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Floor Debate
March 18, 2008

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SENATOR LANGEMEIER PRESIDING

SENATOR LANGEMEIER: Good morning, ladies and gentlemen. Welcome to the George W. Norris Legislative Chamber for this the forty-third day of the One Hundredth Legislature, Second Session. Our chaplain for today is Father Thomas MacLean, from St. Mary's Catholic Church, Lincoln, Nebraska--Senator Avery's district. Would you please rise.

FATHER MacLEAN: (Prayer offered.)

SENATOR LANGEMEIER: Thank you. I call to order the forty-third day of the One Hundredth Legislature, Second Session. Senators please record your presence. Mr. Clerk, please record.

CLERK: I have a quorum present, Mr. President.

SENATOR LANGEMEIER: Thank you, Mr. Clerk. Are there any corrections for the Journal?

CLERK: Mr. President, just one...no corrections, I'm sorry.

SENATOR LANGEMEIER: Thank you. Are there any messages, reports, or announcements?

CLERK: Mr. President, an amendment by Senator Chambers to LB959 to be printed; and Senator Cornett to LB1055. That's all that I have, Mr. President. (Legislative Journal pages 989-992.) [LB959 LB1055]

SENATOR LANGEMEIER: Thank you. We'll now proceed to the first item on today's agenda, General File, state claims bills, LB1019. [LB1019]

CLERK: LB1019, introduced by the Business and Labor Committee. (Read title.) Introduced on January 17, referred to Business and Labor, advanced to General File. There are committee amendments pending, Mr. President. (AM2334, Legislative Journal page 977.) [LB1019]

SENATOR LANGEMEIER: Senator Cornett, you're recognized to open on LB1019. [LB1019]

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SENATOR CORNETT: Thank you, Mr. President and members of the body. LB1019 is the annual approved claims bill, which contains claims approved by the Claims Board or litigated claims which were settled or in which both...which a judgment was obtained against the state and requires the approval of the Legislature. I will briefly summarize each of the claims within the bill. Section 1 of the bill contains one miscellaneous Claim Number 2007-01741, and was filed by WESCO Insurance Company, requesting the reissuance of a corporate tax refund in the amount of \$14,329.25. The original warrant was never cashed and has since expired. The Department of Revenue recommended the claim be approved and the Claims Board did approve said claim. Section 2 of the bill contains tort claims which need legislative approval. The first claim is Number 01-009, filed by Gail Fickle against the Department of Roads, relating to an accident which occurred at an intersection. The court, during litigation, determined there was a faulty traffic light. The court further determined the department had notice prior to the incident and therefore had liability under the Torts Claim Act. Eventually, the claim was settled for \$9.9 million and is to be paid from the Department of Roads Operation Cash Fund. The second tort claim is Number 03-132, which was filed by David Thacker against the Department of Correctional Services. While Mr. Thacker was an inmate at the Nebraska State Penitentiary he broke his ankle, but the break was not originally diagnosed. The delay in making the diagnosis caused additional pain and suffering. The claim was litigated and the claimant obtained a judgment in the amount of \$70,000. The state has already paid the allowable \$50,000 of the claim, so the additional \$25,157 represents the remainder of the judgment, plus court costs and judgment interest. The third and final tort claim is Number 03-492 against the Department of Health and Human Services. The claimant was a foster child and was placed in a foster home where the claimant was sexually abused by the adopted child of the foster parents. The court awarded the claimant \$75,000 against the state for the state's failure to fulfill its duty of preplacement investigation of the home and failure to fulfill its duty to visit claimant monthly during the placement. The state has already paid \$50,000 towards the claim. The remaining \$25,000 is included in this bill. Section 4 of this bill includes agency write-offs. I'm going to go through these quickly to get these into the record. Most of the write-offs are very small amounts, but I'd be happy to answer any questions about them if members are interested. For the body, if anyone would like to see the individual claims, I have them at my desk and would be happy to show them to you or copy them. The State Surveyor filed Request Number 2007-1177 to write-off \$1,352.50 for unpaid land surveys. The debtor is deceased and numerous attempts to collect from the debtor's estate have failed. The Nebraska Supreme Court filed Request Number 2007-01364 to write-off \$130.01 in past due accounts. The Department of Health and Human Services, for the Hastings Regional Center, filed Request Number 2007-01728 to write-off \$25.00 in uncollectible debts on three patient trust accounts. The Clerk of the Legislature filed Request Number 2008-02081 to write-off \$95.18 in uncollectible invoices for the reproduction of legislative materials. The Military Department filed Request Number 2008-02148 to write-off \$3,516.04 in uncollectible accounts receivable from the tuition assistance program. The Department of Health and Human Services'

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Request Number 2008-02148 (sic--2008-02206) to write-off \$385,746.64 in uncollectible debts. The Department of Roads filed Request Number 2008-02286 to write-off \$122.11 in uncollectible debt due to property damage to a fence owned by the Nebraska Department of Roads. The Department of Roads also filed Request Number 2008-02286 (sic--2008-02287) to write-off \$2,564.74 due to property damages where the Nebraska Department of Roads settled for an amount less than the total amount of damages. Total agency write-off requests are \$393,552.22. That concludes the opening on LB1019, and there are committee amendments pending. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Cornett. As the Clerk has stated, there are committee amendments offered by the Business and Labor Committee. Senator Cornett, you're recognized to open on the committee amendments. [LB1019]

SENATOR CORNETT: Thank you, Mr. President, members of the body. AM2334 contains 12 tort claims which were settled after the introduction of the original LB1019. However, these claims were settled prior to the hearing on LB1019, so the amendment was introduced at the hearing and all the claims were heard by the public. The amendment contains 12 claims against the Department of Health and Human Services. Eight of the 11 individuals were residents of the Lincoln Regional Center and were sexually assaulted by an employee of the Regional Center. The total for the eight claims is \$225,000. Three of the claims against the Department of Health and Human Services relate to three residents of the Norfolk Regional Center who were sexually assaulted by another patient at the Regional Center. The total for the three claims is \$40,500. Under Nebraska law, the state is not liable for the criminal acts of employees or others, and therefore the state was not responsible for the assaults themselves, but rather we are liable for failing to meet our duty to protect individuals in our care and custody. There is one additional claim in the amendment against the Department of Health and Human Services which is for Tort Claim Numbers 99-686 and 00-577 filed by claimants on behalf of their eight children. The eight children were sexually abused by a foster child who was placed in the claimants' home by the department. The claimants allege they were not properly warned of the foster child's history. This claim was settled for the amount of \$75,000, and due to the recent settlement no portion of the claim has been paid. Finally, the last claim in the amendment is for Claim Numbers 04-801 and 04-802 in the amount of \$225,000 against the Department of Roads. This claim involves a state snowplow which changed lanes into a claimant vehicle, forcing the claimants off the road. The claim is to be paid out of the State Insurance Fund. I'll be happy to answer any questions and urge the body's support of the committee amendment and LB1019 so the state can make good on our obligations. Thank you. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Cornett. You have heard the opening on LB1019 and the committee amendments, AM2334. The floor is now open for discussion. Senator Howard, you're recognized. [LB1019]

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SENATOR HOWARD: Thank you, Mr. President and members of the body. The damage that is done is measurable in dollars, but the greater damage is unmeasurable. In case you've not had the opportunity to read the Lincoln Journal Star excerpt that I've had circulated on the floor, allow me to read you some passages from this. "A Nebraska couple with eight children of their own who took in three foster children in 1998 were not warned that one of the children had a propensity for sexually molesting others....The Department of Health and Human Services have assured senators on the Business and Labor Committee that the agency has changed some of its practices, and two reports to the committee indicate that some reduction in the number of sexual assault-related claims and cases in recent years....HHS also now has a policy that foster parents are notified any time a child with specific risk issues is placed in their homes....In an unsigned summary about the case where eight children"--eight children--"were allegedly sexually assaulted by a foster child, HHS representatives suggested the state may not have done enough to protect children." The Department of Health and Human Services has the opportunity to partner with the University of Nebraska-Omaha Graduate School of Social Work to provide professional social work training to new child protection service worker employees. I hope--I hope you will join with me to urge the department to take advantage of this opportunity to train their workers to do the quality of work that they themselves want to do. I believe the director of Health and Human Services, Todd Landry, and Chris Peterson, the CEO of Health and Human Services, have the commitment and the ability to make the Department of Health and Human Services, and especially child welfare, a system we can be proud of. Please stand with me and urge the department to take advantage of this training opportunity to have our employees with the Health and Human Services Department on a professional level to better work with children, to better work with foster families, to prevent these claims, and to prevent this damage to children. And again I say to you, damage such as this is lifelong and we cannot afford it. Thank you. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Howard. Senator Fulton, you're recognized. [LB1019]

SENATOR FULTON: Thank you, Mr. President. As I reviewed this amendment last night, it occurred to me a number of these claims filed or that we're going to honor had to do with activity at the Lincoln Regional Center. And I would be remiss if I didn't speak on behalf of my constituents about another concern that occurred recently through the Lincoln Regional Center. We actually had an individual who a few years ago, literally a few years ago, three years ago, violently murdered another man here in Hastings, Nebraska. He was on a shopping trip in my district, and while on the shopping trip he simply meandered away. He walked away and for an entire day was at large. He ended up being found later, wandering around in Senator Wallman's district. I received a number of e-mails from concerned parents. There's a school not far away from SouthPointe mall. But this...we have talked with Department of Health and Human Services, and we do believe that there are remedies in place. But I take this opportunity

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to point out that we are now dealing with the back end of poor managerial practice. We end up paying for it with money. And as Senator Howard said, there is something to be said about the lives that are being affected by this. So I'm hopeful that that instance is going to be taken care of and that this won't happen again, because I can tell you dozens, literally, of families in my district were not happy when something like this could occur. So I thank you, Mr. President, for this opportunity. I am, of course, in support of this bill. I just don't like to have to pay this money in the future. Thank you. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Fulton. Seeing no other lights on, Senator Cornett, you're recognized to close on the committee amendments. [LB1019]

SENATOR CORNETT: Thank you, Mr. President, members of the body. I know there are a number of disturbing items in this bill. And like I said, we have all the information available, and any senator is more than welcome to come to the office or speak with my legal counsel in regards to reviewing those claims. I do urge the body to support the amendment and the bill so the state can pay the money that we owe. Thank you very much. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Cornett. You have heard the closing on AM2334 offered to LB1019. The question before the body is, shall AM2334 be adopted? All those in favor vote yea; all those opposed vote nay. Have all those voted that wish to? Record, Mr. Clerk. [LB1019]

CLERK: 34 ayes, 0 nays, Mr. President, on adoption of committee amendments. [LB1019]

SENATOR LANGEMEIER: The committee amendments are adopted. Senator Howard, your light is on. You're recognized. [LB1019]

SENATOR HOWARD: Thank you, Mr. President. If I may ask Senator Cornett a few questions. [LB1019]

SENATOR LANGEMEIER: Senator Cornett, would you yield to a question? [LB1019]

SENATOR CORNETT: Yes. [LB1019]

SENATOR HOWARD: Thank you, Senator Cornett. I recall, I believe it was a year ago that you came to me and you were very concerned because claims had been entered at that time regarding foster children and basically situations where sexual abuse had occurred. Do you remember that? [LB1019]

SENATOR CORNETT: Yes. [LB1019]

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SENATOR HOWARD: And at that time we looked at that and felt that something different had to be done, something obviously needed to be addressed. And I really appreciate your concern about this matter and the fact that you do stand up and you do say that, while we are obligated to pay these claims, at the same time we need to be looking at what measures need to be taken to preventing this. And I just want to thank you for your commitment to that. And even though we've got this situation right now, I appreciate your commitment to looking forward. [LB1019]

SENATOR CORNETT: Thank you, Senator Howard. And I'd like to respond. We had Chris Peterson and the legal counsel for Health and Human Services in front of the committee. And the claims that we are dealing with did occur prior to last year. We are just now...they are just now wrapping up the litigation involved in those claims, and we will be seeing further claims coming through. We did ask the department what they were doing to prevent future claims and future assaults, and they are implementing stricter requirements. We do...have asked for a report of how many pending claims there are and what years those claims were filed or those abuses occurred. And as we both know, there's been articles in the newspaper of assaults that have occurred this year by contractors with the state. But we do have minutes from that meeting, and Health and Human Services' responses in regards to what they are doing to prevent this. [LB1019]

SENATOR HOWARD: Thank you. And again, I appreciate your diligence to this matter. This is no light case. These are very serious accusations, they're very damaging. And I think this is going to take a commitment of not only Senator Cornett and me, but all of us working together with the department to urge better practices, better training, and better services to families and children. Again I will say, I believe that Chris Peterson, CEO, has the commitment, has the ability, and certainly has the desire to improve practices at Health and Human Services, as does Todd Landry, and I believe that we need to work with them to be supportive of them. And if there's additional cost involved, we need to be very serious about that. We can't afford the damage. Thank you, Mr. President. Thank you, Senator Cornett. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Howard. Senator Pirsch, you're recognized. [LB1019]

SENATOR PIRSCH: Thank you, Mr. President, members of the body. I wonder if Senator Cornett may yield to a quick question? [LB1019]

SENATOR LANGEMEIER: Senator Cornett, would you yield? [LB1019]

SENATOR CORNETT: Yes. [LB1019]

SENATOR PIRSCH: And I appreciate that, Senator Cornett. I'm calling your attention to page 2 of the green copy of the bill with respect to line 23, down to the bottom of the

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page and the top of the page 3, which deals with what seems to me the largest number in terms of dollars, the \$9.9 million under Tort Claim Number 01-009. Could you just briefly...where did that, if you could give me the facts of what occurred on that? [LB1019]

SENATOR CORNETT: That was in relation to a traffic accident. There were conflicting reports in regards to...the light at this intersection had been reported to be malfunctioning before. On the day of the accident there were conflicting reports on whether the light showed green in all directions. And the Department of Roads did not have as good a tracking method in regards to maintenance as they do now. With the witness testimony, the department was found at fault for the accident. Due to the extent of the young--it was a young man that was injured--and due to the extent of his injuries, this dollar amount was awarded him for his continual support. [LB1019]

SENATOR PIRSCH: Okay. And I do appreciate it. Thank you. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Pirsch. Seeing no other lights on, Senator Cornett, you're recognized to close on LB1019. [LB1019]

SENATOR CORNETT: Thank you, Mr. President. Again members of the body, I would urge you to support LB1019 with the amendments. I know there is a large dollar amount in there for the Department of Roads. We do have information available on that case to any senator that is wishing to view it. It was...the state was found at fault in that. And I do urge the body to support passing LB1019 so we can pay the members or individuals the money we owe them. Thank you. [LB1019]

SENATOR LANGEMEIER: Thank you, Senator Cornett. You have heard the closing on LB1019. The question is, shall LB1019 be adopted? All those in favor vote yea; all those opposed vote nay. Have all those voted that wish to? Record, Mr. Clerk. [LB1019]

CLERK: 34 ayes, 0 nays, Mr. President, on the advancement of LB1019. [LB1019]

SENATOR LANGEMEIER: LB1019 does advance. (Doctor of the day and visitors introduced.) Mr. Clerk, continuing on today's agenda, General File, LB988. [LB1019 LB988]

CLERK: LB988, Mr. President, introduced by Senator Raikes. (Read title.) Bill was introduced on January 16 of this year, at that time referred to the Education Committee. The bill was reported to the floor with committee amendments attached. (AM2128, Legislative Journal page 794.) [LB988]

SPEAKER FLOOD PRESIDING [LB988]

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SPEAKER FLOOD: Senator Raikes, you are recognized to open on LB988. [LB988]

SENATOR RAIKES: Thank you, Mr. Speaker, members of the Legislature. LB988 is a comprehensive look and revision of our school funding formula. I don't need to emphasize to you how important this formula is in at least a couple of respects. First off, I think most of you know that in terms of the total expenditures of state funds, K-12 education, I would argue, appropriately ranks very high. Certainly, in addition to that, we have the important question of distribution of funds amongst school districts to see that those school districts in varying situations are appropriately taken care of, or rather, fiscally supported, so it is a very important issue. LB988 is a comprehensive look, in that it takes into account a number of factors around the formula. First, let me say that it is...although it proposes several changes, it is very consistent with our history in Nebraska of equalization in school funding. I'm going to argue to you that it is an appropriate next step in that history, that the changes that we are making are ones that are certainly needed. They're ones that are appropriate given the circumstances we now face. I'm also going to argue that this is a needed move in the right direction, fiscally. I would argue, in that context, that what we need to focus on in terms of school funding is the appropriate formula, the appropriate concepts. We certainly need to be concerned about the amount of money involved in state payments to school districts, but we cannot allow a particular concern about a few dollars or even a lot of dollars one way or the other in terms of balancing or not balancing a particular budget in a particular year to overcome what we ought to be focused on; namely, the appropriate concepts and the appropriate equalization formula that we ought to employ. You are going to have, and certainly, I'm sure, will feel that this is complex. You've heard arguments that it's too complex. I probably don't need to elaborate on the various comments. I will tell you though, that if you're going to distribute \$850 million or \$900 million of state aid, it probably makes sense; in fact, you would hope that there would be a certain amount of complexity. You don't want to be passing out this kind of money or maybe any kind of money willy-nilly without consideration of all the factors that need to be considered. So this formula is complex and detailed, but I would absolutely argue to you that it needs to be. We need to accurately and appropriately reflect the issues that we need to deal with in the important job of funding school districts. And as I've said before, I'm sure, if we have a choice between simplicity and an inappropriate amount or distribution of state aid, versus complexity and an appropriate distribution and amount of state aid, we should definitely opt in favor of the latter. Now I will tell you that there are no theorems and associated proofs in the state aid formula. There's no calculus in the state aid formula. What there is, is a lot of detail included to try to make the formula as fair as possible. But I will also tell you that the basic structure of that formula remains a simple one, and if you grab ahold of that basic formula you're most of the way to understanding what we're doing and what we need to do. Finally, I'll mention just quickly that the aid formula is often criticized because not everybody loves it. We certainly ought to be able to come up with a formula, the argument is, that everybody is happy with. I would remind you that this is a contentious area by definition. You're talking about

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something--the formula--that stands between those subdivisions that need funding in order to carry out the functions they're expected to perform on the one side, and on the other side those who are paying the bills. And those who are paying the bills are both the state and local property taxpayers, and it boils down to property taxpayers in one sense or another regardless. That is always going to be contentious ground. You're always going to have those who use the money believing that they need more money; you're always going to have those who are paying the money believing they ought to be allowed to pay less money. So the hope of making this something that everybody embraces and loves, I think, is a false hope. Does that mean that we give up? Absolutely not. We recognize that it is an important area of public policy. We understand that it is going to be contentious. We take on the contention head-on, deal with it, and come up with a result. And with your help, I hope that's what we can do in the discussion of LB988. Let me sort of outline the discussion that will be ahead. First off, I mention the basic equalization formula: Needs minus resources equals aid. Needs is the statement of the amount of money required for a particular school district, and there is a needs number for each school district, the amount of money required by that school district in the estimation, if you will, by the formula of what it takes to serve its function. There is also for each school district a resource number. That basically is a quantification of the amount of money available in that district to serve the functions described in the needs calculation. In the event that needs exceed resources for a particular school district, there is state aid, equalization aid, to bring that level of funding up to that needs calculation amount. In the state of Nebraska we have 254 K-12 school districts now. About 50 of them are nonequalized, meaning that the resource available at the local level exceeds the need, so there is no state equalization aid. For the remainder of them, about 204, they are equalized school districts. So that is an important construct to keep in mind. And a lot of the discussion we will have will be filling in the details around those three areas: needs calculation, resource calculation, and state aid. LB988 makes four significant changes. There is a revision of the needs calculation. There is a revision in the resource calculation. There's also a revision in the way we calculate spending authority,... [LB988]

SPEAKER FLOOD: One minute. [LB988]

SENATOR RAIKES: ...another important lid area for school districts. And finally, there is a recertification. We certified, as a matter of statute and practice, we certified state aid to schools on February 1 for the 2008-09 school year. LB988 proposes a recertification. The recertification would take place April 30. So with that, I believe I'll stop here and we'll move on to the next item, Mr. Speaker. Thank you. [LB988]

SPEAKER FLOOD: Thank you, Senator Raikes. Mr. Clerk. [LB988]

CLERK: Mr. President, I do have Education Committee amendments, AM2128. [LB988]

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SPEAKER FLOOD: Senator Raikes, you are recognized to open on AM2128. [LB988]

SENATOR RAIKES: Thank you, Mr. Speaker, members of the Legislature. AM2128 is the committee amendment that the Education Committee has worked on. And, by the way, I certainly want to thank and commend the members of the Education Committee for all their efforts on this proposal, actually dating clear back to 2002 when some of the initial work began. Very quickly, the green copy of the bill includes the basic structure. A lot of it's devoted to the change in needs calculation. The committee amendment deals with the change in...change in the resource. Excuse me. I'm sorry. It deals with the inclusion of the recertification. So the green copy has the basic structure; the committee amendment incorporates the recertification. There is an amendment to the committee amendment and that changes a provision dealing with the resource side of the equation, which I can explain in a moment. A lot of our discussion, I'm sure, will be around the needs calculation. I want to make sort of an overarching point, I think, at this point. The needs calculation is absolutely critical in this whole process. You'll have a lot of folks that you represent, school districts, and patrons or citizens and so on, in your districts that will focus entirely on state aid or at least primarily on state aid. I would argue that the important policy focus for you and the superintendents and the others interested in this whole matter, the appropriate policy focus is on the formula needs calculation. Let me remind you of this, going back to that very simple needs minus resources equals aid. Needs is the amount of money guaranteed, if you will, by the state to a particular school district. The needs calculation says for a school district in your particular situation, this is the amount of money required for you to operate that school district. So it's critically important whether or not that needs number not only is appropriate, and if you're talking about change over time, whether that needs number goes up or goes down. The focus should be on needs. Needs does reflect the total amount of resource made available to that school district, so it will include state aid but it will also include local property tax resources and other receipts available at the local level. So I would emphasize to you, state aid is only one component of the funding available to a school district. The important focus should be on the needs calculation. Therefore, our discussion of that needs calculation and the way we have come up with that and the revisions we are proposing, should, and I'm sure will be, a very important part of our discussion. The needs calculation, very quickly, in the formula--and I'm going back here to the green copy--we have gone from the use strictly of cost group costs to a more detailed description that's based on arrays of school districts of similar enrollment. As we always do or I think always do in trying to refine the needs adjustment or the needs calculation, we have tried to make it more precise. We have tried to reflect, as accurately as possible, the financial obligations that school district is going to incur in order to serve the students it must serve, and to reflect those numbers in that all-important needs calculation. So again, the needs calculation is critical. The committee amendment deals with the resource calculation. We've made a change in the resource calculation from using adjusted values to assessed values. There are a number of reasons for that, which I'll go into in some detail. In the amendment to the

