department of Education, their web page, and take a look at the number of children and their date and research coming into our school systems across the state, it's a direct decline over the next ten years. And to provide quality education to encourage cooperation to build partnerships in rural America, you are going to have to have some way to encourage people to go that direction and get rid of the competition between towns and cities and school districts, because I think it's so important. And by encouraging them to come together to build learning communities, I think are extremely important. And I believe in the future, maybe more than an urban America, that will be the only way that our rural schools will be able to survive. They are going to have to change how they approach their educational system. This bill does not encourage new buildings that are not necessary. We will have a screening process that is in here, the policy is in here to deal with that. It does definitely encourage consolidation. It does encourage partnerships. It does encourage relationships that, quite frankly, we may not have in the future unless we provide some type of assistance. One thing that I like about this bill is that it creates a Educational Facility Review Board. This is not another layer. It's put right into the State Department of Education, where it belongs, and it will be made up of seven members. Your part of the bill might show six. We have amended that. I forgot to bring that to your attention. These amendments are just minor amendments, and I probably will not go over that and waste your time about it. Those did not have any major changes in the whole process of this bill. But it will be of seven members. You also find that the commissioner will head this particular facility review board, and then the State Board will appoint the members, stagger their times when they come in and they go. And the State Board will be responsible for taking this law, if it would so occur, and using what we have listed and identified are the components that we would like for them to consider as they look at these facilities and

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

look at the projects for being submitted, the application forms that they are being submitted. There are deadlines here to when that has to be done. There are deadlines when the standards will have to be developed, the application form would be developed. It is all spelled out in the law. One of the things that it does bring forth that I think is very important is that the State Board will require the districts to communicate with each other, with other political subdivisions, talk to them to see if there are any partnerships that can be created that's within a 15-mile radius so that we bring people on deck that can help each other and look at not wasting the dollars and wasting the facilities that we might want to construct and know for sure that it officially is going to serve the area, know for sure that the current facilities are not appropriate, and that if we look at the future we will have the proper facilities for that district. And that's why it's so important that we encourage the learning community, because I think that's the way that we're going to have to go. In some of the school that I have in my district, in my region are in western Nebraska need to do that, and I don't think that would happen unless you can encourage them to do that. There are a lot of other things in this bill I think that bring out the importance of it and the criteria for it, and I think that it's important to at least go through that and take a look at those and hopefully if you want to make some changes, feel free to do so. The idea about all of this is just to make this better to get to the issue to help provide assistance to the schools that need it. One thing about it, if the schools who have made application are turned down, they have a right to appeal. They can appeal this directly into the State Board of Education. So there is an outlet there if it's not taken care of appropriately. One of the things I would like to do, if I can Mr. Chairman, is introduce Tim Kemper. Tim understands this funding formula that we have applied to this much better than I do, and I am smart enough not to get into that very far. I would like to have him come forward and visit with you. First, I want to clarify some things for you. He is here by my invitation. He is not here representing the Lincoln Public School system. This is not a Lincoln Public School system bill. This is a bill for Nebraska, for rural America, for all the schools that qualify. He has just simply come forward because he has the knowledge that I don't have in regard to this funding aspect. So if you would allow me to do that I would appreciate that, and then I would come back and answer any questions. I may not be able to close on this because of some issues that are coming forward in regard to the Appropriation Committee that I don't want to miss and I can't miss. So I would appreciate it if I could do that. [LB492]

SENATOR KOPPLIN: Okay. Tim, would you like check in and give us the answers. [LB492]

TIM KEMPER: (Exhibit 7) Members of the Education Committee, my name is Tim Kemper, K-e-m-p-e-r, and as Senator Harms indicated he has asked me to come and talk with you about LB492 and specifically about the funding strategy that is incorporated in it. This is not a new concept to the Legislature. It has been discussed in various forms over much of my career, starting when I was still at the Department of Education, and I would start by just observing a few things. One is I was really gratified

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

to hear John Bonaiuto from the school boards association say earlier today that basically everyone agrees that equalization is the right concept. It hasn't always been that way. It hasn't always been quite that unanimous that that was the right concept. So it is gratifying to hear that. But one of the things that has always struck me is that while we have settled on a pretty straight forward concept of equalization for the operation of schools, which is manifested in TEEOSA, the Tax Equity and Educational Support Act, we have continued in this state for whatever reason to leave the money to construct and renovate facilities almost exclusively to the local property tax. I would just point out a couple of things from the current language at the beginning of TEEOSA about the intent of TEEOSA. One is that it is to reduce the reliance on property tax for the support of the public school system. And what this bill would do is expand that concept beyond operations to facilities. That it would broaden financial support for the public school system. Again, it would not be just property tax funding facilities for school districts. That it assure a greater level of equity of educational opportunities for all public school students, and I could not have orchestrated a better presentation on this issue than the one you just heard from Cabela's on the former bill, because as you will see with the data that I just handed out, Sidney could be a poster child for this bill. And then also assure a greater level of equity and property tax rates for the support of the public school system. I appreciate Senator Harms pointing out that this isn't really a particular Lincoln issue because on the list that I gave you, these are all of the school districts from the 2006-2007 state aid certification and this is right off the Department of Education's web site, and the average taxable valuation per weighted student, and this is very simple and relatively approximate, is about \$316,000. The funding strategy in this bill says the more valuation you have already got locally per student, the less state support you are going to get. And in fact the red line on your handout is the line of demarcation. The districts that are above that line are more than double the statewide average valuation per student and under this particular formula would receive no state support for their facilities. Then as you go down rank 12 is Southeast Nebraska Consolidated. They are almost double the state average valuation per student and they would get a tiny amount. This factor is a factor that would be applied to their bond debt retirement and interest. And then as you go through the list, you will see that as the district's valuation per student declines, they have less and less local tax base to support those facilities, the support factor would go up. Now, again, this is only for school districts that have bonded indebtedness, either through general obligation bonds issued through Chapter 10 of state law or limited tax obligation bonds issued through the qualified capital purpose undertaking fund, and then only subject to the restrictions that Senator Harms alluded to, which is the review by the panel at the State Department of Education. But if all of those criteria are met, this sliding scale of support is a means of equalizing the degree to which the state partners with local taxpayers to provide for facility needs. If you go to page 4 of the handout, you will see a green line. That green line is the imaginary district that is right at the state average valuation per student, and as you can see, they would get 10 percent of their debt service assistance from the state. And then that level of assistance would continue to increase as you go to the very