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committee amendment, as I mentioned before, we make yet another change, a revision in that. If you have...and you will, I think, soon have printouts. Generally speaking, the yellow printouts deal with the committee amendment, the blue printouts deal with the result at the...with the amendment to the committee amendment. And I think I have...while I'm on that, I think I have an apology to make to you. We ran out of blue and yellow sheets of paper, so we don't have all of those out to you yet. We are working on those. It certainly has been our policy as a committee to make available to you, as soon as we have them in a form that we are confident of, the numbers that pertain to each school district so you can evaluate those and see how it's affecting what you're doing. So as soon as we get the appropriate amounts of the appropriate colored papers, we will make sure that you get copies of all those sorts of things. So at that point I think I'll stop here, Mr. Speaker, and thank you. [LB988]

SPEAKER FLOOD: Thank you, Senator Raikes. You've heard the committee amendment opening on AM2128. We now proceed to discussion on LB988. Senator Fischer, you're recognized. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. Because of the importance and the complexity of this issue, I would move to divide the question. [LB988]

SPEAKER FLOOD: There has been a motion made to divide the question. Would Senator Raikes and Senator Fischer please approach to the bench. It is the Chair's ruling that the question is divisible. Pursuant to that ruling, the following will be the order in the divisions of LB988, AM2128, the Education Committee amendment. The first division will be found at AM2367. And members, we will be passing out a two-sheet explanation of the division. AM2367 will include Sections 5; 7, except subsection (21) of Section 7; Section 8; Section 9; Section 10; Section 11; Section 12; 13; 14; 15; 16; 17; 18; 19; 20; 21; 22; 23; 24; 25; 26; 27; 29; 31; 33; 34; 38; 46; and 51. The second of the five divisions will be found at AM2368. Those will include Section 6, for Sections 20 through 22 of the act; Section 7, specifically subsection (21); Section 28; Section 37. The third division of the question will be found at AM2369. That will concern valuation and local effort rate. That will include Sections 1, 2, 30, 32, 35, 36, 45, and 49. The fourth of the five divisions will concern budget limits, found at AM2371. That division will include a portion of Section 6, specifically Section 42 of the act; Section 40; 41; 42; 43; and 47. Finally, the fifth division concerns recertification issues and miscellaneous matters; includes Section 39, 44, 51, Section 3, 4, and 48. Not included in the divisions, as it will be resolved on Enrollment and Review, is Section 50, which includes a repealer. The question is divisible these five different ways. We will be handing out a two-sheet explanation of the divisions and that will also be found on your computer. We now resume to discussion and we will begin by asking Senator Raikes to open on AM2367. (Legislative Journal page 993.) [LB988]

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SENATOR RAIKES: Thank you, Mr. Speaker, members of the Legislature. This first division involves the need restructuring components of the proposal, which I hope I made clear before is a critically important part of this. I don't want to take a lot of time but I do want to lead in a little bit by allowing you or providing you a little bit of information about the school districts we now have in the state, and I think a handout is coming around which gives you sort of a bird's eye view. I think this is important, because keep in mind that in calculating needs that is a separate number for each school district, and we don't have school districts in Nebraska that are all the same. There's a lot of differences between school districts in the state, so certainly that adds to the complexity of an appropriate needs number for each school district. You've got to include, or at least we do include in one formula, provisions to try to reflect all of those different school districts, but that's the job we're about here. Let me just quickly look at or look with you at this handout. We have now 254 K-12 school districts in Nebraska. The total number of public school students that we have are just short of 279,500. We have standard, sparse, and very sparse cost groupings or classifications of school districts, and I think the names of those are fairly descriptive. Very sparse are districts that the distribution of students is such that you have to go a long ways to gather up many students, basically. Sparse is a little less so. Standard are the districts where sparsity is not a factor, so to speak. So you have almost 257,000 out of 279,500 that are educated in the standard school districts. If you go to the next page, we've got a breakdown according to size of school districts, and the large school districts are classified as any district serving more than 900 students. We have 40...out of 254 we have only 40 in Nebraska that serve more than 900 students. They serve 204,000 out of 279,500. The average student count in those districts is a little over 5,000 students. We have 74 districts that are in the medium size, 390 to 900; and we have 140, more than half of the school districts in the state, that have fewer than 390 students enrolled. Their average enrollment is 229. If you go to the third page of this little handout, there is additional breakdown so that you can see within the standard cost group how many are large, medium, and small; within the sparse cost group, and so on. You see that in sparse and very sparse there are no large school districts over 900, but there are both medium and small school districts. So our job in the needs calculation is to come up with an expression of factors and formula, if you will, that enables us to come to an appropriate amount of funding for each school district in the state regardless of how they happen to fall in that diverse array of school districts. A key feature of the changes we're making in...proposing in LB988 is moving from a broad cost category classification for determination of needs, to a more specific array calculation of needs. Rather than combining all of the 171 standard school districts into a single pot and calculating an average for the entire pot, LB988 proposes that we look at each school district in an array. The array is based on enrollment and we calculate the needs for a school district based on expenditures of similarly sized school districts. We take the school district in question--the five below, the five bigger in terms of enrollment; throw out the highest cost; throw out the lowest cost; average the remaining districts, and that is the base funding available. We do two kinds of adjustments or two kinds of changes, I'll put it that

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way, modifications to that base funding number. We have allowances. Allowances basically reflect movement of money between school districts. In that sense, I mean an allowance doesn't necessarily or doesn't include the total cost to...or the total needs calculation, doesn't increase that, but it moves money from an average to school districts that actually perform that particular function. Elementary site allowance is an example. School districts...only the school districts that have extra elementary sites receive an elementary site allowance as a part of their needs calculation. Other provisions of the formula like that are a teacher--or actually not teacher--there's a class size allowance, there's an allowance for poverty students, an allowance for LEP students, transportation, special receipts, and also summer school. All of those are allowances that are reflected. And amounts of money, if appropriate, are added to the needs calculation for a school district depending upon whether or not that factor actually affects that school district. Now we also have some adjustments, and one of them is teacher education. Adjustment is distinguished from an allowance because it actually does increase the total amount of funding or the total needs calculation. It may either increase or decrease, but it affects the total amount. It's not just a matter of reallocating or redistributing funding between school districts. A couple of those are teacher education adjustment. The provision in this formula or in this proposed formula is that school districts would be recognized if they have a particularly educated group of teachers, because, as you know, teacher salary schedules are such that more highly educated teachers earn more money and are thus more expensive to the school district. There is also an adjustment that goes the other way and that is a local choice adjustment. This would apply only to standard school districts that are less than 390 students. This is a provision that we've long had in the formula...or function I should say. This is a different expression of that long-standing concept, but it is in there. What you do to come up with the needs calculation in this formula, you start with the basic funding allowance, you add whichever allowances and adjustments are appropriate for that district, and you come up with a total needs number. And again I apologize that you don't have these printouts. But when you do get them, you can pick a line, either for your school district or another school district, follow that along, and my hope is that you'll be able to see...and it's, again, very simple arithmetic. You simply add up the numbers to come up with a total needs calculation. I'll mention one other thing which I think is very important about the needs calculation in this proposal. We stabilize it. [LB988]

SENATOR LANGEMEIER PRESIDING [LB988]

SENATOR LANGEMEIER: One minute. [LB988]

SENATOR RAIKES: We basically say that no school district is going to have needs that are less than 100 percent of what they had a year ago, nor more than 112 percent of what they had a year ago. This is a provision that we've used in the past when there is a formula change. It protects school districts from significant or substantial changes they

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may incur because we've changed the formula. The downside, if you will, is that it doesn't allow the change formula to go in place as quickly or to become active as quickly, but it does protect school districts that do have significant changes one way or the other. In this particular needs stabilization, we minimize...or you don't allow a district to fall below 100 percent of what it had a year ago, nor... [LB988]

SENATOR LANGEMEIER: Time. [LB988]

SENATOR RAIKES: Thank you. [LB988]

SENATOR LANGEMEIER: Thank you, Senator Raikes. You have heard the opening on AM2367. You've heard the opening to AM2367 and LB988. Those wishing to speak, we have Senator Carlson, Louden, Erdman, Fischer, and Nelson. Senator Carlson, you're recognized. [LB988]

SENATOR CARLSON: Mr. President and members of the Legislature, I have a couple of comments that I'd like to make and then, in the process, I'm addressing a question to Senator Raikes so I'd ask for his attention. [LB988]

SENATOR LANGEMEIER: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR CARLSON: First of all, Senator Raikes, certainly you alluded to the fact that this whole process is complex, and I fully agree with you. And you indicated there's a reason for it being complex and you don't want to...none of us want money allocated in a willy-nilly fashion, you used that terminology, and I agree with that. Another thing that you said that's very true, regardless of the formula, regardless of where we end up, those who pay the bill through sales tax, income tax, or property tax, want to pay less. And those who receive these tax revenues in school systems across the state want to receive more, and that's kind of the dilemma that we face. Not everyone is happy with the outcome of the state aid formula and yet probably in the outcome everyone ought to share some misery. In the meeting that we had this morning, you handed out three yellow stapled pieces of information and two blue, and I'm trying to determine now which blue we use that would give us the final figures that are addressed in these amendments, and I think that it's the blue sheet that says, "With Committee Amendments and Data Corrections, Using 96 percent Adjusted Value." Is that the case? [LB988]

SENATOR RAIKES: That is right, Senator. [LB988]

SENATOR CARLSON: Okay. Now from this blue handout, I'd like to combine that or compare that to another sheet that I'm looking at that's an 8 1/2 by 11 white. There's not

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a date on it so I can't refer to a date, but on that sheet there are three important columns. And the first column is the 2007-2008 system state aid paid, and the second column is 2008-2009 system state aid to be paid, and then the third column is the total dollar difference. Now this sheet, I don't believe, is anymore...it's not appropriate anymore. It's not accurate, is it? [LB988]

SENATOR RAIKES: Senator, I'm not sure which sheet you have, but I think you are correct. I think since that was made available there have been, among other things, some data corrections that have occurred. [LB988]

SENATOR CARLSON: Okay. Well, what I'm asking is off of this blue sheet and the columns that we have to look at, which column can I look at to give me the 2008-2009 systems state aid to be paid by district? [LB988]

SENATOR RAIKES: Okay, Senator, you're looking at a blue sheet now? [LB988]

SENATOR CARLSON: I'm looking at the one, "With Committee Amendments and Data Corrections, Using 96 percent Adjusted Value." [LB988]

SENATOR RAIKES: Okay. The far right-hand column, it gives you the total calculated state aid. [LB988]

SENATOR CARLSON: Yes. [LB988]

SENATOR RAIKES: If you want to compare that to actually one of two other things, you can look at the sheet that says--the blue, again blue sheet--the other packet of blue sheets that say "LB988 State Aid Model Compared to 2008/09 Certified State Aid, Using 96 percent Adjusted Value." And this, again, reflects... [LB988]

SENATOR LANGEMEIER: One minute. [LB988]

SENATOR RAIKES: ...the committee amendment. But on that sheet you have, on the left side, you've got "Comparison of Calculated State Aid"; on the right side you've got "Comparison of Formula Needs." And you can compare them not only to the 2007-08 numbers, which are for the school year we're currently in, but you can compare them with the certification for 2008-09 which was done on February 1. [LB988]

SENATOR CARLSON: All right. But none of that is labeled as the 2008-09 system state aid to be paid, so I'm still a little unclear of that. We're running out of time. I think for many of us that's a figure we want, and we want to be able to look at the schools in our district. And so if you can,... [LB988]

SENATOR LANGEMEIER: Time. [LB988]

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SENATOR CARLSON: ...clarify that. Thank you. [LB988]

SENATOR LANGEMEIER: Thank you, Senator Carlson. Senator Louden, you are recognized. [LB988]

SENATOR LOUDEN: Thank you, Mr. President and members of the body. I would like to ask Senator Raikes questions, if he would yield, please. [LB988]

SENATOR LANGEMEIER: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR LOUDEN: Senator, as I look at these sheets here and, as you say, 96 percent adjusted value, now that's...what does that mean now? Is that going to be what the school levy is valued on for local tax purposes, is 96 percent of the valuation of the property? [LB988]

SENATOR RAIKES: I think, Senator, maybe the simplest way to look at it is currently local property values are adjusted to 100 percent of market value. This says that they would be adjusted to 96 percent. [LB988]

SENATOR LOUDEN: Okay. [LB988]

SENATOR RAIKES: It's actually the amount the school district is charged, so to speak, in the state aid formula for a local resource. [LB988]

SENATOR LOUDEN: Okay. Then with agricultural land, which is valued at...taxed at, what, 75 percent or whatever it is nowadays since it was lowered, then it would be 96 percent of that 75 percent value. Is that what you're saying? [LB988]

SENATOR RAIKES: It's actually adjusted to 72 percent, I think is what it...but it's a good point. The residential and commercial is the range, the appropriate range, is 92 to 100; for ag land the range, I believe, is 68 to 75. [LB988]

SENATOR LOUDEN: Right. [LB988]

SENATOR RAIKES: So it's in the middle of the range. [LB988]

SENATOR LOUDEN: Okay. Now the 96 percent, though, in ag land, would that be the 96 percent of that 68 to 75, whatever it is that the TERC or the county or somebody sets it at? [LB988]

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SENATOR RAIKES: No. Instead of...previously it had been adjusted to 75 percent of market value, in the old days when you did 100 percent for commercial and residential. [LB988]

SENATOR LOUDEN: Yeah. [LB988]

SENATOR RAIKES: In this arrangement, the residential and commercial is 96 percent and ag land is 72 percent, I believe. [LB988]

SENATOR LOUDEN: Okay. [LB988]

SENATOR RAIKES: It's at the midpoint of the range. [LB988]

SENATOR LOUDEN: Okay. And that's 96 percent. That's 96 percent of that range in there then. [LB988]

SENATOR RAIKES: Yeah. [LB988]

SENATOR LOUDEN: Okay. [LB988]

SENATOR RAIKES: Yeah, that would be an appropriate... [LB988]

SENATOR LOUDEN: Okay, that's agreed. Now on your other receipts and stuff, that includes your state apportionment and your insurance tax and that sort of thing, and what you're doing here doesn't affect that. Is that still the same as what it's always been, how it's been divided? [LB988]

SENATOR RAIKES: Yes, that's correct. And you're now looking at kind of the state aid calculation portion rather than the pure needs calculation. But yeah, you're right. [LB988]

SENATOR LOUDEN: Okay. [LB988]

SENATOR RAIKES: Other receipts, income tax rebate, net option funding, those are done without change. [LB988]

SENATOR LOUDEN: Without, yes. And then when you get down to, I guess what would it be, your local effort or whatever, then some of these districts I notice that are below that, what is it, \$1.05 or some places where you're setting it at, if they're below that then they will receive a reduction in state aid or this state aid because of the value...because of the tax levy. Is that correct? It has to be up there somewhere around a \$1.00, \$1.05... [LB988]

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SENATOR RAIKES: Yeah. [LB988]

SENATOR LOUDEN: ...in order to receive their full state aid? [LB988]

SENATOR RAIKES: You are correct and you're now referring to the system averaging adjustment which is a part of the needs calculation. [LB988]

SENATOR LOUDEN: Right. [LB988]

SENATOR RAIKES: And the way that works is that the averaging adjustment is a way to make allowance, if you will, or make accommodation to school districts that end up in an array that has low costs, low average... [LB988]

SENATOR LANGEMEIER: One minute. [LB988]

SENATOR RAIKES: ...low average costs compared to the statewide average. And what we've done in this model is made that system averaging adjustment contingent upon the levy actually employed, the General Fund and levy used by that school district. [LB988]

SENATOR LOUDEN: Well, yeah. Of course, that's...to me that's another argument, because a lot of this agricultural land is being valued quite high. And of course, as you have fewer students, then you get a higher valuation per student so you consequently don't receive as much state aid. But on the other hand, there's not that...there is not any more income comes off of that. Another question I would have, isn't there...you have something in this newer model that if they have elementary centers, satellite centers out there,... [LB988]

SENATOR LANGEMEIER: Time. [LB988]

SENATOR LOUDEN: ...they get... [LB988]

SENATOR LANGEMEIER: Time. Thank you, Senator Louden. (Visitors introduced.) Returning back to discussion on AM2367, those wishing to speak, we have Fischer, Nelson, Ashford, and Fulton. Senator Fischer, you are recognized. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. We had a briefing this morning by Senator Raikes and we also had one last week. Those were helpful but obviously there's still a lot of questions by many of us who attended those briefings. At the first briefing that we had last week, a handout we were given--this is a white one--I asked Senator Raikes a question on the different factors in this formula that are referred to either as allowances or adjustments. I've been involved with school finance, not to the level that Senator Raikes has, but I've been involved with school finance for over 20 years. I served six years on the Nebraska State School Finance Review Committee. I

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worked with the Legislature's Education Committee on LB806. That is when the sparsity factor was included in the state aid formula. And I have followed it in my over 20 years as a member of a local school board. My interest continues in school finance, even though I am not a member of the Education Committee. But I did ask Senator Raikes a question because I view this proposal as a major proposal. LB988 makes significant changes in our state school finance formula. We all need to understand that. The question I asked him was that, what are these allowances and adjustments that have changed under LB988? If you follow along, those of us at the briefing today were given a yellow sheet and that's the "LB988 State Aid Model Compared to the 2008/09 Certified State Aid with change to Needs Stabilization." If you follow along on that, the first column is "Summer School Allowance." That is modified under LB988. We were told that "Special Receipts," "Transportation Allowance," "Poverty Allowance," "LEP Allowance," those are in our current state aid formula. The "Distance Education Telecommunication Allowance" is new. The "Elementary Site Allowance" is new. The "Class Size Allowance" is modified. The "Basic Funding Allowance" is new. The "Teacher Education Adjustment" is new. "Local Choice Adjustment" is new. "System Averaging Adjustment" is new. "Model Formula Needs Stabilization" is new. "Model Formula Need" is in the current formula. In my opinion, that is a major change in our state school finance formula. I don't understand what each of those allowances and adjustments are, let alone what they do and how they're handled in this formula. I would like to discuss one of those adjustments, which is the teacher education adjustment. About ten years ago, when I was on the board of the directors of the state school board association, I was asked to serve on a committee, a group that was looking at changes in the state aid formula. We looked at what at that time was referred to as the professional development model. [LB988]

SENATOR LANGEMEIER: One minute. [LB988]

SENATOR FISCHER: I felt--thank you, Mr. President--I felt that that professional development model was a wish list, and many of the people who served on that committee agreed, because under that model you were asked to come in and suggest what you would want for factors in the state aid formula based on what would be the ideal. I wish we could live in an ideal world and we could meet all those needs and we could meet that wish list, but we can't. This teacher education adjustment, in my opinion, is directed in the wrong direction. We are rewarding districts that currently have well-educated staff. [LB988]

SENATOR LANGEMEIER: Time. [LB988]

SENATOR FISCHER: Thank you, Mr. President. I will continue. [LB988]

SENATOR LANGEMEIER: Thank you, Senator Fischer. Senator Nelson, you're recognized. [LB988]

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SENATOR NELSON: Thank you, Mr. President. If Senator Raikes will yield to a couple of questions, please. [LB988]

SENATOR LANGEMEIER: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR NELSON: Senator Raikes, I want to thank you at this time for the two seminars that you presented, each an hour long. I had to miss the first one but I have the material from that, and then received an abundance of material this morning. And it's going to take awhile to digest all this but I do have a question or two. Looking at the long blue sheet that reflects the amendment, about the fourth column over you find "Formula Needs." And let's just take Kenesaw, for instance. There's a \$2.3 million figure there. How is that formula need arrived at? Is that...are those figures based on past expenditures by that school district or where does that figure come from? [LB988]

SENATOR RAIKES: It's a good question, Senator, obviously. And you are correct in that, as we've always done, the driver in the needs calculation is past spending history. So that is the central starting point. You go from there to a basic funding calculation, a basic funding allowance, and then you add to that the various allowances that apply to--I think you mentioned Kenesaw--that apply to Kenesaw. And you simply add those numbers to get the formula need for Kenesaw. [LB988]

SENATOR NELSON: All right. Thank you. If I heard you correctly, you made the statement, needs is the amount of money required by the school to operate. And so I take it that figure there for Kenesaw would be that figure, what they need to operate. Is that what we're basing this on then? [LB988]

SENATOR RAIKES: Yes, it'd be... [LB988]

SENATOR NELSON: And then... [LB988]

SENATOR RAIKES: ...the needs for Kenesaw, in the needs minus resources equals aid format, would be \$2,349,000 and so on. [LB988]

SENATOR NELSON: All right. And then if I understood you correctly, you went on to say the state guarantees this. Do I take that to mean then that we're guaranteeing that figure there, or are we actually guaranteeing the amount of additional aid after we go through this formula, or let's say the amount of aid that they're going to get from the state? What are we guaranteeing here? [LB988]

SENATOR RAIKES: Okay, a very good question. And maybe guarantee is not the best

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choice of words, but in effect we are. And so what we're saying to Kenesaw in this particular example: You need \$2,349,770 to operate. All right, you have these sources of funds to come up with that \$2,349,770. One of them is your property tax resource, another one is other receipts you get at the local level, and finally there is state aid. So amongst those three sources, we are going to provide for you, as a district, that amount of money. It does not mean that you will receive \$2,349,000 of state aid. That number is the total amount you need from all the resources you have available. And, by the way, that concept is not new in this formula. [LB988]

SENATOR LANGEMEIER: One minute. [LB988]

SENATOR NELSON: No, I think that's a concept that probably existed for quite a long time. One final question because time is short. You talked...you spoke about an array of schools. We're changing to looking at an array of schools; out of ten, discarding the top and the bottom, and averaging the rest. And then you talked about adjustments. Could you please briefly tell me what the local choice adjustment means with a school population of less than 390? [LB988]

SENATOR RAIKES: Okay. The local choice adjustment would apply only to school districts that are classified as standard, meaning they're not impacted by a sparsity of school districts. And basically it would adjust the commitment by the state to funding the needs for that school district downward according to how much smaller they are than 390 students. [LB988]

SENATOR NELSON: All right. Yeah, I understand that. Thank you very much, Senator Raikes. Thank you, Mr. President. [LB988]

SENATOR LANGEMEIER: Thank you, Senator Nelson. Those wishing to speak, we have Senator Ashford, Fulton, Loudon, Gay, Fischer, Wightman, and others. Senator Ashford, you're recognized. [LB988]

SENATOR ASHFORD: Thank you, Mr. President. Senator Raikes, could I ask you just a question? I just...this is a general question. [LB988]

SENATOR LANGEMEIER: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ASHFORD: This is a general question. It's not really related to any specific numbers that you've discussed. But just theoretically really, in a broad sense, if we don't pass this bill and we go back to the formula that exists today, in a general sense could you take my time and talk about where that leaves us? Is that something you can answer in a short few minutes? [LB988]

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SENATOR RAIKES: Okay. I'll try, Senator. I'll pick up actually from where Senator Fischer left off because it poses us an interesting dilemma. She said, well, we talked about teacher adjustments or teacher salary adjustments at some meeting in the past and it was a part of a wish list. And apparently, I gathered from her comments, that it was discarded because, being a part of a wish list, it was something just too expensive that we could not afford it. Well, interestingly enough, in LB988 we include that provision so that we compensate school districts that hire educated teachers--especially educated teachers. We do so in a manner, along with other provisions, that we still end up with a reduction in state aid of more than \$50 million. So keep that in mind. It would be one thing if this proposal was grandiose in terms of the total spending implied by it. It is not. It actually reduces the total amount of aid that would go to school districts. Now I will tell you that it does incorporate aid, even though it incorporates a significant increase in the needs for school districts, so that the school districts are not being punished such that they cannot effectively deal with the needs they face. In terms of what we do about total state aid spending or total spending in the state budget with or without LB988, we had the discussion yesterday. If you look at the way the green sheet comes out, in order to meet the 3 percent general fund reserve requirement for the end of this biennium, which actually in my view is not really a statutory requirement, but if you did, we would need to cut spending from the current state aid appropriation by about \$58 million. The green...or the blue sheets, LB988 with the committee amendment would actually reduce it by a little over \$50 million, so it would be something short of the full \$58 million. I think you could argue that, well, it's not a statutory requirement that we do \$58 million or \$50 million or any million, for that matter; that we could...we could proceed without doing anything. Well, my take on that is that even though it would not put us afoul of any statutory requirement or any constitutional requirement as a Legislature, it would be unwise. I think the formula as it's now operating and particularly with the increase in state aid that we saw in the certification in February 1, it's not sustainable. As we look forward, it certainly looks to me to be a rocky fiscal situation. [LB988]

SENATOR LANGEMEIER: One minute. [LB988]

SENATOR RAIKES: So I think it's critically important that we make an adjustment. And obviously, my suggestion for that adjustment is LB988, not just because it would reduce the state's obligation for state aid--in fact that comes down the list--the most important reason is that it is a better state aid formula. It is better policy regarding funding of school districts in Nebraska. Thank you. [LB988]

SENATOR LANGEMEIER: Thank you, Senator Raikes and Senator Ashford. (Visitors introduced.) Returning now to discussion on AM2367, those wishing to speak, we have Senators Fulton, Loudon, Gay, Fischer, Wightman, and Heidemann. Senator Fulton, you're recognized. [LB988]

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SENATOR FULTON: Thank you, Mr. President. Would Senator Raikes yield to a question? [LB988]

SENATOR LANGEMEIER: Senator Raikes, would you yield to a question from Senator Fulton? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FULTON: Thank you, Senator. Okay, I am...I'll give you a page. I'm in the original committee amendment. I understand we're on the first division, but I'm reading off of your AM2128. I'm on page 16 and I'm just...I'm not picking out...I'm not nitpicking here. I'm going through this page by page and there's something right away that I need to get some clarification on. Page 16, this is introducing elementary site allowance and summer school allowance into the allowances calculation, which is subtracted from the product of the General Fund and cost growth factor. [LB988]

SENATOR RAIKES: Okay. [LB988]

SENATOR FULTON: Can you explain? Well, this provision, page 16, it elucidates this product minus allowances, but the minus side, after the year 2013, after the school fiscal year 2013-14, we add elementary site allowance and summer school allowance. Am I...are you tracking? Am I... [LB988]

SENATOR RAIKES: I don't actually have that, but go on and I'll see if I can catch up. [LB988]

SENATOR FULTON: Okay. Well, my question is, what is...? In 2013, we are adding elementary site allowance and summer school allowance to this equation. Can you give me an idea of what...how much that's going to be? I mean, I have absolutely no clue. I don't know if it's insignificant or what it does, but this... [LB988]

SENATOR RAIKES: I'll try to get...I'll try to get a good answer for you on that. In terms of elementary site allowance, for example, if you look at--and I think you're just now getting these printouts--but on the yellow printout you're going to get, there is a column about halfway, about in the middle of that yellow printout, which has numbers for the elementary site allowance. And it has a total at the bottom which can give you, I think, a good clue as to where we are. The other thing I would mention in response is that if the description is allowance, then if your concern, which it might be, is the total obligation of the state, to state aid or to formula needs, an allowance does not increase that. An allowance actually allows movement of money from the general pool to the district that actually incurs the expense in question, so both of those things. So I think you'll get a good idea, by looking at the sheet, exactly what the kinds of amounts are. The second thing is, don't view those amounts which are described as allowances, as net additions

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to the state's obligation for state aid. [LB988]

SENATOR FULTON: Yep. Understood. Thank you, Senator Raikes, and I will look over the yellow copy. Thank you, Mr. President. [LB988]

SENATOR RAIKES: Okay. [LB988]

SENATOR LANGEMEIER: Thank you, Senator Fulton. Senator Louden, you're recognized. [LB988]

SENATOR LOUDEN: Thank you, Mr. President and members. I would ask would Senator Raikes yield for a question, if he would, please? [LB988]

SENATOR LANGEMEIER: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR LOUDEN: As I was visiting with you before, Senator Raikes, on I think it's this yellow sheet that, what, certified state aid would change needs, and you have your elementary site allowance. Now this is something that's...this is something new, is that correct? [LB988]

SENATOR RAIKES: Yes. Yes. [LB988]

SENATOR LOUDEN: Now as I notice, oh, like Hemingford Public Schools or somebody, it was like \$42,000. Now what do you include? Is that supposed to be to operate a small school for \$42,000, or is that some other need? What do you plan to do with that or... [LB988]

SENATOR RAIKES: Actually... [LB988]

SENATOR LOUDEN: ...or have them do with that kind of money? [LB988]

SENATOR RAIKES: The idea there, Senator, is that Hemingford or any other school district would be funded for the students they serve, whether they're in an elementary--a remote elementary site--or whether they're in a K-12 site, or a central site, if you will. The idea of the elementary site allowance is to recognize that the ones you need to serve in that elementary site are going to cost more. So the elementary site allowance is intended to reflect the additional amount of money you would need to spend because you need to serve those students in... [LB988]

SENATOR LOUDEN: Okay. That's an additional per pupil cost that would come over here in their other state aid then. [LB988]

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SENATOR RAIKES: Well, obviously, the \$42,000 is not per pupil. It's per...it's for the entire district. [LB988]

SENATOR LOUDEN: Yeah, but I mean that's an additional cost that you calculate they would need... [LB988]

SENATOR RAIKES: They...yes, it's recognized in this. [LB988]

SENATOR LOUDEN: ...in order to have that...yeah, in the elementary site. Now when you get over here to the...you modify the class size. Could you explain to me what you mean by that; modify the class size allowance? And does that go away or will that...is that going to be on there all the time, or how does that affect the schools in the district I represent? [LB988]

SENATOR RAIKES: You're talking about the elementary or just the class size allowance? [LB988]

SENATOR LOUDEN: Yeah, class size allowance. [LB988]

SENATOR RAIKES: Is that the column right next to the elementary site allowance? [LB988]

SENATOR LOUDEN: Yeah, right next to where the...in the next column over from the elementary site allowance, yeah. [LB988]

SENATOR RAIKES: Okay. This was a provision that was recently added in the current formula that was to reflect all the research and, I guess, educational practice, that would suggest that the best way to serve at-risk students, poverty students, is to serve them in small class sizes. So in effect what we did, we took part of the allowance--and again this is an allowance, this is not an adjustment--we took part of the poverty allowance away and directed it specifically to elementary class sizes, to funding small elementary class sizes. [LB988]

SENATOR LOUDEN: Okay. Then the plan is, is for these...because this is mostly what I would call larger schools, then they would...their plan is to have them have smaller class sizes, and you would give some...they would receive extra funding to have smaller class sizes in their schools. Is that correct? [LB988]

SENATOR RAIKES: Right. And I think if you look at the list, actually it's fairly...it's not just larger school districts. It's most all school districts. [LB988]

SENATOR LOUDEN: Right, other than Arthur and they probably already have small

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class size, or some of the other counties that already have small class sizes though. [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR LOUDEN: Yeah. Okay. This is some of the questions I have. I thank you, Senator Raikes. And with that, at the present time, as they... [LB988]

SENATOR LANGEMEIER: One minute. One minute. [LB988]

SENATOR LOUDEN: Okay. At the present time, yes, this is complicated, but it is a complicated issue. I've been involved with school funding. I've mentioned before I've been on the school board for over 30 years and I was on there before we started state aid to education. There's been problems with it I think the whole time that I was ever on the school board; still been problems. But this is something that I really do think that we're probably coming a little bit around closer to addressing the problems than we have for a long time. With that, thank you, Mr. President. [LB988]

SENATOR LANGEMEIER: Thank you, Senator Louden. Senator Gay, you're recognized. [LB988]

SENATOR GAY: Thank you, Mr. President. Yesterday I talked about where our spending is going. Today I want to follow up on that a little bit. We're in a bit of a jam here it looks like, on our budget. Your choices are this: either do nothing and spend \$132 million extra, or pass this bill and get \$50,138,000 savings. That's still \$50 million...or the \$82 million that we're going to spend is a 9 percent increase of what we're spending from last year. So when we look at this overall budget,...you know, yesterday we talked about being boxed in, and I guess we are a little bit. We're going to have to decide what to do today, and I appreciate Senator Fischer bringing this about and dividing the question. We'll have a good discussion, because I think many of us need to learn how this all works, and it is very complicated. I attended Senator Raikes's briefings this morning, as well, and I think last Thursday he had one. And you know, it's a changing process, and as he says, it's not an easy process to get your arms around, and I would agree with that. But many of these issues, some are very new. But the point I'm getting at is, at some point do we have a comprehensive review of school funding? I think it's gotten so complicated that we're in here working on this issue, and people that have been in the educational financing issues for 20-some years have a hard time understanding this formula. Here we are, part-time state senators, trying to figure this out, and it's very confusing. But I guess when I look at that \$82 million new spending, 9 percent increase just in two years then, that budget would be at \$97 million--just the growth--\$97,637,000 or \$15 million more in the next two years, based on these changes if we pass this. But between now and that next budget, somebody needs to sit down--and I commend Senator Raikes, he does understand this and we're...trying to

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teach us all, and it's a hard job--but somebody needs to sit down and get a handle on this school financing and make it a little more simplified, if you can. But I think we need to kind of get this figured out fairly quick. If you just took a 5 percent increase for five years on that, we're talking \$126 million new spending. So yesterday I handed that out and I looked at where we're spending our money, and it's, you know, universities. Education is very important to this state, but I'm just...at some point we need to get a handle on it, and I'm listening to the debate and I've got an amendment coming up on the school class size that we're going to discuss. But if there's opportunities in here, I think that somebody has an idea how to save some money and not penalize schools, probably now is a good time to bring it up or jot it down and bring it up next year, because I don't think we can get this solved here, day 43, and here we are getting our first look at this. This was in their committee quite some time, and I kind of...I do feel bad that we're using the schools to look at how we're going to solve our budget problems, and we're not looking...I shouldn't say that. We're not looking, but it's a tough situation that you're forced to vote on a bill here. So as you talk to your districts and talk to people, that's a...I'm just throwing that out there, that I think we need to have more of a comprehensive review of school funding in the coming years, starting soon, and see what happens, because this is an unsustainable rate. I don't know how we can continue to do this, with all the demands we're putting on schools now, that we can continue to have this kind of spending and serve any taxpayers in a proper manner, because that's just an unsustainable rate, when we have other issues, as well-- [LB988]

SENATOR FRIEND PRESIDING [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR GAY: ...Medicaid issues, secondary education issues. So I put that out there and just wanted to run through the numbers a little bit, because like I say, I think we need to keep track of the big picture of where we're going here. Interested in hearing more in the debate and hopefully adding something to it along the way, but just wanted to add that. Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Gay. Senator Fischer, you are recognized. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. When I spoke last I brought up one of the allowances in this new formula that we're looking at today...or adjustments. It's the teacher education adjustment. And I had discussed that about ten years ago I worked with, or was invited to work with a group that looked at the professional development model. When I said they came up with a wish list and that this was part of it, that's exactly what I meant. I think it's time to look outside the box when it comes to teacher education and a teacher education adjustment. The districts under this formula that are receiving the money, as I understand it, are those that have staff

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that have advanced their education where they have a master's degree or a Ph.D., and I think that's wonderful. I think that those teachers should be thanked, but I don't know if their districts should be rewarded. I would like us to think outside the box. I would like us to look at staff in districts that are not close to colleges or universities, where it's somewhat easier for a staff member to take classes and advance their education and encourage those districts and encourage those teachers to receive their masters' degrees and even to go on for their Ph.D.s. I question whether we should even be rewarding those districts, though. Shouldn't we be directing the funds to the teachers? If they are willing to take the classes and if they are willing to advance their education, shouldn't we be helping them do that? I think we need to look outside the box when we consider a teacher education adjustment. I don't mean to ignore Senator Raikes during this debate, but I realize, as all of you do, that Senator Raikes won't be here next year. That concerns me, because he's the one answering the questions and trying to answer the questions that all of us are bringing up on this school finance bill. And I certainly don't mean to pick on other members of the Education Committee, but from now on, I will be addressing my questions to the members of the Education Committee who will be here next year, because when we have concerns with school finance next year, those will be the people that we turn to, to answer our questions. Senator Raikes won't be here. So with that, I would ask...well, they've all left the floor. (Laugh) Senator Avery, Senator Adams, Senator Howard--they've all left the floor. Senator Kopplin. Oh, Senator Ashford, would you yield? [LB988]

SENATOR FRIEND: Senator Ashford, will you yield to a question? [LB988]

SENATOR FISCHER: Oh, thank you. [LB988]

SENATOR ASHFORD: Yes. Yes, I will. I wondered if I was blending into the pillar. (Laugh) [LB988]

SENATOR FISCHER: I was looking at your desk and I didn't see you there. You had stepped off to the side. My apologies, I certainly didn't mean to overlook you. [LB988]

SENATOR ASHFORD: No. It's accepted. We've gotten a lot of good apologies the last few days, (laughter) and I'm glad that you could add yours to the list. [LB988]

SENATOR FISCHER: We do what we can; we do what we can. I would ask you on these yellow copies, which I believe every member has now,... [LB988]

SENATOR ASHFORD: Um-hum. [LB988]

SENATOR FISCHER: ...I would ask you, can you explain to me the summer school allowance and how it was... [LB988]

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SENATOR FRIEND: One minute. [LB988]

SENATOR FISCHER: ...and how it was modified? [LB988]

SENATOR ASHFORD: Well, I can explain what I know, and that is that the summer school allowance is an allowance, it's not an adjustment; that it was modified to give it greater weight. I can't tell you specifically. I'd have to defer to Senator Raikes on how it was...the exact weighting in the formula, because I don't have that number. But what I can say is that the summer school allowance was a topic that we discussed this year and last year. It was a very significant part of the adjustment...or the allowance, change in the allowances. And as a policy issue, it was a priority issue. I don't know what else...but I don't know the exact weighting number, Senator. [LB988]

SENATOR FISCHER: No, that's fine. Thank you. Also, there's a new allowance, the distance education telecommunication... [LB988]

SENATOR FRIEND: Time. [LB988]

SENATOR FISCHER: Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Fischer and Senator Ashford. Members, we are discussing AM2367, the first division of AM2128. Senators wishing to speak are Wightman, Heidemann, Harms, Carlson, Erdman, and Fischer. Senator Wightman, you are recognized. [LB988]

SENATOR WIGHTMAN: Thank you, Mr. President, colleagues. I too have some real questions with regard to the teacher education allowance that we are talking about. Again, I don't know that I'm totally opposed to it. I wonder about the size of it and how that was arrived at. I wonder if Senator Raikes would yield to some questions with regard to that. [LB988]

SENATOR FRIEND: Senator Raikes, will you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR WIGHTMAN: Number one, it seems to me that the method that you're using right now in determining that allowance is based upon the number of teachers who currently have Ph.D.s, maybe advanced beyond bachelor's degree and the master's degree. Is that correct? [LB988]

SENATOR RAIKES: That is correct, Senator, and if I might add right now, it's been described as a reward. It's been...I would argue it's the elimination of a penalty. Right now, if you have a school district that has these advanced degree teachers, they are

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compensated as though they didn't have those advanced degree teachers. So in effect you are sort of imposing a penalty. We don't want teachers with advanced education, because we're not going to fund you for those. So there's a couple different ways to look at it, and I think the way I look at it and the concept behind the needs calculation is that you're trying to reflect the cost incurred by that school district. And costs...salaries for teachers with more advanced educational degrees, or more advanced degrees, are in fact higher. [LB988]

SENATOR WIGHTMAN: Could you make an equally valid argument that those schools that don't have it probably have the need to be brought up to the standards of those that do have many teachers with advanced degrees? [LB988]

SENATOR RAIKES: You could, Senator. And you could, I think, go from that argument that you need to put a program in place, possibly, to pay or encourage or some otherwise try to get to a point where you have school districts with teachers with more advanced degrees. But we're not reaching that far here. We're simply saying, as a part of the needs calculation, we want to accurately reflect the costs incurred by school districts. [LB988]

SENATOR WIGHTMAN: So that if they have more teachers that have the advanced degrees, then they have additional expenses under their salary schedules. Is that your position? [LB988]

SENATOR RAIKES: That's correct. [LB988]

SENATOR WIGHTMAN: Let's go on down, if we could, to the class size allowance. I'm somewhat concerned over some of the elements of that. That was first implemented this past year, is that correct? [LB988]

SENATOR RAIKES: That's true. I think it was a part of LB1024, if I'm not mistaken. So this current year would be the first year it's actually been implemented. [LB988]

SENATOR WIGHTMAN: And under the current allowance for that, was it based upon K-8, kindergarten through eighth grade? [LB988]

SENATOR RAIKES: Yes, it was, and I would fully accept the responsibility for that. I think that was a bad decision on my part, and that's the reason that we're modifying it in this proposal. [LB988]

SENATOR WIGHTMAN: Now in this proposal, will it stay at kindergarten through eighth grade for the 2008-2009 year? [LB988]

SENATOR RAIKES: No. Actually...well, let's see. For 2008-09, the class size allowance

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is actually the one that's reflected here. That's basically the provision that we've got in place in this bill. [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR RAIKES: As you look at down the road, in effect the effort here is to move that class size allowance, to move that away, to go simply to a requirement for school districts that they educate elementary students, poverty and other students, K-3 in small class sizes. So eventually... [LB988]

SENATOR WIGHTMAN: So eventually, starting in 2009-2010, it will go to K-3? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR WIGHTMAN: And one of the problems I have is, as you phase this out, many schools will have increased their teachers' numbers to try to comply with this. And I think you phased it out in 2013, is that right? [LB988]

SENATOR RAIKES: That's correct. [LB988]

SENATOR WIGHTMAN: But... [LB988]

SENATOR RAIKES: But it's phased out, Senator, in the sense that the money, instead of an allowance, becomes part of the basic funding. So the money does not go away; it's just simply not distributed anymore as an allowance. [LB988]

SENATOR FRIEND: Time. [LB988]

SENATOR WIGHTMAN: Thank you, Senator Raikes. Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Wightman and Senator Raikes. Senator Heidemann, you are recognized. [LB988]

SENATOR HEIDEMANN: Thank you, Mr. President, fellow members of the body. I'm going to start out probably apologizing more than anything else. I should have been on the mike a little bit previous. There's been a lot of talk through the morning about doing this to balance the budget and doing this to partly balance the budget, and Senator Raikes has talked about it, and Senator Gay touched base on it. I'm going to tell you, and you heard it yesterday, that I'm concerned that we have an unbalanced budget on the negative side. What I want to follow up and tell you today is that LB988 is a major policy decision. When you're looking at TEEOSA and the changes that LB988 will do to it, we haven't seen changes like this in possibly decades. And what I'm going to tell you

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is that when you start to dig into LB988, do not--do not vote for this bill because we are going to balance the budget. There have been conversations already, that if LB988 does not pass there are other mechanisms that we can do to balance our budget or at least get us closer. As we dig into LB988 and you think this is a good policy issue, and if...I might add one more thing: if you understand it. And I think that's an important part of it. And if you understand it and still think it's good policy issue, I urge you to vote for it. And I don't have a problem there. I just...hopefully, that we dig into this and that we understand what we're doing. And sometimes if I have a problem, it's that I believe we're going into places that we don't know where we're going. I...just a few minutes ago I passed out something to do with the poverty allowance and the class size allowance, and it's something that I started thinking about a week ago when I was at home, about all of the poverty allowance. We seem to be increasing that in the needs calculation. And I started to think that one of the things that has always bothered me as a Nebraskan, that we always have two counties that show up in the top ten counties in the United States as the poorest per capita counties, and that has always bothered me, that we have two counties like that. And I've always wondered why that was. And then as I was thinking about this a week ago, I got to thinking, what is LB988 going to do to address that? So I had Ryan in my office start running some numbers, and we come up with this sheet right here, and to me it's very, very interesting. And I think that we need to look at this. Are we really, when you talk about the poverty allowance, are we really addressing that in LB988, to help our schools when you look at this list? This is 2005 data. And I would like to ask Senator Adams some questions. [LB988]

SENATOR FRIEND: Senator Adams, will you yield? [LB988]

SENATOR ADAMS: Yes, I will. [LB988]

SENATOR HEIDEMANN: Can you tell me how the poverty allowance works and how it's calculated? [LB988]

SENATOR ADAMS: Senator, I can't stand here right now and give you a detailed description of how that is calculated. I do know that it is based on the number of students in a district that are free and reduced lunch. It has to do with how far those students have to be transported, those kind of things. [LB988]

SENATOR HEIDEMANN: And do you know how the class size allowance is calculated? [LB988]

SENATOR ADAMS: I'd have to give you basically the same answer. I can't stand here and tell you I know exactly how that's done. [LB988]

SENATOR HEIDEMANN: I've been told, but I'm not 100 percent for sure, that it's actually tied back to the poverty allowance, how it's figured. [LB988]

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SENATOR FRIEND: One minute. [LB988]

SENATOR HEIDEMANN: And I think you know where I'm going with this. I've talked to you briefly before I got on the mike here. LB988 troubles me because we are increasing the poverty allowance and how much credit they get, according to state aid, as far as the needs calculation. And you've had to glance over this, Senator Adams. Does it make any sense to you where the poverty allowance is going, and when you look at this list, exactly per capita income, where their rank is? And I point to Loup County as a perfect example, which to me is an embarrassment as a state senator, that we have a county that has a per capita income in 2005 of \$10,000. Will you tell me how much poverty allowance they get in the needs calculation? [LB988]

SENATOR ADAMS: You're talking about Loup County now? [LB988]

SENATOR HEIDEMANN: Loup County. [LB988]

SENATOR ADAMS: And what you're showing here on your list is that they're not receiving any poverty allowance money, and I don't know why they aren't. [LB988]

SENATOR FRIEND: Time. [LB988]

SENATOR HEIDEMANN: Thank you. [LB988]

SENATOR FRIEND: Thank you, Senator Heidemann and Senator Adams. Members, we are discussing AM2367, the first division of AM2128. Senator Harms, you are recognized. [LB988]

SENATOR HARMS: Thank you, Mr. President, colleagues. I yield my time to Senator Heidemann. [LB988]

SENATOR FRIEND: Senator Heidemann, 4 minutes and 55 seconds. [LB988]

SENATOR HEIDEMANN: Thank you, Senator Harms, Mr. President, fellow members of the body. Would Senator Adams continue on with the questioning? [LB988]