lowest valuation per student districts in the state. And as we go to the very last page, page 5 of 5, I would just note a couple for you. And by the way, as a way to show this isn't really a Lincoln thing, we were clear back at number 133, right about in the middle. But on page 5 of 5, rank number 217 is Scottsbluff Public Schools. They have \$268,000 per student, which is only 84 percent of the statewide average, and therefore they would receive about 23 percent as the factor of the share of their debt service that they would get from this state aid program. I would just point out that I noticed rank number 220 is Sidney, and you just heard a presentation about Sidney on a different bill. And then if you go down further, down to 247, actually below Bellevue Public Schools, which people tend to think of as being a very, very, very low valuation per student school district, but actually having less value per student than Bellevue is number 247, Gering Public Schools. So those are the kinds of districts that this bill would be particularly geared toward, which are those that have the very lowest local tax bases and therefore have to exert extraordinary local property tax effort to provide for their facility needs. And with that, I would be glad to respond to questions. [LB492]

SENATOR KOPPLIN: Are there questions for Tim? Senator Johnson. [LB492]

SENATOR JOHNSON: I guess I don't know how to express this but one of the things that I'm concerned about as far as the state of Nebraska is concerned is that we look to the future rather than to our past, and with that, what I look at is the tremendous change in demographics that we have in this state. And related somehow to this is where our schools are going as well and the ability of schools to merge for efficiencies and this type of activity so that we become more efficient in our local government as well as our attempts here to become more efficient at state government. What concerns me, and Senator Harms gave the illustrations where this would be helpful and I guess I would like to have some illustrations of this, of where the formula would into cause us to look to the future by mergers and that type of thing as opposed to funding the past and preserving the past. [LB492]

TIM KEMPER: I think I understand the question, Senator. There is kind of a two-step process here. One is that to be eligible for this aid, you have to meet the criteria that Senator Harms described, and it includes things like is there another facility already nearby. We all have heard anecdotal information about a district that builds a building as a means to avoid getting consolidated because if you have the newest building, you are going to be the district that ends up when the dust settles. That would be up to that panel at the Department of Education to determine whether this building is being built because it's needed and enhancing efficiency or whether it's being build for some other reason. And I would note that this bill wouldn't stop local communities from building whatever buildings they want, but it wouldn't ask the state to help support the ones that weren't deemed to be necessary by that panel. The other thing I would note is that because the funding of facilities is so property tax intensive, it becomes very, very conducive to local communities to look together to build facilities because they get to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

use a broader tax base of current multischool districts to build one facility that they can share. And as we've certainly experienced here in Lincoln, we look at every opportunity to leverage the building of public buildings with other governments. For example, many people are familiar with our city rec centers that are located within our schools. We're about to embark on a new process where the new middle school in Fallbrook, north of town, will be in cooperation with a YMCA. Whereon one central facility there will be a public school district, a recreational facility, and a YMCA facility sharing certain resources. So my answer would be that between the review process at the Department of Ed that determines whether you do get this support or not and the inherent efficiency of a broader community servicing the debt on a new building, I think those future needs are being reflected in the bill. [LB492]

SENATOR KOPPLIN: Senator Adams. [LB492]

SENATOR ADAMS: I don't mean to be the devil's advocate. That is not my intention with this question. I had the good fortune of teaching in a fine facility for 31 years and know the advantage of it. But I have to ask this question. If I am a taxpayer in the Centennial Public School district and I am a nonequalized district and I look at all the benefits and I say to myself, okay, I am really not crazy about sharing my tax base with others, but when it comes to curriculum and feeding kids and doing those kinds of things, I can live with that. But why should I have to share my tax base for bricks and mortar? How do you respond to that? [LB492]

TIM KEMPER: Well, Senator, I would respond in several ways. Number one, I have always found it personally ironic that there is that distinction, that the money for teacher pay and books is somehow different than the money for a decent facility to deliver those services in. The other example I would give is Nebraska is an interesting state. Our population is not spread very randomly across our state, and yet we have good public roads all over the state. We certainly have used things like the Highway Trust Fund that collects a lot of taxes in more populated areas of our state to build roads in less populated areas of our state. That is a process of taking revenues from where they are and putting them where the needs are most. Now, if I am a Centennial taxpayer, I may not like that policy choice the best. On the other hand, if I am a Centennial taxpayer, I have been getting the benefit of having a super-resourced district for as long as there have been school districts in Nebraska. I have received state aid that is above and beyond what other school districts get because I am out of the formula. I'm getting state aid, whether it be net option funding or allocated income tax that I wouldn't get if I was an equalized school district. Actually, I have always found it ironic those districts are the very ones that have had the most benefits in our system, not the least. [LB492]