SENATOR FRIEND: Senator Adams, will you yield? [LB988]

SENATOR ADAMS: Yes. [LB988]

SENATOR HEIDEMANN: I go to the second county that is shown with a per capita income of \$15,500. How much poverty allowance do they get? [LB988]

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SENATOR ADAMS: They show zero, Senator. [LB988]

SENATOR HEIDEMANN: And as we go through this list, the poorer counties, they start to pick up some, but you still, even when you get into \$26,000, they're showing zero. And as you turn the page over--there's 93 counties in Nebraska--and in 2005 data, who had the highest per capita income in the state of Nebraska, according to countywise? [LB988]

SENATOR ADAMS: Well, you're showing Douglas County. [LB988]

SENATOR HEIDEMANN: At \$41,000, which is quite a bit more than \$10,000 that Loup County has. Can you tell me how much money they get in the needs calculation for poverty allowance under LB988? [LB988]

SENATOR ADAMS: Well, it's showing about \$31.8 million. [LB988]

SENATOR HEIDEMANN: Can you tell me what the total needs calculation is on the poverty allowance? [LB988]

SENATOR ADAMS: \$63 million--almost half. [LB988]

SENATOR HEIDEMANN: Almost half. And from this point on, I would like you to take a minute or whatever it takes you of my time to tell me and the rest of the body if you think that is right. [LB988]

SENATOR ADAMS: If all I'm doing, Senator, is looking at the black-and-white numbers that you handed out, I could say something is a-foul here. But obviously what we don't have in front of us are demographics. We don't have in front of us whether or not Loup County, Grant County, even filed a poverty allowance report to qualify for the money. Those are the kind of things that we don't know. [LB988]

SENATOR HEIDEMANN: And I understand that, how to qualify that, but maybe we should do something different that they would automatically qualify. When you've got that kind of figures that we're showing, \$10,000, do they even need to qualify? We should just qualify them. [LB988]

SENATOR ADAMS: Well, one of the things to think about, as Chair of Appropriations, is if it's an allowance, it's a redistribution of money rather than an increase in appropriations. [LB988]

SENATOR HEIDEMANN: And I'm not arguing that at all. I'm just looking at where it's going. And I understand that. You could...it's just a redistribution. Actually you could redo this and it's just going to shift it around, and that's the way that works. I'm actually

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looking right now about where it's going, and I will be...I'm troubled by this, there's no doubt about that. And I think there's a lot of people that, when it comes to people that we need to help, want to be able to help them. And I'm not for sure that LB988...and I realize when you look at demographics there's poverty in Douglas County, and I don't care if it's \$41,000 per capita income, they need to be part of this poverty allowance. There's no doubt about that and I'm not arguing. But I am arguing, or discussing I should say, when Loup County gets absolutely, positively nothing, that just doesn't seem like it's...there's something wrong. [LB988]

SENATOR ADAMS: I would agree. It does seem like there's something wrong, but if they have not submitted a poverty plan, they're not eligible for the allowance. [LB988]

SENATOR HEIDEMANN: Why haven't they and why would you say they haven't? [LB988]

SENATOR ADAMS: Well, for one thing, probably the most obvious reason is to be accountable for that. [LB988]

SENATOR HEIDEMANN: It looks like... [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR HEIDEMANN: ...we could have some kind of a mechanism to some counties that are under \$22,000. I don't even know what the poverty...to be qualified for poverty or free lunch, what's the amount; do you know? [LB988]

SENATOR ADAMS: No. I don't know the exact amount. [LB988]

SENATOR HEIDEMANN: I would have to think that the top 20 counties would almost qualify. We ought to just qualify them, just looking at what the per capita income is. I would think there's got to be another mechanism there to help these counties that so desperately look like they need help. I'd like a lot of people to look at this and to think about what we're doing. I believe if we're going to "majorly" change TEEOSA, that maybe we need to step back and look at everything. And I'm not arguing totally against LB988 at all, but if we're going to do it, let's make sure we do it right. [LB988]

SENATOR FRIEND: Time. Thank you, Senator Heidemann and Senator Adams. Senator Carlson, you are recognized. [LB988]

SENATOR CARLSON: Mr. President and members of the Legislature, we received these figures this morning. I have 13 school districts in my district, and I've written down the amounts that they are now scheduled to receive for 2008-2009, as compared to what they did receive 2007-2008. And by looking at what I see, I've got nine winners

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and four losers. The four losers are big-time losers. We have an extremely important bill that we're debating this morning. And when we get the figures at 8 o'clock in the morning, those of us that went to the meeting, and then we're debating a bill--and I don't know when we're supposed to vote on this, but this is an extremely important vote--and I look at nine districts that are getting an increase, four that are having substantial decreases, two thoughts run across my mind. I've heard Senator Friend talk about it before--we're moving too fast. We can't move very fast on this bill, and I don't know how we can be ready to vote on something like this in a matter of a couple of hours. I've instructed my office to call these districts, talk to the superintendents and see what their feelings are. But in terms of an ethical vote, I cannot vote for a bill that puts four districts in what appears to be a really, really difficult position. And what Senator Heidemann just talked about, he brings up a valid, very, very important point. We look at per capita income in these counties, and then look at poverty allowance. I would like to address a question to Senator Heidemann, if he would yield. [LB988]

SENATOR FRIEND: Senator Heidemann, will you yield? [LB988]

SENATOR HEIDEMANN: Yes. [LB988]

SENATOR CARLSON: Senator Heidemann, I appreciate your testimony and the things that you brought forth when you were on the mike preceding me, and I've talked about how difficult this bill is in terms of our votes. If this...if LB988 is not voted in, what options do we have to consider from the Appropriations Committee? [LB988]

SENATOR HEIDEMANN: I'm going to respond to that as an option. There would be one option that we could do, maybe, from the Appropriations Committee, and that is to take cash reserve money and to make up for the shortfall for our imbalance. That's the proposal probably from the Appropriations Committee, unless we would go look for other places to cut funding. To try to do that, \$60 million into every agency--it would be a major cut for a lot of people. The other thing that I would have to say is that even if LB988 doesn't pass, there are other things that we could do with state aid to education to save us money. Just because this bill doesn't pass, there are other things that we can do... [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR HEIDEMANN: ...with state aid to education. I think...and Senator Raikes and I have had conversations about that already. [LB988]

SENATOR CARLSON: Okay, and you talked about that we shouldn't make a vote based on balancing the budget. I fully agree with that. But I'm assuming maybe that something would come out of Appropriations would be an equal percentage cut across the board, rather than, in a sense, picking and choosing. Would that be correct? [LB988]

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SENATOR HEIDEMANN: Actually, I would have to think that if LB988 doesn't pass, that the Education Committee and people in this body need to sit down and work together to see what we can do to balance our budget. That would be my thought. [LB988]

SENATOR CARLSON: Okay. Thank you, Senator Heidemann. And again, this is one of the most important bills that we've had before us during this session, and we need to make the right decision. Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Carlson, Senator Heidemann. Senator Erdman, you are recognized. [LB988]

SENATOR ERDMAN: Mr. President and members of the Legislature, I think Senator Heidemann just made a case for my amendment yesterday on the budget, did he not, Senator Raikes? I think he did; that we should do the areas as a collaborative group and not independent of one another. I'm going to send out an e-mail to your offices and to your e-mail that outlines some projections for state aid to schools and Medicaid. They're not pretty. And as I look at the provisions of LB988, some of them may not be pretty either. But to allow for a description of how these allowances are figured, I'd ask Senator Raikes to answer a couple questions, so that that's on the record at least, if he would yield. [LB988]

SENATOR FRIEND: Senator Raikes, will you yield to a question from Senator Erdman? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Senator Raikes, can you explain to me how the poverty allowance works under LB988? [LB988]

SENATOR RAIKES: Thanks for the question, and I will. It works the same way under LB988 that it works under the current formula, to start with. We changed that in LB1024. Before LB1024, school districts were basically given, in their needs calculation, an additional amount of money because they had poverty students, whether they had any programs for those poverty students or not. [LB988]

SENATOR ERDMAN: And poverty students are based on what determination? [LB988]

SENATOR RAIKES: They're based in the same way that they've been based on for years, and there's an income...there's two different methods, and I'll get the information. I can't detail it for you right now. But nothing is changed about that, either in LB988 or in LB1024. The significant change in LB1024: Rather than you simply hand the money to a school district and say, that's it we're done, you say, if you have poverty students and if

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you're going to provide programming specifically for those poverty students, spell out in a plan what it is you're going to do. On the basis of that plan, you will be allocated money to serve those students and implement that plan, and at the end of the year you will be accountable to see that you did, in fact, spend the money in the amount and the way you said. So this was an accountability provision for both poverty and LEP students that was put in place in LB1024. It's in the current formula. It continues, or would continue, in LB988. [LB988]

SENATOR ERDMAN: And actually, if I can...and maybe this isn't...clarification isn't needed, but it's my understanding that the provisions of the poverty allowance were actually contained in the bill last year. Even though it was originally in LB1024, the actual effect of that didn't take place until the learning community bill last year, LB651, whatever that number was, because as I recall from our conversations, both when that bill was going through and on the floor, there were provisions in that bill that applied to both the Omaha community, the learning community, as well as statewide. And the poverty plan was a statewide requirement that was in that bill, that didn't necessarily affect the Omaha, but it was applied statewide. [LB988 LB651]

SENATOR RAIKES: That's correct. State aid changes have been statewide policy proposals. [LB988]

SENATOR ERDMAN: And the class size allowance in LB988, is that a new component, or is that an existing component in the existing formula? [LB988]

SENATOR RAIKES: It's not new, Senator. It was in LB1024, LB641. But it's being revised in LB988. [LB988 LB641]

SENATOR ERDMAN: Okay. [LB988]

SENATOR RAIKES: So unlike the poverty allowance and LEP allowance, which are not being revised in LB988, the class size allowance is. [LB988]

SENATOR ERDMAN: Okay, and you're going to get the explanation of the two formulas,... [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR ERDMAN: ...or the two scenarios in which... [LB988]

SENATOR RAIKES: Okay, I'll do that. [LB988]

SENATOR ERDMAN: ...an entity can come and apply under the poverty allowance. Members, if you look...and you should now have a copy of this e-mail in your office or

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on your e-mail. It talks about...the first page talks about the future of TEEOSA and Medicaid. The second page talks about what we spend money on within the next 25 years. According to these projections, if you go out to the year 2031, the state of Nebraska does two things: funds state aid to schools and it funds Medicaid. That's it. We have sincere, and I won't say catastrophic, but monumental tasks ahead of us to manage the state's budget appropriately and to meet the expectations of Nebraskans. LB988 may be a part of that, but it may be in some other form a part of that, or there may be another solution altogether. But the fact remains that we're going to have time today to talk about these provisions of this bill. [LB988]

SENATOR FRIEND: Time. Thank you, Senator Erdman and Senator Raikes. Members, we are discussing AM2367, the first division of AM2128. Senator Fischer, you are recognized, and this is your third time on this division. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. I appreciate Senator Heidemann bringing forth his handout, because many of the counties that you see listed as some of the poorest, not only in the state of Nebraska, but some of the poorest in the United States are my counties. I represent 13 counties, as you know, in central and north-central Nebraska. If you look at that list, it's Loup, McPherson, Blaine, Hooker, Thomas, Boyd, Keya Paha, Rock. I agree with Senator Heidemann that that's very disturbing. I would ask if Senator Adams would yield to questions, please. [LB988]

SENATOR FRIEND: Senator Adams, will you yield? [LB988]

SENATOR ADAMS: Yes. [LB988]

SENATOR FISCHER: Senator Adams, can you help me understand the poverty allowance? If we look at the blue sheet where this..."LB988 State Aid Model Compared to the 2008/09 Certified Aid, Using 96 percent Adjusted Value." I'm looking at that sheet. And I'm also looking at the yellow sheet where it's compared with the change to the needs stabilization. If we look at Loup County, which is number one in poor counties--not just in Nebraska, but it's in the top three in the United States--if we look at Loup County on the blue sheet, under the difference in the '07-08 and LB988, which I was told that's what we need to look at to see if districts win or lose under this proposal--you can correct me any time if I am putting out misinformation--I see Loup County has a loss in state aid of over \$47,000. Am I correct in saying that? [LB988]

SENATOR ADAMS: I don't have the correct blue sheet in front of me, but I do have another sheet in front of me that is showing a loss, yes. [LB988]

SENATOR FISCHER: Under the poverty allowance, Loup County--on the yellow sheet--Loup County receives zero. [LB988]

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SENATOR ADAMS: Um-hum. [LB988]

SENATOR FISCHER: No money. Do you know why that is? Is that...could that be because Loup County does not have their students fill out a form for the poverty...for the free and reduced lunches? Could that be part of it? [LB988]

SENATOR ADAMS: Senator, more than likely that's exactly what it is. I did take a moment to pull up Loup County, or the Loup Public Schools. They have 113 total enrollment, and of that total enrollment the district average here eligible for free and reduced lunch is 65 percent. [LB988]

SENATOR FISCHER: Is that Loup Public Schools or Loup County? Loup County would be Taylor. [LB988]

SENATOR ADAMS: Loup County Public Schools. [LB988]

SENATOR FISCHER: Oh, okay. Thank you. [LB988]

SENATOR ADAMS: And it shows 65 percent of their student body eligible for free and reduced lunch, yet they show no poverty allowance money. [LB988]

SENATOR FISCHER: Do you think that's because they're not filling out the free and reduced lunch forms? [LB988]

SENATOR ADAMS: It has to be. I believe it has to be. [LB988]

SENATOR FISCHER: That's...and that is a concern with many smaller districts, because it's not in...I guess you could say it's not in the culture of the area to fill out those forms. Some of the schools don't have a hot lunch program, some of the smaller schools. How can we address this concern? Because in my opinion it's appalling that counties that are listed as some of the poorest in... [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR FISCHER: ...in the United States, don't receive any aid under our needs calculation in the school aid formula. [LB988]

SENATOR ADAMS: The fact that it's an allowance, we're trying not to increase the appropriation. We're trying to distribute it, and we're trying to base that distribution on some accountability rather than just say, here's some money for poverty, and then have it get used maybe some other way; hence, we create this allowance. And we put the burden on the school district, as you correctly pointed out, to show us that they have that need. If they don't respond to that, then that money goes to those school districts

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that do respond. And the question I'd have to ask is, maybe it's not within their culture--it may not be within the culture of a lot of school districts throughout our entire state not to want to recognize those kind of deficiencies; it's an embarrassment. Yet at the same time, if they have failed to do so, and indeed look to me like they would qualify,... [LB988]

SENATOR FRIEND: Time. [LB988]

SENATOR ADAMS: ...they've done a disservice to their school district. [LB988]

SENATOR FISCHER: Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Fischer and Senator Adams. Senator Wightman, you're recognized. [LB988]

SENATOR WIGHTMAN: Thank you, Mr. President, colleagues. I too am confused as I look through this and I look at the white sheet that was passed out and the income level. But some of this I think gets to our very basic way of funding schools, funding local government, and that is that while the income may be low, the net worth could be high. Certainly the property valuation is probably relatively high per capita in these districts, compared to the income level. I don't know that to be true, but I suspect that might be true, and it might be one of the things we would want to check. I've always had some problems with funding schools based upon property tax. It has always seemed to me that property tax is a poor indicator of ability to pay. If you were to rank the taxes, I think there's no question that the income tax is by far the best barometer or best indicator of ability to pay taxes. The property tax and the sales tax may rank at about the same level, but one of the problems we always have with property tax is that it doesn't take into account indebtedness. So somebody can have a million-dollar farm, and there are a lot of them around these days. He may owe \$600,000 of debt on that farm. Another person may have the same million-dollar farm or a similar million-dollar farm, and it's all paid for. Well, there's a tremendous difference as far as the ability to pay in these situations. So I think that might explain some of these differences and disparities on the income. I don't know that it explains all of it. I think that many of these Sandhill counties rise and fall with the cattle market in a given year, and of course it is specific--the handout--to the year 2005. That having been said, I would like to carry on, if Senator Raikes is still here, some discussion of some of these elements of the funding formula. I was talking, I think, about class size when we last ran out of time. So if Senator Raikes would yield to a question, I'd like to engage in conversation with him. [LB988]

SENATOR FRIEND: Senator Raikes, will you yield? [LB988]

SENATOR RAIKES: (Inaudible.) [LB988]

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SENATOR WIGHTMAN: At the time I think we were discussing it last, we were talking about the fact that this class size allowance was going to be phased out, I think in the year 2013. And I realize you said that there would still be some funding for that, but it wouldn't be in the form of the same allowance, is that correct? [LB988]

SENATOR RAIKES: Yes. It would in effect revert to the basic funding money, because every school district, regardless, would be in the same situation as concerns the need to meet that requirement--K-3 students served in class sizes of 20 or fewer. [LB988]

SENATOR WIGHTMAN: So starting in 2009-2010 then, there would be no allowance for classes 4-8, is that correct? [LB988]

SENATOR RAIKES: Yes. It's being phased down to K-3, and then basically the allowance is being eliminated, but I think you understand, in fact you have said, it doesn't mean the money goes away. It means it's not redistributed according to allowance, but rather becomes a part of the basic funding amount. [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR WIGHTMAN: But it still may take funding away from those schools, is that correct? [LB988]

SENATOR RAIKES: If a school district is being distributed money to serve students in small class sizes in a disproportionate amount, I guess you could say, for lack of a better phrase, then that would be eliminated. So it would become a part of the basic funding, again, in your array, in that 11-district array, so that you would be treated like the other school districts in that array. [LB988]

SENATOR WIGHTMAN: And I'd like to discuss the elementary site allowance. I don't know that we have time to do that at this point, so I'll quit for now and maybe ask some additional questions later. Thank you, Senator Raikes. Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Wightman and Senator Raikes. Senator Gay, you are recognized. [LB988]

SENATOR GAY: Thank you, Mr. President. Last year as we discussed poverty and I go...I had talked about a statewide poverty program. Here we are discussing it again, and I still believe that's the way to go, that's the way we should go. Some of these counties who are...per capita income is lower...I know we're not talking about concentrations of poverty like we were last year, possibly, but I still think, and this gets back to originally when I was talking about a little bit more sweeping change here, as we're having all these discussions I'm hearing, this could be fixed, that could be fixed.

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Senator Erdman handed out a very interesting spreadsheet that's there if you open up the e-mail, and it shows TEEOSA funding in 25 years. Now I know many...we won't be here in 25 years. I understand that. But long term, sustainability is a concern, so I would encourage you to look at that and as we look at a comprehensive view of where we're at...last year...now we're looking at budgets that of course we're going to have to pay for this year. Changes we made on poverty now are coming home, and we've got to pay for them, and that's part of this increase. There's not one person in here who doesn't want to help with poverty issues, but it's like, how are we going to do that, and is it a fair, comprehensive way in your area, as well as mine? I'm a...in our county, we're a benefactor of some of this poverty allowance, but I'm not so sure it's the right way to do it. We're a beneficiary of some of the class size allowance, but still you've got to look at statewide, not just what's best for your particular district. And I know that's a very hard situation, and that's kind of what I said earlier--we're up against it a little bit, because you look at your own districts and say, well, I've got some winners, I've got some losers. What do I do? Well, I'm looking for answers in the long term, that if this doesn't go through and pass, then where are we going to go? I still think we need a different look at this thing, and we're getting some great ideas. I think they could be molded together, and maybe it won't get done today and maybe it won't get done this session, but long term, I think that's what we need to look at. Mr. President, I'd yield my time to Senator Erdman, if he'd like it. [LB988]

SENATOR FRIEND: Senator Erdman, 2 minutes, 45 seconds. [LB988]

SENATOR ERDMAN: Thank you, Mr. President. Thank you, Senator Gay. As I...I think Senator Gay brings up a valid point, not from the standpoint of this topic specifically, but global. When we talked about the budget yesterday, that has an impact long term. And as Senator Fulton, I believe, pointed out yesterday, you put it all in the budget this year, it has a \$3 impact going forward because of that compounding effect that will happen. You're going to grow the budget at a certain rate, and state aid to schools and Medicaid and these programs are a part of that. They're vital. Nebraskans believe that they're important, and to some extent this argument that we're having, or this discussion, however you want to cast it, is probably going to be the most difficult one that this Legislature will ever undertake. We could probably talk about any controversial issue you want to, but when it gets down to it, funding of schools is probably the most controversial one there is. And it's because of the uniqueness, it's because of the differences between school districts, and it's ultimately because we're trying to come up with something that is fair. Now I think--and I don't know how to do this yet--but I think there needs to be a sincere look at the way that we fund TEEOSA. Is LB988 the solution? I'm willing to listen, and the way that this process is designed, it may not be the most appropriate way to have this conversation, but I am interested in continually hearing from the members of the committee. And I know what is going on behind the scenes here, if you will, but candidly, I'd...I'm going to defer to Senator Raikes for the explanations. I want to hear how this works. [LB988]

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SENATOR FRIEND: One minute. [LB988]

SENATOR ERDMAN: We have his expertise. Let's figure out exactly how this plays out. The law itself is instructive. Whether we agree with it or not, if the people who understand it can explain it, they should be the one explaining it. I think it's fun to pick on people and see if they can explain what the law is. That's not what we're talking about here. I candidly want to understand the actual application of the law, not to understand whether other people do. And as I see it, Senator Raikes's name is on the bill and his name is on the amendments, and I want him to be able to explain them to us. But that helps to give us a baseline of going forward, and if we take from that baseline the understanding of where we've come from and why these changes are being proposed, then we can all decide whether or not they accomplish the goal. And the goal is sufficient funding that is capable of being sustained at the state level. I'm interested in that conversation, and I believe we'll have that opportunity--and I'll get this in before he says "time"--throughout the day. This bill is not... [LB988]

SENATOR FRIEND: Time. [LB988]

SENATOR ERDMAN: ...going anywhere quickly. Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Erdman. Senator Schimek, you are recognized. [LB988]

SENATOR SCHIMEK: Yes, thank you, Mr. President and members. I guess I'm following up a little bit on what Senator Erdman just said. I too question the process of questioning committee members instead of the committee chair. I think committee chairs traditionally have had the responsibility of handling bills. They are the ones who were elected to handle the bills. They are the ones who in most cases have the institutional knowledge to handle the bills. They have the staff to handle the bills. It is their job to handle the bills. And going to other members of the committee to try to put people on the spot, I don't think we want to go there. Why wouldn't we use the knowledge of the committee chair this year on a bill that we're discussing this year? Next year the new committee chair can be responsible for the bill that you're discussing on the floor next year. But I don't think we gain anything by this, and I agree with Senator Erdman: We all need to understand this bill the very best we can, and that's why a lot of us went to the briefings--maybe one of them, maybe two of them. We need to understand what is in this bill to the very best of our abilities. And it's a difficult bill, no question about it. But we need to keep asking questions, and we need to keep asking Senator Raikes those questions. And with that, Senator Raikes, I'd like to give you the rest of my time. [LB988]

SENATOR FRIEND: Senator Raikes, will you yield? [LB988]