SENATOR KOPPLIN: Senator Johnson. [LB492]

SENATOR JOHNSON: I'm afraid you made the mistake of mentioning roads. Because

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

what I see in our road system in Nebraska is that we, over the years, have developed the policy where the road system that we have in place 50-60 years ago is now maintained without looking to the future as to what roads might be put in place for the tremendous changes in our population densities and so on that I could make a good argument that the Roads Department by the way they function doesn't look to the future. It does look to the past. It does maintain the roads everywhere in the state but doesn't consider building new roads where the opportunity to grow the state is. So, do you see where I'm concerned about what you're doing, or suggesting might be better. [LB492]

TIM KEMPER: I do understand, Senator, and certainly one of the things about this bill that some people would probably see as a benefit and others might not is that it is primarily driven by a local decision. It is still primarily driven by a local community deciding to do a bond issue to meet the facility needs of their students. And one of the benefits of that is, as I see it, school districts now when they pass a bond issue know that they are going to be paying off all of those bonds with property taxes. Their boards know that when they propose a bond issue. Their taxpayers know it when they approve a bond issue on a ballot, for example. This would certainly make that situation no worse and arguably is about as direct of property tax relief we can give from the state because ideally these projects would have happened anyway. We are going to simply equalize the tax burden to address those needs better than we do now. As for deciding where those schools ought to be, you're right. The state would not be involved in that decision in a proactive way. It would certainly be involved at that state panel level at preventing state funds going to support buildings that that panel didn't believe were necessary. But in terms of building a strategic plan for where buildings might need to be in the future, this bill would certainly leave that at the hands of the local elected boards. [LB492]

SENATOR KOPPLIN: Other questions? Tim, on the workings of how this would work if say I'm Alliance, which is pretty low, and I need a \$12 million building and did everything right, I could qualify for \$3 million because it's 25 percent? [LB492]

TIM KEMPER: Well, it would actually be more than that because this would pay that percentage of both the principle and the interest on an annual basis. [LB492]

SENATOR KOPPLIN: Okay. That was my next...so this is not money up front. This is paying it every year for the 20-30 years that they...okay. [LB492]

TIM KEMPER: Yeah, typically limited tax obligation bonds are 10 years in term, general obligation bonds are 20-30. And the way the formula is written, the Department of Ed would first have to have an application and...I'm sorry? [LB492]

WOMAN IN AUDIENCE: (Inaudible). [LB492]

TIM KEMPER: It's up front each year. It's up front each year. [LB492]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR KOPPLIN: Okay. [LB492]

SENATOR ASHFORD: Well, it's either or. [LB492]

SENATOR KOPPLIN: Either way you do it. We will get it straightened out later. Okay, and this is putting what, \$30 million year in? Is that what the fiscal note was? [LB492]

SENATOR AVERY: Yes. [LB492]

SENATOR KOPPLIN: So you're serving... [LB492]

TIM KEMPER: And there's a proration factor so that whatever money is available gets allocated proportionately. [LB492]

SENATOR KOPPLIN: So you could deal with 10-15 bond issues a year. [LB492]

TIM KEMPER: Depending on the size of them. [LB492]

SENATOR KOPPLIN: Right. Other questions? Thank you, Tim. Senator Harms, did you want to... [LB492]

SENATOR HARMS: Yes, I do. Thank you, Tim. You can now see why I asked him to come up. I did want to follow up, Senator Johnson, with your thoughts in regard to the future. This thing really is designed for the future. If you really want to get to it, just change the 15 percent, 25 percent, 30 percent, whatever you like because that will force them to the table to put the learning communities together. I think it's so very important that if we are going to get the future that we don't force them there, but we can surely entice people to come together. If you pay them enough money they will be there. Senator Avery, in regard to your thoughts and questions, this does not rule out technology. There are just so many things we could do with the technology to bring these schools together and do some of the creative things that I think we need to do. The problem, as I said earlier, that we have is that so many of our rural schools, they have to do so much remodeling to be able to even get into the new technology. They are just too small, some of classrooms. They don't even meet some of the qualifications we have now for new schools. So I think there are lots of opportunities here for us. I'm giving you this bill for consideration. I would hope that you would support it. Make whatever changes you think are good. You're not going to bother me because I think the idea of this has to come about, and if we are not successful this year I'll be back, because I think it's important enough for us to go on and look at the future because as I look at rural America and some of the things you were talking about, Senator Johnson, we're going to have to change the way we provide education. We're going to change the way we think. And we cannot follow the roads of process, because you're right. Things

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

are changing. We are seeing such a great movement from rural to urban America, and what I'm most concerned about because I've lived there for all my life is making sure that our kids have equal access to quality education. And I think some of that fits so strongly into the kind of facilities the kids are in so that it's conducive for learning. And so I would really appreciate anything you could do to give this consideration, and I thank you for your time. And I'm sorry that if there is someone else to testify I can't close because there's some issues coming across the hall that I definitely want to be involved in. So thank you very much. [LB492]

SENATOR KOPPLIN: Any questions for Senator Harms? Thank you. [LB492]

SENATOR HARMS: Thank you. [LB492]