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SENATOR RAIKES: Thank you, Senator Schimek, members. I do appreciate the conversation. I would encourage you that because we have some new features in this proposal to work on understanding of those new issues. Now we spent some time on poverty allowance and LEP allowance, and that's not wrong. It's not a change though in this formula. We're basically using the same mechanism. And to the extent people need to be reminded that we're using the same mechanism and the reasons we're using that some mechanism, that's fine. But I will tell you that there are some new provisions or newly modified provisions of this proposal, and again, let me call your attention to those. On the needs side, the summer school allowance is a revised proposal; the elementary site allowance is a new provision; basic funding allowance certainly is an important and key new provision. Teacher education adjustment is new, and we have spent some time going over that, I hope to good benefit. I hope you understand better that what we're trying to do in the needs calculation is accurately reflect the costs incurred by school districts. Local choice adjustment we've touched on a little bit, but maybe we do need a little more time on that. I will remind you that that is a concept that has been in the formula--is currently in the formula--for a number of years. This is an explicit recognition of that factor, and it's done in a way that is different than what we've done it before. The system averaging adjustment is a new component, a new provision, and in fact it's significant, in that the way it's structured in the formula right now, it recognizes not only the cost group that a school district... [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR RAIKES: ...ends up in, compared to the average, but also incorporates the levy history of that school district in the adjustment. So it's a mechanism whereby if you as a school district have not seen fit to levy above a dollar, you are given less of an adjustment in your needs than if you're a school district that has levied above a dollar. So again, that is a new provision. Also I would mention model needs stabilization. This is a transitory or transitional provision but an important provision, and one that I hope you will ask questions if you don't understand. If you do understand, that's fine. I don't want to interfere. But if you have questions about those new provisions, I hope you will bring them up, and I am certainly happy to try to address the questions that you have. Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Raikes. Senator Raikes, you are next to speak, and you are recognized if you'd like the time. Senator Raikes waives. Senator Louden, you are recognized, and this is your third time on this division of the amendment. [LB988]

SENATOR LOUDEN: Thank you, Mr. President and members. Senator Heidemann brought up a very good point awhile ago when he talked about Loup County and Grant County, and their not receiving any poverty allowance. And I think that's probably a

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more complex problem than something that can be fixed with your school aid. That goes clear back to the fact that these are--your Loup, Grant, McPherson, Sioux counties, Blaine, Hooker, Arthur--all of those are Sandhill counties that don't have any towns of any size in there that has any retail sales. And that, therefore, lowers the per capita income. This is mostly all rural areas, ranching country and some farming country, that has a lower income base than a lot of the other areas of the state where you have higher retail sales and factory work or something like that. So I think that that has to go about back into allowing these people probably some kind of relief on their property tax, because if they didn't have to pay quite so much property tax, they'd certainly make a lot more money, because at the present time those counties out there like that, those school districts, a lot of them like Grant and...or Hyannis, which is in Grant County, and Sioux County, receive no state aid whatsoever. The poverty allowance, it usually comes about by the amount of kids, my understanding, that file for that in the school district, and the children, and that's the reason your larger schools like Scotts Bluff County getting nearly \$2 million in poverty allowance, with a \$27,000 per capita income, because of the amount of people that are living there, and evidently those schools apply for that poverty allowance. I would like to ask Senator Raikes a question, if I may, if he would yield. [LB988]

SENATOR FRIEND: Senator Raikes, will you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR LOUDEN: On this 96 percent that you have, is that a new issue that you have on this plan, where 96 percent...did it lower from 97 or something, down to 96? [LB988]

SENATOR RAIKES: No, Senator. It is new, in the sense it's a provision of the resource calculation in the aid formula that hasn't been there before. So it's a new provision of LB988. It did change in the sense, in the green copy. Basically we did away entirely with adjusted valuation and went strictly to assessed valuation. What this proposal does, which is actually in an amendment to the committee amendment, that's where you get the 96 percent. We're adjusting everyone to 96 percent for commercial and residential, and 72 percent for ag land. [LB988]

SENATOR LOUDEN: Okay, and was that in there before? I didn't hear what you said, to start with. [LB988]

SENATOR RAIKES: Okay. What I said is that this is a new provision for LB988, in terms of resource calculation. [LB988]

SENATOR LOUDEN: Okay. Then in other words, theoretically you could expect a very small decline in property taxes; is that what you're telling me? [LB988]

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SENATOR RAIKES: Well, I don't know that I follow your question there. What we're talking about is how much we charge a school district, in terms of local resource available, in the state aid calculation. [LB988]

SENATOR LOUDEN: Okay. [LB988]

SENATOR RAIKES: We're still, in terms of the school district funding or getting property tax money to fund its operations, it's still is going to... [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR RAIKES: ...levy property taxes against the assessed value. That part doesn't change. [LB988]

SENATOR LOUDEN: Okay, I understand that, then. This is just using...in order to calculate their state aid needs, if there is. [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR LOUDEN: Okay. Then a lot of these districts then if...how much under a dollar levy, then, would they be, I guess, before they would receive any benefit in state aid? I mean, is this something that most of them won't receive any benefits anyway? [LB988]

SENATOR RAIKES: Senator, I think now you're referring to the system averaging adjustment that's in the needs calculation; would that be right? [LB988]

SENATOR LOUDEN: Yeah, right, with your 96 percent. [LB988]

SENATOR RAIKES: And the way that's structured in this proposal, in this committee amendment, is that it's at...a school district, against \$1.05 lid, you have to levy a dollar or more... [LB988]

SENATOR FRIEND: Time. [LB988]

SENATOR RAIKES: ...in order to receive this adjustment. [LB988]

SENATOR LOUDEN: Okay, thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Louden and Senator Raikes. Members, again, we're discussing AM2367, the first division of AM2128. Senators wishing to speak are Dierks, Erdman, Ashford, Dubas, Wallman, Avery, Gay, and Langemeier. Senator

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Dierks, you are recognized. [LB988]

SENATOR DIERKS: Thank you, Mr. President. Members of the Legislature, I too was interested in the handout from Senator Heidemann. Loup County, Nebraska, with a per capita income of \$10,000--that's a remarkable figure when you compare it with the rest of the counties. And then you talk about the poverty allowance of no dollars. I guess I need to ask someone a question about the next column. Senator Heidemann, could you respond? [LB988]

SENATOR FRIEND: Senator Heidemann, will you yield? [LB988]

SENATOR HEIDEMANN: Yes. [LB988]

SENATOR DIERKS: On the handout that you gave us, explain to me the last column, class size allowance. [LB988]

SENATOR HEIDEMANN: From what I've been told, and this is the reason that I included this, and maybe we need to talk to Senator Raikes or somebody else also, that the class size allowance actually is somewhat tied back to the poverty allowance, and that's why I include that in there, in this discussion. You get that allowance to help deal with the poverty that you have. Because...and I will admit, and I don't think anybody is going to argue the fact that a poverty child is going to be a harder child to educate. [LB988]

SENATOR DIERKS: So then if you have... [LB988]

SENATOR HEIDEMANN: Smaller class sizes, I think, is what they're after. That's the way I understand it. [LB988]

SENATOR DIERKS: Okay. When I try to come to grips with this poverty allowance column, and I see those columns with zero, and I guess that brings up a question as to why, when you have a per capita income of \$10,000 in Loup County and it has no poverty allowance, that seems strange to me. But you get down the line a ways there, and you see some with \$22,000, that have no poverty allowance, as well. I guess I'm not sure how that formula put that stuff all together, but it just doesn't look equal, if that's the right term. I just--thanks, Senator Heidemann--I just am concerned about the amount...the abundance of information that's available on these yellow and blue sheets, and I know we just have started on the first division. I wonder about the amount of time we're taking to address these things, and we're still having difficulty with the answers we're getting. I guess I'm a little bit puzzled about when it came to the floor with this legislation, that we had to go through all these divisions and didn't have that settled before it got here. I'm interested in...I've been through, I think, four different school finance bills--I know three, for sure--over the last 20 years, and every one of them

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turned out to be somewhat of a disaster for the urban schools, and I'm not sure...as I read the charts over here that you handed out, I can see where that's mixed a little bit. Some of them are better, and some of them are worse. I just...there's a lot of questions I have about those schools and the class size, and it seems like that most of the time we penalize schools because of class size. I'm not sure that that's fair, either. But I've always had some concerns about the way the formula was put together and about the fairness part of it, and I hope that we are coming to grips with some of that on this legislation. I haven't seen it yet, but I hope that's what's going to happen. Thank you, Mr. President. [LB988]

SENATOR FRIEND: Thank you, Senator Dierks. Mr. Clerk, you have an item on your desk? [LB988]

CLERK: Mr. President, I do. Senator Erdman would move to amend this component by striking Section 15. (FA228, Legislative Journal page 995.) [LB988]

SENATOR FRIEND: Thank you, Mr. Clerk. Senator Erdman, you are recognized to open on FA228, an amendment to AM2367. [LB988]

SENATOR ERDMAN: Thank you, Mr. President, members of the Legislature. I want to explain to you what I'm doing. I visited with Senator Raikes, and I think it's important that we not just talk about...there's over 20-some sections in this division. What I'm going to try to do is provide additional opportunities for people to speak, first of all, because some people are out of time, but second of all, there are specific provisions in this division that are new. And I'm going to go through, if I need to, if there's sufficient time to go through each one of these sections--and we won't have to--but this specific section focuses on what is called the basic funding component or the cost grouping component, depending upon how you want to call it, in the bill. It's on page 33 of the committee amendment. It starts on line 24 of that page and goes into page 34. And I'd like to have this conversation or at least get an understanding of what this section does, and obviously there are other lights on, and if you want to play your own game, go for it. But I thought that it was important that we have opportunities to speak, and the best way that I know how to do that is to actually pick out a section and go through it with Senator Raikes, so at least I understand what it is, because I may run out of time, and this gives us all three more opportunities. Senator Raikes, Section...if Senator Raikes would yield to questions, please? [LB988]

SENATOR FRIEND: Senator Raikes, will you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Senator Raikes, as I read Section 15, beginning in school fiscal year '08-09, the department begins to calculate the basic funding for each district based

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on comparison groups of schools. And as I read down through this, it says that the group shall be established for each district consisting of districts, which basic funding is being calculated, the five larger districts that are closest in size, and the five smaller districts that are closest in size. Is that based on geographic size? Is that based on population? How do you determine those five that are above and below, in determining the size that we use to base the aid need for those individuals under this section? [LB988]

SENATOR RAIKES: Strictly enrollment, Senator--formula students. [LB988]

SENATOR ERDMAN: So if we have a scenario where you have a school district that has 200 students, that may be an entire county,... [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR ERDMAN: ...and you have another school district that has 200 students, and it may be a very small, compact, contiguous region in another part of the state, those two are being utilized to compare each other for cost purposes, for the needs side of the formula? [LB988]

SENATOR RAIKES: The starting point is...that's correct. Now you...that's just the starting point, you understand,... [LB988]

SENATOR ERDMAN: Right. [LB988]

SENATOR RAIKES: ...but yes, you are correct. You're grouping school districts for that basic funding calculation, using enrollment, using the size of the school district. [LB988]

SENATOR ERDMAN: And the numbers that have been run, do you have...I mean, can we see, generally, the groups of schools that have...I mean obviously this isn't a theory. This actually had to have been done for LB988 to be out here, and the amendment to be here, and for us to run the yellow and blue scenarios. I mean, I should be able to see a list of my schools and the other ten that they're being compared to; is that not accurate? [LB988]

SENATOR RAIKES: That's correct, and I took mercy on you by not distributing yet that additional piece of paper, but I do have it available for you. [LB988]

SENATOR ERDMAN: And I'm not necessarily asking for it. I just want to make sure that... [LB988]

SENATOR RAIKES: Yes. [LB988]

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SENATOR ERDMAN: ...we're aware that it's available,... [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR ERDMAN: ...that what we're talking about in Section 15, again, isn't a theory. The numbers have been run. [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: I mean, we can say, for example, that one of my school districts, whatever district it is, has ten, excuse me, nine partners in their cost grouping that determine their need for this section of the formula? [LB988]

SENATOR RAIKES: Yes. Actually, the starting point is ten additional ones, and then you throw out two of the...you throw out the high and the low,... [LB988]

SENATOR ERDMAN: And the low. [LB988]

SENATOR RAIKES: ...so there would be your district and eight others. [LB988]

SENATOR ERDMAN: And as I understand it, that if they're in that grouping, districts that have enrollment that is identical to the school district that it's being compared to, those are also included? [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR ERDMAN: Does that affect the five above and the five below? Is it more than ten, potentially, or is it simply ten accounting for that dynamic, that if you have the exact number of students, then that... [LB988]

SENATOR RAIKES: Yes. Yes, it is. It's...and I don't know. I mean, it's an interesting question, and maybe one that needs to have a resolution posed. But I don't know, I mean, where that would become a problem--identical numbers in school districts. But actually the...I don't think we did incur that problem, but you would need to make a call as...potentially you would run into a situation where you need to make a call as to which district would be included in a school district's array. [LB988]

SENATOR ERDMAN: All right. So then as you go down further through the amendment, it refers to districts below 900 and districts above 900 formula students, and how they're treated when you average the adjusted General Fund operating expenses. When you get to that point, for this section of the need side of the formula, are we bringing the top and the bottom up to the middle, or how do you then base the cost for that group? Is it the averaging? Is that what we're talking about when we say the GFOE adjustment is in

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that middle, or how do we get to a number for that group? [LB988]

SENATOR RAIKES: You start out with the gross General Fund operating number, everything included. You strip out the items that are going to be covered in the adjustments; for example, transportation. So you then have a net number for each one of those 11 school districts. You average those numbers, then, to get to that basic funding allowance. [LB988]

SENATOR ERDMAN: And so again, it's the average of those ten, plus the actual school district. You throw out the high, you throw out the low, you subtract some of those other needs, transportation and others. That gives you a range. From that range, then we... [LB988]

SENATOR RAIKES: Actually, it will give you a number. [LB988]

SENATOR ERDMAN: Or it will give you a number,... [LB988]

SENATOR RAIKES: It will give you a number. [LB988]

SENATOR ERDMAN: ...which came from that range of school districts,... [LB988]

SENATOR RAIKES: Yes, yes. [LB988]

SENATOR ERDMAN: ...and that is the basis for that district and that district alone, and then you have to do the same calculation for every district, to see where they fit into a cost grouping similar to what we just walked through with the one. [LB988]

SENATOR RAIKES: So each...what you're saying, if I can just repeat, is that each school district has its own separate, own special array. [LB988]

SENATOR ERDMAN: Just...and again, specifically for the basic funding component in Section 15 of this amendment. [LB988]

SENATOR RAIKES: That's correct. [LB988]

SENATOR ERDMAN: Do you see a problem in the way that that's being done, from the standpoint...or what are the checks to make sure that the example that I gave, where you have a student population that's the same in a very large area, as a student population of the same in a very small area, and how you meet the needs of that, is that accurately reflected in the cost grouping? [LB988]

SENATOR RAIKES: Senator, in terms of the basic funding allowance, my presumption is it wouldn't be, because... [LB988]

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SENATOR ERDMAN: It would or it wouldn't? [LB988]

SENATOR RAIKES: ...not every school district... [LB988]

SENATOR ERDMAN: It would or it would not be? [LB988]

SENATOR RAIKES: It would not be. [LB988]

SENATOR ERDMAN: Okay. [LB988]

SENATOR RAIKES: Because to include that characteristic in that basic funding would be to say that all school districts incur that same situation, when clearly they don't. You've got one that serves six square blocks, you've got another one that serves, you know, a thousand square miles or whatever. So in terms of the basic funding, it does not include that. But the allowances are where we make provision for those special characteristics of the school district. [LB988]

SENATOR ERDMAN: So for example, that school district in rural Nebraska--and I say rural, meaning larger area, not where they're located, but they're a sparse or very sparse district, they have a lot more area to cover with the same number of students--they potentially would get a transportation allowance or some other provision that may mitigate the impact of being included in that cost grouping, and that's accounted for before you average and come up with the number under this section. Those allowances are taken out, essentially. [LB988]

SENATOR RAIKES: Well, you're right. Just to clarify, you strip down the number for each of those districts, to exclude all of those special characteristics. You average what's left to come up with the basic funding number. Then you go back, as you've just described--say, in the case of a district that incurs a lot of transportation expense--then you would add back in for that district that transportation allowance, in order to...as one step to get back to the actual needs. [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR ERDMAN: Okay. You can have the remaining minute, if you need it. [LB988]

SENATOR RAIKES: Okay, thank you. I appreciate Senator Erdman bringing this amendment. I'm obviously not going to support it, but I think it gives us an opportunity to focus in on a specific, and in this case, a very important part of this proposal, so that maybe we can do some clarification and answer some questions. This particular section deals not only with the basic funding calculation, but also there's a provision in current law, the lop-off, which is eliminated in this section, and then finally, this section I believe

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also incorporates the needs stabilization components of the proposal. Thank you.
[LB988]

SENATOR FRIEND: Thank you, Senator Raikes and Senator Erdman. Members, that was the opening on FA228 to AM2367. Senator Ashford, you're recognized. [LB988]

SENATOR ASHFORD: Thank you, Mr. President. I was going to...when I turned my light on, I was going to reflect on exactly what Senator Erdman mentioned and that is, if we're going to productively look at this issue, we need to go section by section, so that we can all understand it. I think if we were to sit here and just make general statements about this and that on this bill, we'd be here till April, whenever we adjourn. It's a complicated bill, and Senator Erdman has done us a service by filing this amendment. I think what's important to realize is that in this bill there is a substantially less amount of money going to state aid than would have been the case prior to LB988. And I think Senator Erdman is absolutely correct: Medicaid and state aid into the future are big numbers. And we are going...we have a challenge in the out years, the next two years and thereafter as new legislatures come in here, especially with term limits, to try to be consistent and fair and equitable in the state aid formula; at the same time, realize the financial exigencies which are out there. I will say this: I think that...and then I'm going to give the rest of my time to Senator Erdman, because it's a very productive thing he's done here by filing this amendment, and allowing Senator Raikes and others to explain specifically what these sections mean. But again, I think that the changes in LB988, with the amendments, are designed to meet specific challenges that are ahead for school districts. And by addressing the costs that school districts actually incur in educating children, the overriding public policy issue is, do we want to divide state aid or fund our public schools based on what those school districts have within their districts to pay for education, versus what their needs are. And their needs relate to their costs. They're going to vary. A fast-growing district has different needs. A district with fewer...with long...and Senator Erdman is absolutely correct. Districts with a large area to take care of have different costs. We have tried in the committee to assess those costs, and I think if you look through the numbers--and it's correct that there are different...different districts receive different funding, and that's because every district has different resources and different costs. I don't know how else you fairly and equitably do a state aid formula other than that. If we want to go back to the old system, which was in existence when I first came into the Legislature, where every district got so much money for how many students they had, was just patently unfair. And so we're now in a system, I think, that is trying to get to the answer. With that, Senator Erdman, I'm going to, if you would like it, to continue your discussion on FA228, I'd be happy to give it to you.
[LB988]

SENATOR FRIEND: Senator Erdman, 1 minute and 50 seconds. [LB988]

SENATOR ERDMAN: Thank you, Mr. President, and I appreciate that, Senator Ashford.

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Section 15 specifically and only deals with the cost grouping provisions, or as it is titled on the sheet handed out by the Speaker, basic funding. And in just visiting with Senator Raikes, in determining those cost groups, it's the five larger, the five smaller, and in addition to those, it's all other districts that have the exact same number. So if you had ten school districts that had 200 students, that's one that's included in there, and then it's five above 200, and five below 200. So potentially you could have 20 districts in that cost grouping instead of 10. And I think that's an accurate reflection of the way that the bill is drafted, and I'm not sure...how much time do I have, Mr. President? [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR ERDMAN: I'm going to ask this question, and at some point I'd like the answer from Senator Raikes. We define districts of over 900 differently, or we treat them differently under this section for determining their cost grouping than we do those districts under, and there's a minor tweak that is in sub(2) versus sub(3) in this section, and I'll need to probably visit with you directly to see what that is, but I wanted to make sure that it was clear that we weren't treating all districts the same, but those districts over 900 are treated differently, once you determine what that number is, then those districts that are below 900 and the rationale as to why they're being treated that way. Thank you, Mr. President. Thank you, Senator Ashford. [LB988]

SENATOR FRIEND: Thank you, Senator Erdman. Senator Dubas, you are recognized. [LB988]

SENATOR DUBAS: Thank you, Mr. President, members of the body. Would Senator Raikes yield for some questions? [LB988]

SENATOR FRIEND: Senator Raikes, will you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR DUBAS: Thank you very much, Senator Raikes. I would definitely agree with what Senator Heidemann said, as far as this is a discussion about major policy change. So I guess I would like to have you explain to me, how does this new policy compare to our current formula, for districts with declining enrollments? [LB988]

SENATOR RAIKES: Senator, I appreciate the question, because it fits in closely with what Senator Erdman just asked me. One of the main efforts behind this set of provisions, which is LB988, was to better address the financial situations that are incurred by declining enrollment districts. Our current formula, you may know, basically operates on the premise that if you have 10 percent fewer students, say, you have 10 percent less financial need. That doesn't work every well, because you have certain costs that you must incur as a school district which really don't have that much to do

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with the number of students you have. You have to open the doors and heat the building and all those sorts of things. So what we have done in this proposal is to...for school districts that are less than 900--and that turned out to be empirically sort of a convenient breaking point--we looked at the total cost incurred by the district, rather than the cost on a per-student basis. The reason that helps with declining enrollments is that if you're in an array of, say, school districts around 220 students or something like that--you've got five bigger, five smaller--if in fact all of the districts in your array are experiencing declining enrollments, which is not altogether improbable, then because we're looking at the total cost of the district, your financial standing would not be negatively impacted. Now on the other hand, if you use a cost per student, it would be negatively impacted. So a main provision of this bill, a major function, was to try to more equitably address financial needs of school districts that are incurring declining enrollments. [LB988]

SENATOR DUBAS: Thank you. Now discussing the adjusted versus the assessed valuations. How do you see that impacting especially more rural districts? [LB988]

SENATOR RAIKES: Senator, I guess, you know, I don't have a theoretical construct that I can offer you, that would say, well, given that this is usually the characteristic of these districts versus these, what I would suggest to you is I think we've got enough paperwork here that you can compare for districts, rural and urban, how they would be impacted by this change, and probably that would be the best clue as to how those districts would be affected. [LB988]

SENATOR DUBAS: Yes, we do have plenty of paperwork to look at, that's for sure. Is there still a weighted factor in this formula? [LB988]

SENATOR RAIKES: There are weightings for LEP students and poverty students. Again, that has not changed with LB988. That's in place, as...or would continue as it is in the current formula. [LB988]

SENATOR FRIEND: One minute. [LB988]

SENATOR DUBAS: Okay. Thank you very much for the answers to those questions. This is a huge, huge issue for every district across the state, and it impacts us all quite differently. And I think it is appropriate that we are taking this time to get these questions answered, and I mean, if we're going to pass legislation and expect administrators of our school districts to enforce this legislation, you know, if we can't understand it, I don't know how we can expect them to understand it. So I think it's very appropriate that we break this into the segments that we have, and have this discussion. So thank you very much. [LB988]

SENATOR FRIEND: Thank you, Senator Dubas. Mr. Clerk, you have items for the

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record? [LB988]

CLERK: I do, Mr. President, thank you. Your Committee on General Affairs, chaired by Senator McDonald, reports LB995 to General File, with amendments. New A bill: LB958A by Senator Ashford. (Read title.) New resolution: LR281, by Senator Cornett. It will be laid over. Hearing notice from Natural Resources regarding gubernatorial appointment. An amendment by Senator Adams to LB1092 to be printed. Appointment letters from the Governor, to be referred to Reference for referral to standing committee for confirmation hearing. An announcement: The Education Committee will meet in Executive Session in Room 1126 at recess today--Education, Room 1126. (Legislative Journal pages 995-998.) [LB995 LB958A LR281 LB1092]

And a priority motion, Mr. President. Senator Heidemann would move to recess until 1:30 p.m.