SENATOR KOPPLIN: Proponents for LB492. [LB492]

MILFORD SMITH: Senator Kopplin, members of the Education Committee, I am Milford Smith, M-i-l-f-o-r-d S-m-i-t-h, representing the Nebraska Coalition for Educational Equity and Advocacy. We're composed of mainly a lot of small rural schools. Facilities are an issue in rural Nebraska, as you've heard from the previous testimony. I think it would enhance learning communities. I think it would enhance consolidation. Prior to working with NCEEA, I was a superintendent of schools in a small school in southeastern Nebraska in the town of Diller. We consolidated with Odell because most of the schools were losing numbers and we were losing funding. One of the considerations was where are we going to have a high school, where are we going to have an elementary because we could not afford to build a new school. Neither school could handle all the students that were going to be there. Mr. Blomstedt probably drastically remembers of how this decision came about as he attended a couple of my board meetings. Now Diller and Odell, which combined six years ago, has lost enough population that they're approximately the size that Odell was when they consolidated with Diller. Now to become more efficient, they could use one facility. If that facility was adequate to handle those kids they could eliminate some bussing, they could eliminate some teachers, they could consolidate or have a unified district with some help on facilities. Nebraska's one of 16 states in the nation that does not have a facility program within their state aid. I would urge you to look carefully at this, see if we can work it out. I think the concept of learning communities would be available if you could take 4 or 5 or 6 schools and within a reasonable distance of miles build a high school that would house all of the smaller schools that maybe has 100 or 200 in them. But the thing that holds them back whenever you try this you have to do a property tax assessment, a bond issue. I know schools that have tried bond issues three and four times. Ironically, there's a little school down here in southeastern Nebraska called Sterling that passed an override election to fund their budget, but their facilities were condemned by the state and it took them three votes for a bond to get a facility to that they could carry schools on with an override election. These issues have to be addressed if we want equal and adequate education

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

for all children in Nebraska, and I'll conclude with that. I would be happy to answer questions. [LB492]

SENATOR KOPPLIN: Are there questions for Mr. Smith? Thank you, Milford. [LB492]

MILFORD SMITH: Thank you. [LB492]

SENATOR KOPPLIN: Next proponent. [LB492]

DON HAGUE: (Exhibit 8) Good afternoon members of Education Committee and Senator Kopplin. I am Don Hague, D-o-n H-a-g-u-e. I am superintendent of Gering Public Schools. The city of Gering is located in the panhandle of Nebraska, adjacent to Scottsbluff. In fact, the average person cannot tell whether they are in Gering or Scottsbluff. Gering's enrollment is currently 2,144 students, and over the past 5 years, we've gained 20-25 students per year. The community of Gering is largely residential and continues to build homes in the \$100,000 price range which are attractive to young families. Our communities and schools strive to meet the demands of providing an effective and efficient educational program to all of our students and have the reputation of doing so. The Gering school district is able to fund these programs due to Nebraska's equalization formula, which offsets the lack of local resources in low assessed valuation districts like Gering. The valuation of Gering is \$465 million. Scottsbluff has an assessed valuation of \$980 million and serves only 633 more students. Scottsbluff has twice as much property valuation and only 633 more students. Both districts are attempting to pass bond issues that would provide much for our needed facilities. Space is limited in our buildings. Our aging facilities require more annual maintenance to provide adequate learning environments for our students. The budget only continues to allow us to continue to maintain our facilities. It's impossible to facilitate new technology appropriately. Three bond issue attempts failed during the 1990s in Gering, so Gering students are forced to learn in aging buildings. The proposed bond issue does not address all of the student facility needs of the district. However, the additional tax burden for the bond would place our taxpayer prohibits the school board from asking for all that we need. Scottsbluff Public Schools proposes a \$19.6 million bond issue. The taxpayers who reside adjacent to Gering will pay \$157 per year on \$100,000 of assessed value on a 20 year bond. Gering Public Schools is considering an \$18 million bond issue and if it should pass, the Gering taxpayers will pay \$340 per year on \$100,000 of assessed value on the same 20 year bond, but for \$1.6 million less. Local wealth of a district should not determine the quality of environment in which a student may learn. LB492 is an attempt to provide state-supported equalization aid for facility bonds. Districts statewide would qualify for aid to assist with funding of bonds on the same basis as the formula for funding the general funds needs of school districts. The districts with the least amount of property value would receive the greater amount of aid from the state. Nebraska, like you have heard before, is one of only a few states that do not support bonded indebtedness for school districts. At a time when a great deal of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

discussion is taking place about economic development, and I set and heard the testimony from Cabela's, I can think of no better way to support local school districts so they may support not only quality education but economic development as well. LB492 will do both. On behalf of the students in Gering Public School in particular and all of the students of Nebraska, I would urge the committee to pass this bill out of committee in consideration for the full Legislature. That concludes my testimony, and I would be pleased to respond to questions. [LB492]

SENATOR KOPPLIN: Questions for Dr. Hague? I see none, so thank you, Don. [LB492]

DON HAGUE: Thank you. [LB492]

SENATOR KOPPLIN: (See also Exhibit 9) Are there other proponents? Are there opponents? Neutral testimony? Seeing none, we will close the hearing on LB492. And we are going to take a little break. [LB492]

EASE [LB614]

SENATOR KOPPLIN: Okay. We will reopen the education hearings and proceed to LB614. Senator Raikes to open. [LB614]

SENATOR RAIKES: Thank you, Senator Kopplin, members of the committee. I am sorry for the delay, but we will get right onto this. Ron Raikes, here to introduce LB614 and then whatever the next one is. [LB614]

SENATOR KOPPLIN: LB655. [LB614]

SENATOR RAIKES: LB655, and I am using Senator Friend as my model today. I am giving you both sides of the issue in two consecutive bills sort of, but hopefully that will become clear as we go. And my apologies to Senator Friend. That was meant to be a compliment. LB614 proposes the following: to continue to use the adjusted valuation practice that has been a part of the determination of local resources available to local school districts. The adjusted valuation of each school district be based on the taxable value certified by the county assessor for each school district in the county adjusted by the level of value of the county in which all or part of the school district is located as established by TERC. If the property tax administrator finds that the level of value of the county is different than the level of value of the school district by more than a mere difference of opinion, that is in the proposed statute, the property tax administrator may determine the level of value for the school district. If the property tax administrator finds that through the action of the county board of equalization the level of value of real property has been significantly altered, the property tax administrator may determine the level of value for the county or any school district located in the county. Let me give you just a little bit of background now. And Cathy Lang is here to provide expert testimony,

but we have statewide equalization for good purpose. We need to reflect in the aid formula the resource available to each school district so that we can compare that to the need for that school district and provide or not provide state aid as would be appropriate. The statewide equalization is important because if you don't have that, then you might have a county that underassesses or assesses a very low level of their property therefore understates the resource they have available and would make themselves eligible for more state aid, and, of course, the counter is also the case. This deals with the determination of assessed value, which occurs annually, and, of course, a school district as you understand has the assessed value to levy against. The adjusted value is based, or has been based, on assessed value, but it is used in the aid formula to determine the resource base and therefore whether or not there is state aid. If you are a school district, you would like to have your adjusted value, if you have a choice, you would like to have it a lower rather than a higher because that way you look poorer in the aid formula and would be entitled to more state aid. Similarly, you would not like to have it higher rather than lower for the same reasons. The purpose of LB614: to address the circumstance that has surfaced where the percentage of the value set by the property tax administrator was higher than the determined percentage of valuation ultimately used by the county board. When a conflict arises between school districts and this adjusted valuation process, the school districts have typically asked for an adjustment to move to more closely reflect the assessed value actually available to them. And, again, if you are school district, you would like to have, other things equal, a higher assessed value rather than a lower assessed value because you can levy against that assessed value and get property tax receipts to operate your school system. In the more recent circumstance, the issue is that the value used by the county was a base that would have increased the adjustment. In this circumstance, the process would have resulted in lowering the adjusted value, and that has resulted in a rationale for the bill. The adjusted valuation process: intended to as closely as possible account for the local values available to school districts. If we underestimate, we distribute more aid than necessary. If we overestimate, we distribute less aid than necessary. The process has significantly improved our efforts in equalization. And, again, Cathy Lang is here to absolutely and completely totally clarify every aspect of this bill and anything else you would like to know. I should mention that the fiscal note, which I think has like a \$35 million tab or some such amount, which very, very unusually for the Fiscal Office, was done in error. Somehow, the assumption got in there that we intended to change the process of valuation for purposes of state aid calculation and that was the cause for that. We don't expect a significant fiscal note from this bill. With that, I will stop and if you have got some questions, try to address them. [LB614]

SENATOR KOPPLIN: Senator Avery. [LB614]

SENATOR AVERY: Is there an opportunity somewhere in the process to get a corrected fiscal note? [LB614]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR RAIKES: Yes, there is. [LB614]

SENATOR AVERY: Because this would follow the bill through the process, right?
[LB614]

SENATOR RAIKES: It would. Yes. It is a good question. I am not sure if we could ask for a corrected fiscal note as a part of our committee deliberations. I think we could. If not, it would certainly be revised if the committee decided to advance it. [LB614]

SENATOR AVERY: I am glad Cathy is coming next because I am thoroughly confused by you. [LB614]

SENATOR RAIKES: I have been successful then. [LB614]

SENATOR KOPPLIN: Other questions for Senator Raikes? Senator Burling. [LB614]

SENATOR BURLING: Senator Raikes, your goal here is to work closer with assessed value and less with adjusted value? [LB614]

SENATOR RAIKES: Actually, it has more to do with the process of coming up with an adjusted value, given that there is an appeal and a change in the assessed value. So it is more procedural. It is not philosophical in the sense of we are going to switch from assessed value to adjusted value or vice versa. It is procedural. [LB614]

SENATOR BURLING: That might have been the reason for the fiscal note, that they didn't... [LB614]

SENATOR RAIKES: Yeah. In fact, I think that is right. They did interpret it as a sort of a philosophical change in direction. [LB614]

SENATOR KOPPLIN: Other questions? Thank you, Senator Raikes. First proponent. [LB614]