SENATOR FRIEND: Members, you have heard the motion. The motion is to recess until 1:30 p.m. All those in favor please signify by saying aye. All those opposed say nay. We are in recess.

RECESS

PRESIDENT SHEEHY PRESIDING

PRESIDENT SHEEHY: Good afternoon, ladies and gentlemen. Welcome to the George W. Norris Legislative Chamber. The afternoon session is about to reconvene. Senators, please record your presence through roll call. Please record, Mr. Clerk.

CLERK: I have a quorum present, Mr. President.

PRESIDENT SHEEHY: Thank you, Mr. Clerk. (Visitors introduced.) Mr. Clerk, do you have an announcement?

CLERK: One item, Mr. President. An amendment to LB1045 to be printed, by Senator Pankonin. That's all that I have. (Legislative Journal page 998.) [LB1045]

PRESIDENT SHEEHY: Thank you, Mr. Clerk. While the Legislature is in session and capable of transacting business, I propose to sign and do hereby sign LR267, LR268, LR269, LR270. (Legislative Journal pages 998-999.) [LR267 LR268 LR269 LR270]

The Legislature will now return to floor debate on the Erdman amendment, FA228, to the committee amendment AM2367. Members wishing to speak are Senator Gay, followed by Senator Langemeier, Senator Fischer, Senator Erdman, and Senator Carlson. Senator Gay. (Legislative Journal page 995.) [LB988]

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SENATOR GAY: Thank you, Mr. President. When we left we were discussing numerous things, but one of the...two of the items that caught my attention were the LEP and poverty provisions that are in the bill. And what I was wondering as we looked at that, on those, those were new provisions is the way I understood it, or revisions of existing law, but...however you want to look at it, if they're new or not...but I think there was new dollars put in there in those new revisions. The part of that, what I looked at, is when we looked for \$64 million is in that budget, and I wondered, we put a lot of that, as I looked in the LEP and poverty plan, under the new bill, there are several things in there. One thing I didn't see was where the teachers help out in those plans. And we had talked a lot about teacher pay earlier in the year, and I would suggest that we look into teacher pay. What are we spending on the teachers that are helping these kids? And I don't see any funding in there. There's a few things I suppose I should say, there's some teaching time, education programs, and some of those things, but what I'm talking about is maybe salaries. They're the ones who have the ground floor working with these kids, and I don't see anything in there. So I do have an amendment a little bit on class sizes, as well, that would possibly take some money from there and put it directly into teachers. I think that's something we need to look about. So as you look at Section 33 and 34, I thought that was, as I looked through those, I thought there was a key ingredient missing, and that would be teachers. We have class size allowances and some other things, but without a good teacher there, teaching in those classes, they're not going to learn...kids won't learn anything. I would ask, would Senator Raikes yield to a question? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR GAY: Senator Raikes, when I looked through here, like I say, was there any discussion in the committee about teachers and teacher pay when you were looking at the poverty and limited English proficiency amendments? [LB988]

SENATOR RAIKES: Actually there was, and I'll take just a second if I may. I don't want to...I'll yield you some time later on if I need to. But there are two ways that teachers and salary for teachers are addressed. One of them is, we've explicitly included an adjustment for teacher education, which we've already talked about. But the other thing I would mention to you, even with LB988 and a \$50 million reduction in state aid, needs...formula needs for school districts go up by almost \$200 million. If you look at the way school districts spend money, I'm guessing that roughly half of the money they spend is going to go to teachers' cash salaries and benefit programs. So if we're increasing the funding available to school districts by \$200 million, which we would do under LB988, then it seems to me reasonable to think that that is comparable to an increase of \$100 million in the funding for teachers' cash salaries and their benefits.

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[LB988]

SENATOR GAY: Senator Raikes, if we had...when you say guessing, and it's reasonable to think, but unless it's written in this bill, I don't think there is. I mean, that's the one thing that kind of...that worries me. Maybe we could put it in there that it would go directly to there, or there's a certain percent that has to go to pay, and then we'd be assured of that instead of just, you know...because sometimes I wonder. I had talked to others, too, and sometimes what we think is reasonable isn't really what happens, you know. I would think that would be reasonable too... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR GAY: ...as we look at a budget, personnel makes up a large portion of that budget. But as I look in Section 33 and 34, there are several items in there that I'm not so sure goes directly to teachers. I think it goes to other programs, but it may not be direct Nebraska teachers doing these programs. You would assume but it's still not in the bill. So that's something that I'd like to discuss a little further as we move on, if we could fix that situation. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Gay. Senator Fischer. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. I believe when we adjourned at noon we were discussing Senator Erdman's amendment that strikes Section 15, and we were discussing some items there in Section 15. I was wondering if Senator Raikes could yield to questions on that. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FISCHER: Senator Raikes, I have a...I was jotting down notes earlier before we adjourned, and I'm not sure who said this. I believe it was you, when you talked about the lop-off that was being eliminated under LB988. Did you say that? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FISCHER: Could you explain that for us? [LB988]

SENATOR RAIKES: Okay. The lop-off provision is one that I would guess has been, for a number of years, probably back since LB806, a provision of the finance formula, probably one that has been relatively less understood. But the idea of the lop-off was that you would not award a school district funds that they would not be able to spend under their spending lid. So rather than giving additional money beyond what they could

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spend under the budget lid, you lopped it off or you didn't provide it to them. Back before LB149, it went into a kind of a re-spend, recalculation process. Since then and LB149, we don't do that. [LB988]

SENATOR FISCHER: How were districts able to find themselves in that situation? [LB988]

SENATOR RAIKES: Of not being able to spend the money? Well,... [LB988]

SENATOR FISCHER: Or they were hurt... [LB988]

SENATOR RAIKES: The problem... [LB988]

SENATOR FISCHER: They felt they were hurt by the lop-off, didn't they? Didn't they try to avoid that? (Inaudible) situation? [LB988]

SENATOR RAIKES: Yes, much the same as districts would try to avoid the minimum levy penalty, which remains a part of our funding formula. And again, your question was, how did they feel hurt by that? Probably, you know, a number of different ways. One of them might have been, well, we'd like the additional state aid money, and then we'll just collect even less on property taxes, and basically the...as you know, the formula has been, for a number of years, that we require the local district to contribute in order for the state to contribute. If you don't contribute, we won't either, type of thing. [LB988]

SENATOR FISCHER: That's eliminated now under LB988. Why did you eliminate it? [LB988]

SENATOR RAIKES: Well, a good question, and the main reason is that we, in LB988, changed the mechanism or the procedure for determining budget authority. And instead of budget authority being the separate calculation over here apart from the needs calculation, it is now geared to the needs calculation so that what we have proposed in LB988 is that school districts would have budget authority amounting to 120 percent of needs. So if that's the case, and they have needs which then generate the spending authority, there isn't a situation in which the lop-off would be a required provision. [LB988]

SENATOR FISCHER: Thank you. Also earlier when we were discussing this section, transportation allowance was brought up. Since we're now comparing districts based on student population...correct? [LB988]

SENATOR RAIKES: Yes. [LB988]

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SENATOR FISCHER: And it's based on the five districts above your district, the five districts below, based on student population, we haven't completely, under this bill, eliminated the sparse and very sparse, although I... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR FISCHER: ...we'll get into that, I think, with the next section. But under the transportation allowance, former Class VI districts were not required by statute to provide transportation to their students. Many of those districts now, that consolidated due to LB126 that was passed three years ago, are...they were and they currently are classified as sparse or very sparse. Since they don't provide busing because of the size of their districts, such as Valentine is a 3,600-square-mile district, they can't...the people there feel they can't afford to provide transportation. How does that affect those districts that used to be sparse and very sparse that are not providing transportation through busing... [LB988]

SENATOR RAIKES: Senator... [LB988]

SENATOR FISCHER: ...under this bill? [LB988]

SENATOR RAIKES: Okay. In the case of an equalized... [LB988]

PRESIDENT SHEEHY: Time, Senator. Thank you, Senator Fischer, Senator Raikes. (Visitors introduced.) Senator Erdman, you are recognized. [LB988]

SENATOR ERDMAN: Mr. President, I would yield my time to Senator Raikes to finish answering the question that Senator Fischer asked. I think that's a beneficial use of the time. [LB988]

PRESIDENT SHEEHY: Senator Raikes. [LB988]

SENATOR RAIKES: Yes. Thank you, Senator Erdman. Senator Fischer, if you have an equalized school district, then if transportation is provided it's at state expense, because the additional amount would go toward the needs calculation, and would be in excess of resources and so on. There was a provision in LB126 that I think required uniformity across the state in provision of transportation for students. When that was repealed, that provision went away. So you do, in fact...you're correct, you have some districts that don't provide transportation. But again, if they don't provide the transportation, the district itself does not experience the cost. So that's the way that washes out. And you may, in fact...I have not checked to see...you might have some districts, don't provide transportation, are nonequalized, if they did provide transportation would become equalized. But I don't know that for sure. Thank you, Senator Erdman. [LB988]

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PRESIDENT SHEEHY: Thank you. Senator Erdman, 3 minutes, 30 seconds. [LB988]

SENATOR ERDMAN: Thank you, Mr. President. Senator Raikes, if I can continue, I'm going to on to Section 16 on my time and I still have another 5 minutes after this. But I want to walk through that provision, not to take away from where you were but so that we can get through some of these new sections. As I understand, Section 16 is called local choices, as you've referred to it. If I'm reading this correctly, on page 35, lines 13-16, there are three distinct provisions that have to all be met for a school district to fall under this section. They have to have fewer than 390 formula students; they're not in a sparse local system or very sparse local system; and (3), they did not receive federal funds in excess of 25 percent. Is that an accurate understanding of the districts that fall under this section of the law? [LB988]

SENATOR RAIKES: I think that is. Yes. [LB988]

SENATOR ERDMAN: So for the formula needs or for those school districts that potentially will be affected by the local choice adjustment as is outlined on the sheets from the Department of Education, those are going to probably be smaller school districts that are standard cost groupings. [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Okay. [LB988]

SENATOR RAIKES: And they would be school districts that are not predominately serving Native American students. [LB988]

SENATOR ERDMAN: Okay. And the local choice adjustment, the level that they have to be at, the local...as I understand...this is levy, right? Local? Or is this some other different provision about what they're choosing... [LB988]

SENATOR RAIKES: No, the local choice...yeah, it is actually a needs reduction, so it's a dollars-per-school-district reduction in the needs calculation. [LB988]

SENATOR ERDMAN: Okay. And walk me through...I can read this, but walk me through generally how that works. [LB988]

SENATOR RAIKES: Okay. All right. We have a school district based on the arrays that is about 390 students. On the basis of that school district, we come up with the basic funding allowance for that district. That's the base for comparison for the smaller school districts subject to the local choice adjustment. There are, as you know, economies of size in school districts. It doesn't mean that every school district that's smaller is higher cost or every district that's bigger is lower cost. But generally speaking, there are

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economies of size in school districts. So as you drop from a 390-student school district down to, say, a 220-student school district,... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...the basic funding amount is going to go up because of that economies of size phenomenon. What the local choice adjustments does is say that of the increase in that basic funding that results from reducing the size from 390 down to 220, the state will support half of that. The other half is a local obligation. So the needs for that district that's smaller than 390 would go up, but only by half the amount as compared to 390 that it would if you didn't have the local choice adjustment. So it would go up by half the amount as if it were a sparse or a very sparse district. [LB988]

SENATOR ERDMAN: In that scenario, if the state only picks up half the difference, and you have a... [LB988]

PRESIDENT SHEEHY: Time, Senator. Senator Carlson, followed by Senator Avery, Senator Raikes, Senator Gay, and others. Senator Carlson. [LB988]

SENATOR CARLSON: Mr. President and members of the Legislature, I would ask Senator Raikes to listen to a few comments here and then I would like to address another question to him. And I guess I'll address that right now if he will yield. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR CARLSON: Senator Raikes, I look at the blue copy and the bottom line, and it looks to me like in the coming year 2008-09, versus this school year, there is going to be an additional \$82 million spent in state aid. Am I reading that correctly? [LB988]

SENATOR RAIKES: I think you are, Senator. [LB988]

SENATOR CARLSON: Okay. Now, in...I have to, and I want to, defend the schools that are in the district that I represent. And I was sitting, looking this morning, and I got up and spoke, and said that I had four districts out of 13 that were going to go downhill, and rather significantly next year, versus this year. And then I thought, I'm just going to add everything up in the whole district over all 13 districts. And so when I do that, the total district, state aid to the district next year is \$13,700 less than this year. So out of the \$82 million of additional aid, certainly none of it is going to District 38. I've seen Senator Fischer's district that drops about \$1.5-1.6 million, and I'm guessing that there are a lot of other districts that are probably in a similar position. And so this isn't to cry about it, but I think that we've got to talk about the reality of what's happening, and it's a serious

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matter. And I would just ask you if you were representing District 38, you can understand how maybe I find it difficult to vote for LB988. [LB988]

SENATOR RAIKES: Senator, I appreciate the opportunity to comment on that, and I think you're exactly right. We need to address, straight up, the issues involved. I'm guessing that if you look at the school districts within your legislative district, you will find that the ones that are losing state aid...now, you didn't talk about the needs calculation, and I would encourage you to do that calculation as well. Look at the total needs for your school districts, as well as the state aid calculation, because the state aid calculation is affected by valuation increases. And you may have had a situation where you've had strong valuation increases, or not, but at any rate it "fuzzies" the view of what we're really doing in terms of financial support of those school districts. But let me go on from there. Let me suggest that probably the school districts in your legislative district that are losing aid are ones that are relatively highly funded now. So you have some standard school districts in your legislative district that are probably, in the current fiscal year, something around \$8,500 or \$9,000 per student. You may well have sparse or very sparse districts that are funded at a much higher rate than that. I am guessing that the losses, as you describe them, in state aid are going to be incurred mainly by the ones that are currently funded at a much higher level. If that isn't true about state aid, it certainly will be true about the needs calculation. And again, the needs calculation from a policy perspective I think is what deserves most of your focus... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...because that is the statement about the total funding from all resources that will be made available to those school districts. [LB988]

SENATOR CARLSON: Okay, thank you, Senator Raikes. I understand what you're saying about look at the needs analysis. That I'm going to do. Certainly you recognize that most of these are smaller school districts, so when you look at what appears to be \$200,000-and-some down in one, and \$390,000 down in another, and \$297,000 down in another, those are severe cuts to deal with in terms of staff and so forth. But I will look at the needs analysis. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Carlson. Senator Avery. [LB988]

SENATOR AVERY: Thank you, Mr. President. I've not spoken previously on this issue but I decided to wade in because of some issues that were discussed this morning. I believe it was Senator Heidemann who made the very excellent point that this is a policy discussion, and I can assure you that it is an important policy discussion. And I can tell you that the committee of which I am a member did not start out with the numbers that needed to be cut from the budget and then tried to work the formula to make that happen. We started out with the idea that the aid formula needed to be

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revised for fairness, and that is a policy issue. That is where we started. When we finished, we recalculated the overall school aid, and we found that it did indeed produce a substantial savings. That was good. But that was not where we started. We did not let the numbers drive the policy. The policy drove the numbers. That was what Senator Heidemann said how it ought to be, and I can assure you that is how it was. We had a discussion this morning about poverty, and I was a little bit disturbed by that because it was actually addressing mostly Section 33 of LB988, and Section 33 is already a part of current law. That's not what we're...we're not proposing to change that. And the table of numbers that was distributed by Senator Heidemann, if you look at them on their face they look kind of alarming, but what you are talking about here are per capita income levels, and there are some very low ones. Those per capita income levels, however, do not determine who gives poverty aid in the school formula. In fact, if you go to page 62, in Section 33, it's very clear in current law...we're not proposing to change this. This is current law, and current law specifies that to qualify for poverty aid the school must submit a poverty plan. And that poverty plan will include an explanation of how the school district will address the following issues for the school fiscal year: attendance issues, including absence follow-up and transportation for students; student mobility, including transportation to allow students to continue attendance at the same school if the student moves to another attendance area--it's a big problem in poverty areas, this constant mobility issue; parental involvement at the school building level; parental involvement at the school district level; class size reduction; scheduled teaching time; access to early childhood education programs. A number of things are to be specified in these poverty plans. That is how you get poverty allowances. And it is not based upon per capita income. It's based upon whether or not the school district decides that they want to devise a poverty plan and then apply for this in the formula. So I think that we kind of got off on a tangent that is not relevant to the bill itself. I do want to say that the purpose behind LB988 is designed to make the formula more fair. That makes it good policy. Now, yes, some school districts are probably going to lose a little money. But it's correct what Senator Raikes just said: They probably have been a bit overfunded in previous years, maybe as much as a decade. What it also does, LB988, is reduce the increase in school funding by about 8 percent. Notice, I said reduce the increase. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR AVERY: It's not a cut. It's a reduction in what was forecasted to be or expected to be a 17 percent increase in overall school funding. The direction we're heading without this bill is not sustainable, and Senator Erdman was absolutely correct to show us in these two tables that he distributed by way of e-mail just what happens if we ignore this problem. It is not sustainable. We can't keep going down this path of 17 percent increases annually for school funding. I would like to think that we could, but we cannot, particularly because school funding already consumes 25 percent of all of our spending. Let me briefly address FA228 which would strike Section 15. I'm going to

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oppose this because I don't think it's good policy. As it is now written, Section 15 simply seeks to even out what... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR AVERY: ...currently are wild fluctuations in basic funding, and I think that will... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR AVERY: ...make funding... [LB988]

PRESIDENT SHEEHY: Time. Time, Senator. [LB988]

SENATOR AVERY: Was that time, sir? [LB988]

PRESIDENT SHEEHY: Yes. [LB988]

SENATOR AVERY: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator. Senator Raikes. [LB988]

SENATOR RAIKES: Thank you, Mr. President. This is my turn to speak? [LB988]

PRESIDENT SHEEHY: Yes. [LB988]

SENATOR RAIKES: Thank you. I'll try to continue a little bit on the conversation that I was having with Senator Erdman about the local choice adjustment. And, in fact, what I might do is yield him some time to...because I think he was asking a question when we ran out of time. [LB988]

PRESIDENT SHEEHY: Senator Erdman. [LB988]

SENATOR ERDMAN: Thank you, Senator Raikes. Section 16...and I made this mistake once, I won't do it again. I'm going to refer to the sections because the page numbers on this amendment are different than the committee amendment, but they're just divided, so I'm just going to refer to the sections. But Section 16, the paragraph below (3), refers to how the local choice adjustment is handled. As I've had a chance to read this since our last conversation, it talks about the difference, the 50 percent between...if you go from 390 to 220, the 170. Half of those students would still be a responsibility to the formula need. The other half would be a local option. Is that pretty much a...? [LB988]

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SENATOR RAIKES: Well, more exactly, I think, in terms of funding per student, if you compare...and just to give me some numbers, let's just say the 390-student district is \$8,000 per student. The 220-student district is \$10,000 per student. What the local choice adjustment says is the state will fund up to \$9,000 per student. [LB988]

SENATOR ERDMAN: Will make up the half. [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Okay. [LB988]

SENATOR RAIKES: And so the additional \$1,000 per student that you incur with the 220 is then a local responsibility. [LB988]

SENATOR ERDMAN: Okay. Before I get to that specific point then, as I read the language it refers to the school districts that are closest to 390 students being multiplied one way. And then another scenario...and I'm wondering what that has to do with that explanation, because it talks about the adjustment as being calculated at the basic funding for a formula student for the district that has the closest to 390 formula students, multiplied by the formula students for the district. Later, it talks about a different scenario. What are we talking about there? [LB988]

SENATOR RAIKES: Well, I think what we're doing is converting it to a total funding for the entire district, just from the phrase you mentioned. I may be incorrect on that but that's what I am interpreting or that's what I'm believing that particular provision deals with. So then in calculating the local choice adjustment, we're looking at an adjustment amount that is for the entire district. [LB988]

SENATOR ERDMAN: So are you...? Let me ask you this way: Is it a benchmark? I mean, we're not simply... [LB988]

SENATOR RAIKES: 390 is a benchmark. You're right. [LB988]

SENATOR ERDMAN: We're not just picking out an arbitrary number. We're saying that for the purposes of Section 16, the school district that's closest to 390 will be the benchmark, and your district which is at 220 will be this. And so if at 390 it's at \$10,000, and you're at \$8,000, that's what we use and that's why that language is in there, so that it's not an arbitrary, but rather that's the benchmark. [LB988]

SENATOR RAIKES: Yes, you're exactly right. [LB988]

SENATOR ERDMAN: And then the second section would make further sense, that it says if more than one district has the closest, then it's an average of those, so that way

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we get to a number. [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Okay. [LB988]

SENATOR RAIKES: So you're right. It is a benchmark from which to determine the local choice adjustment. 390 is 15 students, times two sections, times 13 grades. [LB988]

SENATOR ERDMAN: Okay. Now, let me ask you... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR ERDMAN: ...briefly here, and I think I can get this in. The state is going to make up half. So what if a school district, under the local choice provision, is getting half of what that cost would be, so they would have declining...say they had a declining enrollment because they could be independent of that and still get this, and they're already at their lid levy. So then is there a calculation...on the aid side, does that pick up that if they're already at a \$1.05, or how does that work, practically, if they have no local option to exercise? [LB988]

SENATOR RAIKES: The provision you're talking about is a correction in the needs calculation. [LB988]

SENATOR ERDMAN: Correct. [LB988]

SENATOR RAIKES: So if you chase all this through, we equalize, as you know, school districts currently to a 95 cent levy. We actually give levy opportunity up to \$1.05. And if you have a district--and we have a number in the state--that are spending more than what is allowed under that arrangement, and so among the choices available to them are a levy override so that they can go above \$1.05. [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR RAIKES: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes, Senator Erdman. Senator Gay, followed by Senator Fulton, Senator Wightman, Senator Engel, and others. Senator Gay. [LB988]

SENATOR GAY: Thank you, Mr. President. Not to bounce around, but I wanted to get back to that class size allowance. I was looking at that and I see where it's an incentive. The way I understand it, it's an incentive to get districts to go to 20-or-smaller class

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sizes. And to do that, then the funding will be funded for a couple years, and then the funding will go away in 2013, I think, 2014, is the way I understand it. But what I wanted to discuss is a little bit of why we're doing that and how that factors into the whole equation here. Would Senator Raikes yield to a question? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR GAY: Senator Raikes, I don't want to...I wanted you to describe this. If you could, could you describe how we came about the class size allowance, what the idea is behind that to (inaudible)? [LB988]