CATHERINE LANG: Senator Kopplin and members of the Education Committee, my name is Catherine Lang, that is L-a-n-g, and I am the property tax administrator for the state of Nebraska. I appear before you today in support of LB614, and I would like to thank Senator Raikes for introducing this bill on behalf of the department. The purpose of LB614 is to provide clarity to the process for the adjusted valuation of each school district that is performed annually by the Department of Property Assessment and Taxation. The adjusted valuations are certified to the Department of Education and are part of the Tax Equity and Educational Opportunities Support Act calculation. The adjusted valuations are part of the resource component of the formula. LB614 will specifically relate the resource from the assessed valuation and the adjudicated level of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

value of all school districts to the contribution from the state's General Fund through TEEOSA. Let me give you a little bit of history. Beginning in 1994, the adjusted valuation--and when we speak of adjusted valuation we mean agricultural land at 80 percent, and for the coming year, 2007, it will be 75 percent of actual value, all other real property at 100 percent of actual value--for each school district has been determined by the Department of Property Assessment and Taxation. This requirement levels the playing field and assures that the state aid is appropriately distributed to each school district so that the assessment practices of a county neither advantage or disadvantage a school district in the state aid formula. Since that time, the Department of Property Assessment and Taxation has worked to assure that the methodology used to determine the adjusted valuation comports with generally accepted mass appraisal standards promulgated by organizations like the International Association of Assessing Officers. In fact, in 2004 the department and several school districts contracted together to hire the services of national experts to review our compliance with those standards. The study provided several recommendations regarding this process. In fact, that study is available on our web site if it would be of interest to you. The current issue is based on our recent experience. It has come to our attention and our belief that additional direction is necessary in the statute to assure that the adjusted valuation process is clearer. LB614 assures that there is a relationship between the level of value established by the Tax Equalization and Review Commission for valuation for tax purposes and those established by the Department of Property Assessment and Taxation are more closely related. I believe that this relationship is necessary because the two processes are ultimately linked together. LB614 assures that no school district receives more or less state aid than they are entitled to based upon their local resources and the determined level of value of those resources. It also will assure that the state's General Fund will be required to provide only the aid necessary in determining the appropriate relationship of needs to resources. Senator Raikes went through this a little bit in this introduction, and I will go through the process briefly. In the spring of each year, the Tax Equalization and Review Commission is constitutionally charged with assuring that all classes and subclasses of real property have an indicated level of value within required acceptable ranges. And those ranges are for all real property other than agricultural land, it is between 92-100 percent of actual value, and for agricultural land, at least beginning in 2007, it will be 69-70 percent of actual value. The Department of Property Assessment and Taxation prepares information for the Tax Equalization and Review Commission. During April and May, the commission examines this information and makes the determination of level of value for each county. While the commission relies on the information provided by the department, the commission may find that through the hearing process that there is more credible evidence of the level of value, and this is the key point. If the commission relies upon this more credible evidence, it is the position of the department that this evidence then must form the basis for the level of value for that year not only for assessment purposes, but also for school adjusted value. The level of value so determined by the commission is then provided to property owners and citizens of the state, and it is after the individual protest process

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

that the department then gathers all of the assessed value information, how much residential property value is there in OPS, looks at the level of value determined by the Tax Equalization and Review Commission, and then adjusts that assessed value to what is called the adjusted value, either the 100 percent or the 75 percent as required by law. Since 1996, the commission has actively equalized the valuation of all real property by class and by subclass, and I believe at the end of the annual equalization process, the valuations of all real property are as close to the constitutional and statutory requirements as is possible. LB614 assures that the efforts made to equalize the valuations for taxation are recognized in the adjusted valuation process. It assures that the valuation base available for taxation is wedded to the level of value used for the determination of state aid. LB614 clearly assures that the level of value determined by the commission is the same level of value established by the department for adjusted valuation except into situations. And that can occur where, and these are the exceptions that are written into LB614, one, if the department finds that a specific school district within a county is not at the county level of value, the department may make a determination that it is at a different level and adjust accordingly. Also, and this has been an issue and so we wanted to make sure that we clearly recognized it in statute, there is the possibility that through the county board of equalization process that the level of value might change. And so we need an opportunity to recognize that if that should happen and then make the appropriate adjustment. That would conclude my comments. I urge your support of LB614, and I would be happy to answer any questions you might have. [LB614]

SENATOR KOPPLIN: Questions for Ms. Lang? Senator Adams. [LB614]

SENATOR ADAMS: Based on your experience that brings this forward, which way do you see things going on average? Are counties generally below or above? [LB614]

CATHERINE LANG: What I have seen over time is that counties are being more and more assertive and assuring that their levels of value are within the acceptable ranges required by law, 92-100, when they are appearing before the Tax Equalization and Review Commission. The other thing that has come into play is the that the commission has been very assertive in looking at classes and subclasses within counties to bring about more internal equalization. For example, the county residential property might be at 92 percent, but there may be a subclass of residential property that is well below that acceptable range, maybe at 85 percent, and the commission has been examining those subclasses of property and assuring that they too are within the acceptable range. I think what we have seen over the last ten years of this process is greater and greater equalization among counties on a countywide level of value, but as well internally within counties that they are also, the subclasses of property are also at that same level of value. [LB614]

SENATOR ADAMS: Excuse me, what is a subclass of property? [LB614]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

CATHERINE LANG: A town can be a subclass. The commission has looked at market areas for agricultural land as a subclass. They can examine rural versus urban property. So there are all sorts of stratifications of a class of property that they can look at, and we provide that statistical information for them to examine. So what I think we find is that more and more counties as well as their subclasses are within the acceptable range. As you can tell though, that acceptable range is all below 100. It is between 92 and 100. So the adjustment factors that we are applying in the state aid formula for the school districts are more often than not, although there are times when we do adjust downwards, but more often than not they are upwards adjustments to 100. [LB614]

SENATOR KOPPLIN: Senator Burling. [LB614]

SENATOR BURLING: Cathy, reading from the fiscal note, LB614 requires the use of assessed valuation rather than adjusted valuation for computation of school aid. Is this taking you out of the loop or are they wrong? [LB614]

CATHERINE LANG: They are wrong. [LB614]

SENATOR BURLING: Okay. Do you want to comment further on that? [LB614]

CATHERINE LANG: I just think that was a misinterpretation of the bill. I don't mean they are wrong in a bad sense. I just think it is a misinterpretation. [LB614]

SENATOR BURLING: Yeah. Well, that is what I mean. The statement is wrong. [LB614]

CATHERINE LANG: The statement is incorrect. Yes. [LB614]

SENATOR BURLING: Okay. At least according to the intent and...you are satisfied. [LB614]

CATHERINE LANG: Yes. We will still adjust whatever the determined level of value is, we will still adjust it to 100 or to 75 for agricultural land. Yes. [LB614]

SENATOR BURLING: Okay. Thank you. [LB614]

SENATOR KOPPLIN: Other questions. I have just one. You adjust to 100 percent, even though a school district's real estate is at 92 percent. [LB614]

CATHERINE LANG: That is correct. [LB614]

SENATOR KOPPLIN: Which means there is 8 percent they can't access in taxes. Wouldn't it be more fair if you went to 95 percent instead of 100? [LB614]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

CATHERINE LANG: You could certainly establish that as the criteria. I think the other thing that occurs in the state aid formula that attempts to compensate for that potential difference is that the adjusted valuation is multiplied by the local effort rate, which is less than the available levy amount. [LB614]

SENATOR KOPPLIN: But if you went to 95 it would be even less. [LB614]

CATHERINE LANG: That would be correct. [LB614]

SENATOR KOPPLIN: Okay. [LB614]

CATHERINE LANG: And that would be a policy decision that the Legislature could certainly make. [LB614]

SENATOR KOPPLIN: Okay. Thank you. Are there other questions? Thank you, Catherine. Other proponents? Are there opponents? Neutral testimony? Do you wish to close, Senator Raikes? [LB614]

SENATOR RAIKES: (See also Exhibit 10) I was relaxed waiting to hear all the testimony. I will just briefly. If you had a school district, let's say was assessed at 102 percent, assessed value, so keep in mind it can go above 100. So if you were doing the adjustment, you would actually adjust that value downward to get it to 100 percent. Okay. You would make it less. Now suppose there is an appeal and the 102 percent is lowered to 98, just to pick a number. Then the question is should the adjustment be from 98 to 100, or should you continue with the adjustment factor that was from 102 down to 100? And I think, I hope I will be corrected, I think that is some of the specifics of the example that underlies what we are talking about here today. Anyway, I will stop there with that proposal. [LB614]

SENATOR ASHFORD: This is very simplistic, but in order to get the full benefit, if the county assesses your property at 92 percent or within the acceptable range, but we are adjusting it to 100 percent for the purposes of the formula. Then to Senator Kopplin's point, there is a gap there and that gap impacts the district. [LB614]

SENATOR RAIKES: So the school district... [LB614]

SENATOR ASHFORD: They get less aid. Well, actually they get more aid. [LB614]

SENATOR RAIKES: I think what you are referring to is the difference between what they are charged for as having available in the aid formula versus what they can actually assess, and I think that is the point that Senator Kopplin was making. [LB614]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR ASHFORD: Right. And the answer to that is that they are charged with 100 percent. [LB614]

SENATOR RAIKES: Yeah. They are charged with 100 percent, but keep in mind that the local effort rate that is multiplied times that adjusted value is 10 cents below the levy cap. Okay, that was clear. [LB614]

SENATOR ASHFORD: The 90 percent. [LB614]

SENATOR RAIKES: Say your valuation is \$920,000 and it is determined that the...or it is \$92 million, okay, \$92 million, and say that they assessor and TERC and so on that the property really was worth on the market \$100 million. Okay. So the property tax administrator in doing the adjustment adjusts the value up to \$100 million. So you are charged with \$100 million of valuation in the aid formula, and the point you have made is that you can only assess against \$92 million. [LB614]

SENATOR ASHFORD: Right. [LB614]

SENATOR RAIKES: But the levy that you can assess against the \$92 million is \$1.05, and what you are charged for in the aid formula is 95 cents times \$100 million. [LB614]

SENATOR ASHFORD: Because it is 10 percent less. [LB614]

SENATOR RAIKES: Yeah. It is a dime less. Yeah. [LB614]

SENATOR ASHFORD: Or a dime less, I am sorry, a dime less. You are charged \$95 million. [LB614]

SENATOR RAIKES: Right. [LB614]

SENATOR KOPPLIN: But every school is charged 95 percent, so they are still not treated equally. [LB614]

SENATOR RAIKES: So if you have got a assessor in one school district that is assessing at basically market value versus another school district that is at 92 percent, you are exactly right. There is a difference. [LB614]

SENATOR ASHFORD: And this bill corrects? [LB614]

SENATOR RAIKES: No. [LB614]

SENATOR ASHFORD: This doesn't affect that because they are already doing that. I mean that is the way the law is. [LB614]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

SENATOR RAIKES: No, this affects the situation that I tried to roughly describe where you have got a valuation that is determined, and then an adjustment that goes along with that valuation, and then later, kind of after everything is said and done, on appeal the valuation is changed. [LB614]

SENATOR ASHFORD: It goes down. [LB614]