SENATOR RAIKES: Sure, I'll give that a shot, Senator. The class size allowance was a provision that was to fund school districts that serve, originally at least, poverty students in class sizes of 20 or fewer, or I think more exactly, between 10 and 20 students. The idea behind it was, research shows that the most effective way for dealing with at-risk kids in terms of providing educational services is to do it in small class sizes, particularly at the elementary level. So that was the genesis of the idea. In fact, we'd had a poverty allowance before that. We made a couple of changes. One of them was to adjust the poverty allowance so that part of the poverty allowance was instead devoted to this class size allowance. We are now going forward, revising that class size allowance. We're cutting it back to only K-3, and it's going to pertain to all students, just not at-risk kids. And in fact, by the year 2013-14, this proposal would have it. That allowance goes away and actually the funding becomes a part of the basic funding for school districts. I don't know if there is part of that, that you'd like me to say more about or (inaudible). [LB988]

SENATOR GAY: No. So what it decided, what you said, you're taken the poverty allowance money to incent, to help incent. So it's for everybody to go to smaller class size is the idea. [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR GAY: And I understand (inaudible) K-8 was the... [LB988]

SENATOR RAIKES: Going forward, that's the idea. [LB988]

SENATOR GAY: Yeah, K-8. And you had mentioned that during your briefing, K-8 was pretty expensive, so you had narrowed it down to K-3. [LB988]

SENATOR RAIKES: Well, it wasn't so much the expense as it was that it...the way we had it specified, it didn't correspond with how classes, particularly in middle school, are

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operated. So I think that was the bigger part of the problem. [LB988]

SENATOR GAY: Okay. So when I look into Section 33 then, on the poverty plan...on the poverty plan in Section 33, you have class size reduction or a maintenance of small class sizes in elementary grades, it says, along with the other things we're trying to accomplish in the poverty plan. On the limited English proficiency, is that also steering to the smaller class sizes, or is it just for the poverty aspects of it? [LB988]

SENATOR RAIKES: It's just for the poverty is what we did, as I recall. [LB988]

SENATOR GAY: Okay. And is that...? What percent then is funded...? Of all these other things in the poverty plan, attendance, student mobility, parental involvement, and all that, what is the class size percentage then? Is it a 50 percent of the fund? [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR GAY: Seventy-five percent? Are those prioritized or are they just in there? Earlier I talked about I didn't see (inaudible)? [LB988]

SENATOR RAIKES: No. For a number of years we've had, in the formula, weightings that pertain to both poverty and English language learner students. What we did in--and again, we're going back to I think LB1024 or LB641--what we did is retain those weightings, and instead though, using them to simply distribute money to school districts, sort of no questions asked. We used those weightings to calculate a cap or a maximum amount that a school district could apply for in a poverty or LEP plan. And then in order to actually get the money, they had to complete the plan, implement the plan, and verify that that's the way the money was spent. [LB988]

PRESIDENT SHEEHY: Time, Senator. Thank you, Senator Gay. Thank you, Senator Raikes. Senator Fulton. [LB988]

SENATOR FULTON: Thank you, Mr. President. There are a couple of discussion threads that I am paying attention to. The first I'm going address, the second I'm going to yield some time to Senator Fischer to let her flesh out a side a little bit more. I would like to ask...pose a question. I understand we have a lot of policy to consider today, but there is something that came to my attention recently. We had before us a bill that was introduced; not us as an Appropriations Committee, us as a Legislature. There was a bill that was introduced that would have taken \$200 million out of the Cash Reserve Fund to be appropriated or to be utilized for the increase of teacher salaries. And being on the Appropriations Committee, that's something we have to consider, the amount of money in the Cash Reserve Fund. I asked the question, what has state aid over the course of the years done to teachers' salaries? One would think that it should be used to increase teacher salaries. And something Senator Raikes said earlier caused me to

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bring this up. The assumption is that with--we were talking about smaller class sizes. Senator Gay and Senator Raikes were talking about it. The assumption would be that some of this money would go to teachers' salaries. It doesn't seem that's what has occurred. We've done some research in my office, and from what we can glean, the amounts of...if you look at the entirety of K-12 budgets, about \$2.6 billion in Nebraska, anywhere between 36 to 40 percent of that budget actually goes to teachers, their salaries and benefits. Yet over the course of the past two decades, K-12 budgets have been increasing by 5.5 percent, total. Part of that has been in state aid. I am wondering if something we are doing...I can't put a finger on it, but I wonder if something that we're doing by way of our state aid policy isn't actually hurting teachers, because they have not been receiving the increases that other states have been receiving. So I pose that question. I was Senator Gay and Senator Raikes have had that debate. I'm going to bring this topic up again, but I wanted to yield a little bit of my time to Senator Fischer. She had a topic that I was interested in hearing about. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Fulton. Senator Fischer, about 2 minutes, 40 second. [LB988]

SENATOR FISCHER: Thank you, Mr. President. Thank you, Senator Fulton. Not to get off on a tangent here, but Senator Avery made some comments that I'd like to respond to first. Senator Avery said that in the Education Committee they had a policy discussion on LB988 and school finance, and it was a policy discussion. I can appreciate that. But I was a little upset when Senator Avery felt that our discussion this morning that many of us had, Senator Heidemann provided us with information on poverty, that that shouldn't be a part of this policy discussion because it's already in law, it's already in our state aid formula. I would say to Senator Avery and to all of you that if this is truly a policy discussion, anything is on the table. Any factor is on the table, whether it's in the current state aid formula or if it's in the proposal before us now which will change our state aid formula. So I was a little taken aback when Senator Avery felt that we should not be having a policy discussion on the poverty factor that is currently in the state aid formula. I would also point out that I think that discussion, when we talk about poverty, should include a per capita income of counties. That's the basis for numerous reports done at the federal level. That's the basis for numerous reports done at the state level. So I feel that is an appropriate topic to bring up at this time if we are truly having this policy discussion. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR FISCHER: Senator Avery also pointed out that currently we cannot keep going as we're going with state aid to schools. We can't see this 17 percent jump. I totally agree with him. He said that is not sustainable. I totally agree with him. LB988 does nothing to change that, folks, because LB149 is still in LB988. Senator Raikes told us that the other day at a briefing. We are on autopilot. The money needed for state aid

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is calculated under the needs of our current state aid formula, and under this one, is on autopilot. It goes into the pot and that's what it is. It is not sustainable and we all need to be aware of that. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Fischer. Senator Wightman. [LB988]

SENATOR WIGHTMAN: Thank you, Mr. President, members of the body. I have some questions for Senator Raikes if he would yield. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR WIGHTMAN: Senator Raikes, I have several items that I would like to discuss. One, we discussed the elementary site allowance this morning, or we're starting to, and you may have answered this question previously since I've not been here in the Chamber all the time. But could you tell us again a little bit about what that is? [LB988]

SENATOR RAIKES: Sure, Senator, I'll give it a shot. The elementary site allowance is to recognize a circumstance that certain districts are going to incur; namely, because of their geographical dispersion they need to have elementary buildings at more than one location. So this is a provision to account for the extra cost over, say, being able to serve all the students at a single location or a single efficiently-sized location, if you will; the fact that because of distance there is a need to have buildings at several different places maybe with a relatively small number of students. So the students are counted, if you will, in the basic funding amount, but there is an extra amount of money allocated to the district because or to reflect the extra cost of serving those elementary students in that separate site. If you look down the list, you'll find that probably all or nearly all of the districts that qualify for that are either in the sparse or very sparse classification. [LB988]

SENATOR WIGHTMAN: Okay. I have another question with regard to class size that I meant to ask you this morning. Was there ever any thought when you set that at 20 to allow any discretion to the school administration, because I'm told that there would be some groups of students that 23 in a class probably would be easier than 17 if you were trying to bring low English proficiency students up to speed, that maybe there should be some discretion. Is that a possibility? [LB988]

SENATOR RAIKES: Well, in fact, Senator, I think that...I would have to admit that that provision was overly aggressive in a number of respects, maybe one of those being that we sort of nailed in on 20 and didn't allow a lot of variation around that. I now believe that the best way to handle it is not in the aid formula and in funding for school districts, but rather as a requirement for school districts, not for just poverty or English language

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learner students, but for all students only in the grades K-3. So that's the direction we're heading, and I think the point you're making that it probably didn't have enough flexibility is a valid one. [LB988]

SENATOR WIGHTMAN: Would you agree that frequently administrators would be better able to make that decision than the Education Committee sitting here in Lincoln? [LB988]

SENATOR RAIKES: I'm sorry, I didn't quite hear the last part. [LB988]

SENATOR WIGHTMAN: Well, with regard to the discretionary standards that I'm suggesting, wouldn't it be true that a local administration would be able to make that decision on whether or not they could have some variance in some of their classes? [LB988]

SENATOR RAIKES: That...I would agree with that, yes. [LB988]

SENATOR WIGHTMAN: I'd like to go down to one other item on the...we're changing the local effort weight from 95 cents to a dollar. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR WIGHTMAN: I guess I'm wondering, and if you could address that, whether it might be a possibility to factor out a portion of that increase and drop that, and be a trade-off, perhaps, for the teacher education allowance--maybe not all of it, but some of it. [LB988]

SENATOR RAIKES: I'm not sure I understand the full sort of trade you're proposing there. Let... [LB988]

SENATOR WIGHTMAN: Let me give you some figures. [LB988]

SENATOR RAIKES: Okay. [LB988]

SENATOR WIGHTMAN: You show in your fiscal note that \$56 million is the approximate increase in the local effort and decrease in the cost to the state on a 5 percent increase, which would be about \$10.12 million per 1 percent, I assume--down at the bottom of the original fiscal note. [LB988]

SENATOR RAIKES: Okay. [LB988]

SENATOR WIGHTMAN: So I'm wondering, we have \$34 million that's being committed to the teacher education requirement. [LB988]

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PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR WIGHTMAN: Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Wightman. Senator Engel, followed by Senator Fischer, Senator Erdman, Senator Langemeier, and others. Senator Engel. [LB988]

SENATOR ENGEL: Mr. President and members of the body, it's been a very interesting discussion so far. I was here back when LB806 was passed, and through these other remedies of the school funding situation. And I'll tell you what. Back then, when we discussed LB806, it was right at the end of the session. Right at the end of the session we had a bill. It was probably three inches high, and we had spreadsheets all over the place, and no one really understood them at that point in time, and that's where we just voted on blind faith. Well, of course, we found out that that needed a lot of tweaking, and they've been working on it several years trying to tweak that. So at least today I think LB988 has been well-thought-out. It's been well-thought-out by all those people working on it, and it is totally not understandable but much more understandable than anything we've ever had in the past. So I am very anxious to sit through the rest of the discussion, and overall I think it's...personally, I think it's a good bill, a good idea, and I'll...of course, I'll come to that complete conclusion when the discussion is all over. But when Senator Gay was talking about teachers' salaries, and I think Senator Raikes explained that the biggest percentage, the percentage of this increase we're putting into the state aid formula, \$200 million, is for teachers' salaries and benefits. So I think...I know Senator Gay would like to put that in statute, but I think the onus should be on these school boards to get their priorities in order--first, students; then teachers; then administrators; and then facilities. And I think they've been out of order for a long time, because they have had the opportunity in the past, some of these school districts, to raise those school salaries if they thought that was important. So I think, as far as I'm concerned, I think the school boards should come to the fore and start putting that demand to the administration that they are going to raise those salaries and utilize these funds accordingly. And I think as far as the NSEA, they have a job to do. Instead of protecting teachers who shouldn't be protected, keep them in the system. They should be out there fighting for teachers' salaries, utilizing the funds that we have instead of keep asking for more and more and more. So with that I do believe we're on the right track. Again, it's a work in progress. It's always been a work in progress. But I hopefully...that through this LB988 or whatever comes out of it, I hope that work in progress has finally come to a successful conclusion, so in the future you won't have to deal with it year in and year out, year in and year out. And like they've said before, the route we're going now is not sustainable. We cannot continue down that route, and therefore we have to make changes. And I think this, at least we're on the right track. So with that I would like to turn the rest of my time over to Senator Raikes if he would like it.

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[LB988]

PRESIDENT SHEEHY: Senator Raikes, you are yielded just over 2 minutes. [LB988]

SENATOR RAIKES: Thank you, Mr. President, and thank you, Senator Engel. I want to respond a little bit to the comments by Senator Fischer about LB149. I will agree that I don't want to rule out any policy that is not being changed by LB988 as far as discussion, and that policy is not being changed. That would be continued as is. I do want to comment though to the suggestion that because of LB149 there is nothing we can do about state aid; there is an out-of-control computer over in the Department of Education and whatever number comes out of that computer we are bound to; there is nothing we can do; if we don't have any money that's too bad; we're tied to the computer and that's the end of it. And I make that somewhat dramatic, as best I'm able to do, for a good reason. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: It's simply not true. The aid formula is the result of policy decisions that we take right here. That's what we're about now. If you look at the history of state aid since the passage of LB149, the autopilot fears are completely undone. We have responded responsibly in every instance to the financial circumstance of the state. And as a matter of fact, that's what's being proposed in LB988. The provisions of LB988 not only reduce state aid obligations for this year, but they would reduce it as we go on in the next biennium. So again, LB149 was passed. It's a part of statute. It's not being changed by LB988. [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR RAIKES: And as far as I'm concerned, it's been a successful policy. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes. Senator Fischer. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. We had moved on I believe to Section 16. And in Section 16, there's...let's see, line 11, there's a reference to a sparse local system or a very sparse local system. Mr. President, would Senator Raikes yield to some comments about that? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FISCHER: Senator Raikes, with our new groupings that we're seeing under

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LB988, the cost groupings we have currently, the standard, the sparse, and the very sparse, are eliminated. Is that true? [LB988]

SENATOR RAIKES: That method of calculating cost for needs is eliminated, yes. The cost groupings remain but the procedure is replaced. There still are standard, sparse, and very sparse school districts. [LB988]

SENATOR FISCHER: Why do we even have any definitions for standard, sparse, and very sparse, if that doesn't come into the calculation of needs anymore? [LB988]

SENATOR RAIKES: It does come into the calculation of needs; for example, in the local choice adjustment. Local choice adjustment is only applied to standard school districts, not the sparse or very sparse. [LB988]

SENATOR FISCHER: And why did you make the decision? I see on my notes that that is a new adjustment to the formula, the local choice. Why did you make the decision that that only applies to standard cost groupings? [LB988]

SENATOR RAIKES: I can give you, at least the conceptual answer to that, hopefully very quickly. The argument is that a standard school district is in a geographical circumstance whereby if they made the choice that they wanted to merge with another district in order to achieve economies of size, that would be available to them as an option. On the other hand, for sparse or very sparse districts, by definition, that option is not available. [LB988]

SENATOR FISCHER: Would you agree with me--I think you would--that in the sparse and very sparse districts they have consolidated and...I guess...they consolidated to the point where they really can't consolidate any longer? [LB988]

SENATOR RAIKES: That's...I would agree with that. You know, I will tell you that there are instances...I can think of one in southwest Nebraska where there was a recent consolidation involving a very sparse district, but I don't think those districts should be held to...held financially to doing that. I don't think those circumstances are there often enough to warrant that they be held, financially, to merging. [LB988]

SENATOR FISCHER: I'm very pleased to hear that, but I do question, then, it seems to me that looking at my 21 districts, I have 14 districts that lose over \$2 million, and those are my sparse and very sparse districts, so it seems to me that they are being penalized when they do not have that local choice; they do not have the option of making any changes. Can you explain to me why it looks like the sparse and very sparse districts are the losers under this bill? [LB988]

SENATOR RAIKES: What I will point out to you is the importance of focusing on the

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needs calculation for those districts. And I think if you're looking at state aid... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...and particularly if you're making the comparison between the 2008-09 or the February 1 certification, and LB988, you probably...I don't dispute your numbers on state aid. If you look at the needs calculation for 2007-08 versus that in LB988, there is no reduction in needs. [LB988]

SENATOR FISCHER: Then why are we losing? [LB988]

SENATOR RAIKES: In terms of needs calculation, you would not be losing. In terms of state aid, there may be a number of reasons. For example, you're going to have school districts that the needs go up but the state aid goes down. How can that be? Well, needs reflects funding from all sources: state aid, local property taxes, other receipts. If you have a situation where local valuations are increasing faster than needs, then you could well have a declining state aid amount... [LB988]

PRESIDENT SHEEHY: Time, Senator. Thank you, Senator Fischer. Senator Erdman. [LB988]

SENATOR ERDMAN: Mr. President, I would yield some time to Senator Wightman. [LB988]

PRESIDENT SHEEHY: Senator Wightman. [LB988]

SENATOR WIGHTMAN: Thank you, Mr. President, if I get to the point--and thank you, Senator Erdman--if I get to the point where I close, I would like to yield some of the time back to Senator Erdman. I'd like to continue my conversation with Senator Raikes if I might. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR WIGHTMAN: Senator Raikes, when I was discussing this with you last, I was talking about the change in local effort rate with consideration also to the teacher education allowance, and I had read you a portion of the fiscal note. Now, this was the original fiscal note and I do not know whether that has changed, but it indicated that a 5-cent increase in the local effort rate would decrease the amount of state-provided aid by an estimated \$56 million, and that would apparently come out to about \$10.12 million for each penny. Would that be correct in...? [LB988]

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SENATOR RAIKES: I think that's pretty close, Senator. [LB988]

SENATOR WIGHTMAN: And I was just wondering if there was the possibility, at least, of a compromise here to where some of the \$34 million...and I think that's about the cost, is it not, of the teacher education allowance? Total cost? [LB988]

SENATOR RAIKES: That's the amount of money that is redistributed via the teacher education allowance, and that's probably true. [LB988]

SENATOR WIGHTMAN: Right. So, for example, if the teacher education allowance would go away completely, and I don't know that that's a possibility, but that would make up about 3 cents of the local effort rate. Is that correct? Pretty close. It would be about... [LB988]

SENATOR RAIKES: Actually it's not, because, keep in mind...well, wait a minute, maybe I'm wrong. It is an adjustment, so, yes, it is correct. You are right. [LB988]

SENATOR WIGHTMAN: Okay. So it would take about...the \$34 million would amount to about 3 cents' reduction in the local effort rate, give or take a little bit. That would actually be more like 30.36 maybe. [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR WIGHTMAN: Can you tell me how the teacher education factor has been determined? I mean, how did you come up with the \$34 million that was to be allocated to that? [LB988]

SENATOR RAIKES: We included a factor that's based on the educational attainment, I'll put it that way, of teachers in a particular district as compared to the average for...actually I think it's the cost group...or the array. So if you are in an array in which your teachers have a higher level of educational attainment than the average for that array, there is this adjustment, and the adjustment is based on the number of teachers in an amount per teacher, which I can't tell you right at the moment but I can get that for you. [LB988]

SENATOR WIGHTMAN: I know we do a lot of phase-ins and phase-outs under this funding formula for K-12 education, and I'm just wondering if there would be a possibility that that teacher education rate could be phased in maybe at a third per year while we reduce the local effort rate from the...or increased it from 95 to 100 so that maybe a third of the...that wouldn't be a third. We would probably start out at 97 or 98, probably, to reach the equivalent of two-thirds of the \$34 million. And if there would be a possibility that we could do that over a period of three years. [LB988]

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PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: Senator, I certainly think that's possible. I would encourage you to sort out what it is you want to try to get done, because I think there's several different objectives you might have. One is that you don't really think the teacher education adjustment is an appropriate provision so that ought to either be not included at all or included at a reduced rate of incidence, so to speak. The other one pertains to the local effort rate, which has got to do with use of adjusted valuation, and basically the charge you make to local school districts in the aid formula in terms of how much local resource they are accredited with in calculating aid. So you could put them together if you wanted to. [LB988]

SENATOR WIGHTMAN: As an accommodation to Senator Erdman, I wonder if I could give my last five seconds of time to Senator Erdman. [LB988]

PRESIDENT SHEEHY: Senator Erdman, you have five seconds. [LB988]

SENATOR WIGHTMAN: Thank you. (Laughter) [LB988]

SENATOR ERDMAN: I would ask that FA228 be withdrawn. [LB988]

PRESIDENT SHEEHY: FA228 is withdrawn. The next item, Mr. Clerk. [LB988]

CLERK: Mr. President, I do have another amendment and some items if I may. Amendments to be printed, Senator Rogert to LB766; Senator Erdman, LB959. Enrollment and Review reports LB961, LB960, LB959, to Select File; and Judiciary Committee reports LB929 as indefinitely postponed. (Legislative Journal pages 999-1001.) [LB766 LB959 LB961 LB960 LB929]

Senator Erdman would move to amend this component of the committee amendments with FA230. (Legislative Journal page 1001.) [LB988]

PRESIDENT SHEEHY: Senator Erdman, you are recognized to open on FA230. [LB988]

SENATOR ERDMAN: Thank you, Mr. President and members of the Legislature. I want to move the discussion. It appears we've gone beyond the last two sections, and so I am going to try to focus in on Section 17 and 18, which includes some of the conversations that Senator Wightman has brought up with Senator Raikes. But before we get to Section 18, I'd like to ask Senator Raikes some questions about Section 17. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

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SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Section 17--again these are dealing on the needs side--Section 17 deals with an average adjustment. And so beginning in school year '08-09, and each fiscal year after, the department calculates an average adjustment if the basic funding for formula student for that district is less than the statewide average. So District A is spending \$5,000; the statewide average is \$7,000. They're \$2,000 below. They would then be entitled...unless they were in a learning community, which has different provisions...but depending on what they're levying they would get an adjustment if they're at the dollar or more under this section. So they are at...they would get a benefit because they're being efficient with their funds. It's costing them less per student, and that they wouldn't get a hit from the state aid, assuming--on the need side--assuming that they were levying at least a dollar. Is that an accurate understanding of what we're doing here? [LB988]

SENATOR RAIKES: It is. I think you are on...and I'll give you a little bit of a background on this. And again, we've worked on this approach to funding to formula for a number of years, but in some years past we've had complaints with school districts that claimed that they would be trapped, or in fact were, under the current system, trapped in a spending situation whereby they were below the state average and couldn't work their way up. All right. Well, with LB988 and the array, the situation changes, because instead of a cost group cost average, you've got a different situation. But the concern persists. And in particular, this is a provision that says that if you have a school district that is funded or...yeah, is spending...I guess really, is really the issue...spending below the state average--and your examples are fine, \$2,000 below--then based upon their local effort which is an indicator of how hard they're trying to get their spending up where they think it should be, they would be provided with this averaging adjustment which is a component of the needs calculation. So I'm a school district that is \$2,000 below, but I am levying at 95 cents. Well, there is no averaging adjustment, and the argument would be is, well, yes, you're below average but apparently that's, judging by your levying history or levying activity, that's where you want to be. On the other hand, you have a district that is the \$2,000 below and they're levying \$1.05. They're trying hard to get their spending up. This basically would allow them, in the needs calculation, that additional funding, which again would become a part of the state's guarantee for the funding available for that district. So that's the way it's structured, and you have that right. [LB988]