SENATOR RAIKES: Yeah, it goes down. The plaintiff party appealed to have the valuation lowered. They didn't appeal to have the adjustment changed. [LB614]

SENATOR ASHFORD: Because the taxpayer has no particular interest in the adjustment being changed. [LB614]

SENATOR RAIKES: Yeah. In this case it would have been a school district, but yeah. [LB614]

SENATOR ASHFORD: No, but I mean the person who has appealed. [LB614]

SENATOR RAIKES: Well, okay, you have the protest-type appeal to TERC, but then you also have the equalization-type appeals, and this would have been the latter in my understanding. [LB614]

SENATOR KOPPLIN: Other questions? Thank you, Senator Raikes. Would you like to open on LB655? [LB614 LB655]

SENATOR RAIKES: I would. Thank you, Senator Kopplin. Ron Raikes, here to introduce LB655. LB655 would allow school districts to budget and be reimbursed for adjustments made in the adjusted value used in the calculation of state aid... [LB655]

SENATOR ASHFORD: I have got to go. I can't take it. (Laughter) [LB655]

SENATOR HOWARD: Stay there. You have been doing so well. [LB655]

SENATOR KOPPLIN: Would you continue. [LB655]

SENATOR RAIKES: Mr. Vice Chair, keep control of your committee here. [LB655]

SENATOR KOPPLIN: I know. [LB655]

SENATOR JOHNSON: That was worth getting up for. [LB655]

SENATOR RAIKES: I am not even going to go back and start over again...state aid to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

school districts due to the objection or appeal that would have resulted in additional state aid if the adjustment was not reflected in the certification of state aid or any other adjustments. That was all one sentence. That was most of a paragraph. The Department of Education would be required to maintain an accurate accounting and record of such adjustments. In other words, if this scenario happens and you do, in fact, on appeal get the valuation changed, does the state then owe that school district the additional money that it would have got because it really should have looked poorer in the state aid formula than what it did. And should they be allowed to budget it and spend it and all that kind of stuff? [LB655]

SENATOR KOPPLIN: Questions? Yeah, I do. So what does LB655 do? I will give you an example. There is an industrial area that say is on the rolls at \$27 million. They appeal, win a big case and it is \$18 million. But that is too late for the school district to get their difference. They have lost that \$9 million. What does LB655 do actually? [LB655]

SENATOR RAIKES: LB655 would say that the school district then can through the department be reimbursed. They can assess what they can assess, I mean the assessed valuation stays the same. The issue here is the adjusted valuation and what the adjusted valuation caused in the way of state aid available to that school district. So if because of the original versus the revised the school district lost state aid, then they would be entitled to collect that state aid and spend it and so on. [LB655]

SENATOR KOPPLIN: Okay. Are there other questions? Okay. Thank you, Ron. First proponent. [LB655]

TIM KEMPER: Senators, my name is Tim Kemper. I am the director of finance with Lincoln Public Schools. Kemper, K-e-m-p-e-r. We are here in support of LB655. LB655 actually has two components, and both of them have to do with timing. One of the timing issues is that I believe last legislative session the Legislature made a change so that in the case where a school district grows through annexation, the state aid that would have otherwise gone them will now go to the territory that lost that annexed territory. That is not an issue and we have no objection to that whatsoever. It is a timing issue in that we are required by state law to reflect the state aid amount in our budget that is adopted on or before September 20. But the Department of Education has until on or before September 20 to certify the state aid adjustment to the number we got the prior February. And we actually found ourself in that situation this year where the city of Lincoln had annexed some territory. School districts in the surrounding area applied for these adjustments and got them, and our board had already adopted the budget before this information was available to them. And so what the bill would simply say is that we are required to reflect those adjustments in our budget when we adopt it, to the extent we knew them at the time the budget was adopted. Just a simple matter of timing. If we have been informed of them before the budget is adopted, we must reflect those

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

adjustments to our state aid certification. But if we have not yet been informed of them, we don't have to, and we can still file our budget timely on September 20. The second issue is the one that you have heard a lot talk about already, and that is when adjusted valuation appeals go through they can take a very long time. And the way the current state statute on what we call the re-spin of state aid, state aid actually gets certified twice for any given year. Once, we just got done in early February, the state aid for 2007-2008 was certified to each of our school districts, and that is the number we will use in our budget for 2007-2008. But also in that number that we were certified was an adjustment for the prior year reflecting changes from enrollment to average daily membership and other data changes, for example. One of the problems that we have identified is that if these adjusted valuation appeals go on for more than one year, the law isn't perfectly clear whether you ever really receive the remedy if you prevail. And all this amendment would do would say that in that one special circumstance of a successful appeal of the adjusted valuation, the department can look back not just one year but as far as they need to look to give the prevailing party the benefit of prevailing in that appeal. [LB655]

SENATOR KOPPLIN: Okay. Are there questions for Tim? Seeing none, thank you. [LB655]

TIM KEMPER: Thank you. [LB655]

SENATOR KOPPLIN: Are there other proponents? Are there opponents? Neutral testimony? Senator Raikes, would you like to close? And Senator Raikes says no, so that will end the hearing on LB655. [LB655]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Education Committee
February 27, 2007

Disposition of Bills:

LB455 - Indefinitely postponed.
LB492 - Held in committee.
LB498 - Held in committee.
LB595 - Held in committee.
LB614 - Held in committee.
LB655 - Held in committee.

Chairperson

Committee Clerk