SENATOR ERDMAN: And again, that's all needs, property, state, other funding. That's all needs. [LB988]

SENATOR RAIKES: Yes. [LB988]

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SENATOR ERDMAN: So under Section 17, that school district is levying \$1. They would be eligible...if they are \$2,000 under the average, they'd be eligible for \$1,000. If they are \$1.01, it would be 60 percent of that, or \$1,200. And you go up, and if you get to \$1.05 you get 90 percent. So essentially your need would go up by \$1,800... [LB988]

SENATOR RAIKES: Per student. [LB988]

SENATOR ERDMAN: ...per formula student, that you were under the statewide average if you were spending less. [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR ERDMAN: If you're spending more, there is no accounting, positive or negatively. We're not penalizing those that are spending more by trying to take away. We're just saying, if you're being efficient, we're going to give you more money. [LB988]

SENATOR RAIKES: If you're being...yes... [LB988]

SENATOR ERDMAN: Or we're going to give you a better need. Excuse me. [LB988]

SENATOR RAIKES: Yeah. If you're being efficient, if you have lower expenditures and your local effort suggests that you do in fact want and need to spend more money, then this would be a provision that would allow you to do that in the sense that you would be provided more needs. [LB988]

SENATOR ERDMAN: Okay. The issue of stabilization comes in a different section. I won't get into that, but I'll go to Section 18 to kind of continue on with the conversation that I've had with Senator Adams. As I understand the provision and as you've tried to explain it today where you're trying to take away what you perceive or is a real disincentive for school districts under the current state aid formula that have teachers with advanced degrees. Is that what we're trying to solve with Section 18, is that we're not trying to penalize those districts? We're trying to make the state aid formula reflect that cost more appropriately on the needs side. [LB988]

SENATOR RAIKES: Yes. That's fair enough. [LB988]

SENATOR ERDMAN: Okay. If Senator Adams is still at York, he's got a master's degree in history, he's a history teacher. There is a perceived or rational benefit to the district of having a teacher not only have a bachelor's degree in education but also a master's degree in history, if they're teaching history. But under this Section 18, regardless of whether you agree with it or not as far as a principle, the practical application is that if I am a teacher teaching history, that has a master's degree in administration, IT, nursing, whatever it is, they get the same benefit under this formula

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that a district that has somebody that actually is teaching in that area with an advanced degree. It doesn't make a differentiation between whether or not their advanced degree contributes to what their actual job is. It just simply says if you've got more people with more advanced degrees, you get a higher need calculation and potentially the opportunity for more aid. [LB988]

SENATOR RAIKES: You are correct, and in that sense it would be similar, I think, to most school district teacher salary schedules, where the additional hours, if you will, that take you to the right, puts you in a higher cubicle in terms of your funding, and this doesn't vary from that. There is not a provision in here that says, you know, you get...the school district...and it's not the teacher... [LB988]

SENATOR ERDMAN: Right. [LB988]

SENATOR RAIKES: It's the school district gets the additional needs. Because the teacher has the advanced degree, you don't put on the additional requirement that, well, you have to actually be using that advanced degree in a class that you're teaching. [LB988]

SENATOR ERDMAN: As I have visited with others about how local school districts handle, you're right, there is this stairstep. You move over in years as well as up or down in education to determine the pay schedule for that individual school district. I believe some of them have some discretion within their process about how those are counted. That discretion, however, is not maintained here. It's just simply if you've got more hours, the district gets a higher need. Now, again, I'm not saying they get more aid because we're not dealing with the aid side, we're dealing with the needs side. Is there any interest or has there been any conversation about possibly including that? And I recognize that there are some teachers that may not know where they're going to end up. They may pursue an advanced degree in some area that they ultimately may not teach, or they may pursue an administration degree because financially it benefits them in their pay scale, but they may not know what else to do. I don't want to necessarily provide a disincentive for that, but I'm also looking at this, and saying, do they truly provide an advantage or is it truly a benefit to that district, and therefore do they need more needs-side calculation because of the fact that they've gotten more hours? And I'm...it's just a question about clarifying, if necessary, this section...and maybe we don't. I'm just reading this as a practical standpoint, and trying to understand if that's an appropriate request to consider. [LB988]

SENATOR RAIKES: Well, it's a worthwhile suggestion. And, you know, really again, you're talking about funding the school district, not the individual teacher. That's a matter of negotiation between... [LB988]

SENATOR ERDMAN: But most of that budget, if I'm not mistaken, is salaries and

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benefits to employees. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: I think the employees would get some argument as far as the teachers and the teachers' salary and benefit. I've heard everything from 39 to 50-some percent. But... [LB988]

SENATOR ERDMAN: But it's a significant portion, and if there is more money either in the needs side on aid or in direct aid, the potential is, is that there would be more money than for salaries. And the bargaining units, I would imagine, would make that point very strongly with their employer at the table, saying you're getting more aid, you should be giving us more in salaries. If we're going to give them... [LB988]

SENATOR RAIKES: I think you're right, or at least that's the way the system is supposed to work. [LB988]

SENATOR ERDMAN: And if we're going to give the more on the needs side, which potentially leads to aid, or potentially gives them the ability to not have the existing situation be a disincentive for the teachers, shouldn't we, as a state, have an interest in ensuring that that actually returns a benefit to the classroom if we're going to make the argument that certification and advanced degrees in their area of expertise benefits the learning of those students. [LB988]

SENATOR RAIKES: Let me fire this back at you quickly. Should we as a state make the decision for a local school district as to exactly how much of the money they have available has to go to... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR RAIKES: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Erdman. You have heard the opening of the Erdman amendment, FA230 to AM2367. Members wishing to discuss on the floor, Senator Langemeier, followed by Senator Heidemann, Senator Friend, Senator Gay, and others. Senator Langemeier. [LB988]

SENATOR LANGEMEIER: Mr. President, I'd yield my time to Senator Wightman. [LB988]

PRESIDENT SHEEHY: Senator Wightman. [LB988]

SENATOR WIGHTMAN: Thank you, Mr. President. Thank you, Senator Langemeier. I

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was in the middle of some conversation with Senator Raikes, and I would like to continue that conversation if possible. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield to Senator Wightman? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR WIGHTMAN: Senator Raikes, I have to admit that the last 30 seconds I was not paying much attention because I was trying to obtain some time back for Senator Erdman, and so as a result I didn't hear, perhaps, some of what you said, and I know you were suggesting that if... [LB988]

SENATOR RAIKES: I was really eloquent, too. That's too bad. [LB988]

SENATOR WIGHTMAN: Well, I'm sure you were. Probably the most eloquent part of the entire performance, but...thank you. At any rate, where are we going with this? If you set the local effort rate, for example, at 98 percent, that would be about a \$20 million reduction, I guess, from...the figure would still allow you to pass on approximately a third of the teacher education allowance that you have under LB988. And then if we phased that to 100 percent over a period of three years, you would be to your 100 percent. I think probably my school administration is not very happy with the fact that we might even be factoring it, but I think it would give a softer landing to the school districts, rather than to change from 95 percent to 100 percent in a single year. And then if we used that as we phased it up to 100 percent to give you the full amount allocated per teachers' education, I think you would come out about even with where you are, except you would be slowing the implementation of the teacher education allowance. Does that sound correct? [LB988]

SENATOR RAIKES: Well, certainly, Senator. And you could, if you decided, for example, that \$82 million is too much state aid for school districts this year, you could simply say we're either going to phase in that teacher adjustment over two or three years, or not do it at all. And because it is an adjustment, whatever money goes to that would, so to speak, be saved. So instead of going up \$80 million, we would only go up \$50 million, and the state aid savings would be 82. If that's really the question, again I would suggest, you know, you focus on that, and not that you haven't. But let me give you a little bit of context, if I might, and I'll yield you some time if I use too much. The moving from adjusted valuation to assessed valuation involves some policy issues that the Property Tax Administrator has been dealing with. And I will tell you, as you probably know, in the past we have used adjusted valuation, adjusted to 100 percent or, as Senator Loudon correctly pointed out, 75 percent for ag land. We have used that as a charge to school districts in the aid formula. Well, we understand that not every assessor assesses at or near 100 percent valuation. So, in effect, what we've done as a part of policy in the past, is we've included an extra portion of the difference between

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the local effort rate and the property tax lid, namely about 5 cents, to account for that difference. So when you mention raising the local effort rate from 95 cents to a dollar, in effect, the total deal is this: We are adjusting, at least with the amendment to the committee amendment,... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...we are adjusting valuation, not to 100 percent, but to 96 percent. And then we are raising the local effort rate from 95 cents to a dollar. So that is, at least theoretically, an even deal for school districts. You are getting charged less in the aid formula as far as the resources you have available to meet the need. On the other hand, you still are allowed...and because you are being charged less, the local effort rate, that additional 5 cents no longer is there. So that's kind of the deal, which I maybe didn't explain very clearly, but I can answer questions if you have them. [LB988]

SENATOR WIGHTMAN: And I probably wouldn't understand it clearly even if you told me clearly, but. [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR WIGHTMAN: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Wightman. Senator Heidemann. [LB988]

SENATOR HEIDEMANN: Thank you, Mr. President and fellow members of the body. As we continue with this discussion, and as I have worked on this the last week or so, one of the concerns that I have and have a lot of people that have walked up to me have, is we really don't exactly know what LB988 is going to do, not only this year, because it's a little bit more complex and complicated than we can grasp maybe. Senator Raikes does, there's no doubt about that. But we also have concerns about year two, three, and four, how this is going to play out. And I talked to Senator Raikes about this, and eventually I hope to get him on the mike here. We...there are some people, and myself included, so I'll just say myself, we don't know how this is going to play out, and actually right now I couldn't say if this is good policy or bad policy. I have an amendment drawn up, I haven't dropped it yet, that the original LB988 was set to be implemented in the year of '09-10, and my amendment would delay the implementation by one year from the original LB988 to '10-11. And I think that would put so much more comfort into this body so that we could see how this thing plays out. I'm going to give you an example, and I'm going to use the University of Nebraska and the SIS system that we just give first-round approval for yesterday. It's a \$20 million, very complex system that they are going to put into place. And when they came to me last summer they said we need to do this so that we can get this thing up and running, we're going to run these systems side by side for a year to make sure that everything works okay and

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how it works. And I thought, through this whole process, why can't we do that with LB988? Because I cannot sit here and say that LB988 is bad policy. I can't do that. I can't say that it's good policy. I can't say that it's bad policy. It is just policy that I myself, and I think a lot of my fellow members just don't know how it's going to play out. And it would be my will, if we move forward on LB988, to delay the implementation until '10-11, and let's see how it works out. And I have talked to Senator Raikes on this. I have given him my word, if we do this, because I will be back next year and he will not, that I will not tinker with it. The one thing that probably frustrates me with the state aid formula is we change it enough that it's not the same. I think it would be my like and desire to let's get something, whether it be bad or good, is to find out what it's going to do. Leave it alone for three or four years and let's see how it works out. Why can't we pass LB988, delay the implementation, and figure out what to do in between there? And we can do this. There are mechanisms that we can grab, either out of LB988 or the temporary aid adjustment, and do it in between then, and '10 and '11. We at that time will know what LB988 does to us. We can start to track it. There is data that actually on LB988 will have to come in this fall so that we know how it's all going to play out--it's not going to be there until this fall--to figure out what it's going to cost and how it's going to play out. You delay it until '10-11, we will know those facts and figures. Senator Raikes has told me, and this is true, that you don't ever pass a formula that you don't have to come back and work on. Why can't we just delay it? And if we have to tinker with it, tinker with it before it becomes fully implemented. I think this is an idea that if we are going to move forward on LB988 that we ought to look at and maybe grasp. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR HEIDEMANN: And I think if we did this, wouldn't it be a lot more comforting to go ahead with LB988, that we knew what was going to happen? I will...I've had extended conversations with Senator Raikes. He's not exactly comfortable with this idea yet. I will give him the rest of my time to let him tell you probably why not. [LB988]

PRESIDENT SHEEHY: Senator Raikes, approximately 30 seconds. [LB988]

SENATOR RAIKES: Thank you, Senator Heidemann. The error in your statement was "yet." You said, I'm not comfortable yet. You could have left off the "yet." Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Heidemann, Senator Raikes. Senator Friend. [LB988]

SENATOR FRIEND: Thank you, Mr. President, members of the Legislature. I was in the penalty box this morning. And even though I hesitate jumping into these things at so late a juncture, it helps a little bit with FA230, because what we've done, it's obvious. We've divided this up a little bit to create some better discussion points. So what I would...I did

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want to...and I was going to do this off the record, and it looks like he's preoccupied, but let me explain a little bit. In Section 17, FA230, striking Sections 17 and 18, so I'm going to limit it to that even though I had some other questions for Senator Raikes. One of the things, I guess, that I wanted Senator Raikes to explain, and I'm going to leave him an amount of time, more than 30 seconds (laugh), to try to explain it possibly. Section 17 starts off and it says, "the department shall calculate an averaging adjustment for districts if the basic funding per formula student is less than the statewide average basic funding per formula student," etcetera, etcetera. Then the next paragraph goes into school districts that are members of a learning community. And, I guess, my assumption about Section 17 was that we wouldn't need a Section...practically...actually wouldn't need a Section 17 were it not for the creation of a learning community in LB641 last year. Now some of the data or some of the information in Section 17 might have been needed, but as Senator Erdman and I and then Senator Raikes off the record were talking, some of this is just absolutely needed because of the learning community...for adjustments in the learning community that was created through LB641. So I guess my question is, if there was no learning community--and this is almost rhetorical--if this were no learning community, if there were no learning community in existence, how much more of these adjustments, and I'm not just talking about Section 17 or 18, how many more of these adjustments would we actually need? Not want, because some of this might be a wish list. I'm just talking about need. And I guess my thing is, I would... [LB988 LB641]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FRIEND: I will actually, Mr. President, I'll leave the rest of the time to Senator Raikes. But I was talking about Section 17, Senator, and I was wondering if I could get an explanation on Section 17 and whether it would be needed if we didn't have a learning community created? [LB988]

PRESIDENT SHEEHY: Senator Raikes, 2 minutes, 20 seconds. [LB988]

SENATOR RAIKES: Okay, thank you, Senator Friend. And thank you, Mr. President, members. Section 17, the averaging adjustment applies as do all other provisions to all school districts in the state. It is a part of a statewide funding policy. Learning community is mentioned specifically in Section 17 because the average that you use to do the calculation is a little bit different in the learning community than it is in other school districts. But if you look down your yellow sheet, or blue sheet, or whichever color sheet you might want to look at, there are a number of school districts in the state that are outside the learning community that get the system averaging adjustment. There are some within certainly, too, that do as well. But it is a...it's a policy provision that applies statewide, not just in the learning community. Thank you. [LB988]

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PRESIDENT SHEEHY: Thank you, Senator Raikes. Senator Gay, followed by Senator Carlson, Senator Fulton, Senator Wightman, and others. Senator Gay. [LB988]

SENATOR GAY: Thank you, Mr. President. As I was listening to Senator Heidemann's comments, I fully agreed. I think everyone here is at a certain point where, boy, there's probably some good things going on here, but I just don't quite understand everything that we have, all the moving parts. And I don't think that's anything to not admit. I mean, let's face it, this is very complex subject matter. If we could have the best of both worlds and look at what the outcomes are before we get there, I think that's probably a good idea. I know we don't get something done. I hate voting on something where you don't know...we never know exactly what the outcome is going to be on some of these issues. But if we could run that scenario, the question I guess I'd have, would be how do we get back to...where would we be then at that point if nothing goes on? Because it seems again we're looking at this as the savior to the budget. Some people are going to think...say it's \$50 million we're cutting out of our budget. But yet we're still...when we look at this whole thing it's an \$80 million decision that we're really raising, going up 10.29 percent is the way I figured it out, and maybe I figured that wrong. So there's a lot of components. Some things I like very much, other things I don't. Class sizes, obviously I don't. And we have an amendment on that where the class sizes are what I'd say mandated, the way I read it, but I guess there's a difference of opinion on that. But I guess as we look at this, all the moving parts, if there's some kind of solution like that, why are we not exploring that solution? Because again I think we're changing major policy decisions based on--and most are based on budgeting reasons. Let's face it, money is involved in about everything we do here. But I guess I look at that, and there are some good components to this, there are some very bad ones I think. But I wish we would have had more time this year, earlier, to discuss some of these issues. I've attended both the meetings that were had, and I went Thursday, and then I came again today, and I was handed new sheets all the time. I'm talking back and forth like the rest of you with your finance people, your school superintendents, and they're frustrated. It just seems to me everyone is a little bit frustrated, and maybe that's just the way these things work. But I'm always one, if we had more time to make a wise decision, go back to your constituents, and if your taxpayers, by the way, who are not back in this lobby giving you all this helpful advice, and say, boy, here's what I think is happening. We look at it. I fully trust that we could come to some kind of solution here. So I guess I'd like to explore that a little bit more. If anyone else is interested in that I don't know, but just talking to others on the floor, I think there is some interest in that. Looking for a solution that can get us...move us forward a little bit, not completely scrap this bill, but move us forward and get some kind of resolution to this. And maybe it won't be done today, I don't know if it will be done at all. But I liked what I was hearing there. And maybe if there is some other discussion or somebody else has something to add to that I'd be happy to hear it. But like I say, Senator White said this yesterday, we're being boxed into decision making on several issues here. And I don't like making decisions like that

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and I don't want to. But like I say, if there is an amendment that would come that could still get us where we know what...and another thing, where the superintendents and the finance people know exactly what they're going to have next year. I feel a little bit bad about we come in and we're changing the whole formula. And maybe that's right, too, but you know it just seems to me that they didn't see a lot of things come. And I looked at testifiers that came to the committee hearings, and there just wasn't a lot of pro...you know, I think two people showed up... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR GAY: ...to...opponents, two proponents and a couple of neutral. But what they were looking at, in February 11 or whenever the hearing was on this, is probably a completely different bill than what we're looking at today. So you can't even take the statement of intent. We've got a 20-page or 19-page, when I look at the committee statement, there's 20 pages here, very small type, of how this thing works. I was looking at it last night and looking at it again today, and I'm still trying to figure out some of the components of it. But like I say, there are some good things in here. There's some very bad things, in my opinion, too. I wish we had more time to work it out. And if someone had a solution, Senator Heidemann, if he wants to follow up on that, that would be great. I think many of us are interested in hearing what that option may be. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Gay. Senator Carlson. [LB988]

SENATOR CARLSON: Mr. President and members of the Legislature, I'm going to try and use 5 minutes here to touch briefly on three areas, and use the prerogative to bring things up, even though they may not be completely related to the issue that we're talking about. First of all, I appreciate Senator Heidemann's comments and Senator Gay's followed up and would be willing to listen more to what Senator Heidemann may recommend in regard to this issue. I listened to remarks earlier made by Senator Fulton and by Senator Gay involving teacher salaries. And even though that's not the exact issue here, I'm going to address it as a public record. And I've talked about this before, but as I was campaigning for the Legislature I was told that our teachers ranked thirty-eighth in the nation in salary. And now we see these pins of 43 that are being worn, and apparently that's where we've slipped in terms of teachers' salaries. At the same time, our academic achievement, at least according to ACT tests, have improved from fifth in the nation academically to fourth in the nation, a very enviable position. But that's too big a discrepancy and we don't want to slip academically. So I'd like to make a suggestion and recommend a study in regard to potential dollars that could help in teacher salaries. There are a tremendous number of acres of school lands in the state of Nebraska. And I know that this issue has come up before. It gets talked about and then it gets forgotten, nothing happens, and then we go on. This brings up another opportunity to talk about it. Senator Fischer told me that in Cherry County alone there

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are 200,000 acres of school lands--that's in one county. The total value of school lands across the state has to be a tremendous amount. It's a pretty good time to be selling land if you've got land to sell. And I think that we need to look into it as the Legislature to see what we can do to get the school lands division under the auspices of the Legislature so that we could look into the possibility of selling school lands. It's supposed to be done anyway, but apparently it hasn't been done to this point. Land values are at an all-time high. What's the net income currently from school lands to education? I don't know what that is, but I think we ought to study it and see what it is. What would happen if we sold all the school lands over the next several years, and that land goes into private hands, goes onto the tax rolls? Taxes are paid, the money received from the school lands is invested in a prudent manner, and the excess proceeds off of that investment over what's being netted for education now could go for increasing our teachers' salaries. I think it's a...it's something worth studying. And I've talked to Senator Adams about this and would welcome any others' input as far as proceeding to look at the issue. If I have much time remaining, Mr.... [LB988]

PRESIDENT SHEEHY: 1 minute, 40 seconds. [LB988]

SENATOR CARLSON: I'd like to ask Senator Raikes a question, if I could. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR CARLSON: Senator Raikes, this is not a trick question because we talked about it on the way to lunch today, four or five different people, and there were four or five different answers. What is per capita income? [LB988]

SENATOR RAIKES: Income divided by per capitas? (Laughter) [LB988]

SENATOR CARLSON: I think you may be close. But is that the total income in a county divided by the number of residents in the county? Is it divided by the number of workers in the country? Is it divided by the number... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR CARLSON: ...of people over a certain age? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR CARLSON: Yes. (Laughter) Appreciate that answer. But do you know what it is? [LB988]

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SENATOR RAIKES: Well, you can define income, as you know, a number of different ways. There's personal income, there's disposable income, there's gross income, there's whatever. And I'm sure that in the...and I think you're referring to how we determine whether or not a student would qualify for a poverty program. There's a specific definition of income that's used, and I cannot tell you, Senator, exactly what it is. [LB988]

SENATOR CARLSON: Okay. And I don't blame you, because I felt pretty good nobody else knew when we talked about it this noon. I think it's something we need to figure out, and I would welcome any help on that. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Carlson. Senator Fulton. [LB988]

SENATOR FULTON: Thank you, Mr. President. Two threads going here again. The teacher salaries--that may not be specific to this bill, but it certainly is part of the policy. And I want to rattle off some statistics which should inform what we're doing here with regard to state aid, and hopefully is communicative to those who set local budgets. Over the past two decades, I understand that K-12 budgets have increased somewhere around 5 to 5.5 percent; 5.5 percent was the number that I was given. If we take into account that inflation is probably--I don't know what it is over 20 years but it's not more than 3 percent--there's at least 2.5 percent of real money, new money that's coming into the districts. And yet in that same time period teacher salaries have slipped to where they are today. Mathematically, if teacher salaries are anywhere from 36 to 40 percent of these budgets, then there should be at least some of that money going into teachers' salaries. So that's a question we all need to be asking. I will be asking it of local school districts. But it is part of the policy that we're considering here. State aid to schools, some of that, you know at least 36 to 40 percent one would think, should go to teachers' salaries. That has not been the case. And if we look at this by way of philosophy, if one doesn't have a teacher, one is going to have a hard time having a school. The...now onto the idea that Senator Heidemann is talking about. He brought up something about temporary aid adjustment. I wonder then if Senator Raikes would yield to a question? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FULTON: Senator, could you explain a little bit about temporary aid adjustment? That might be another consideration. I know it might militate against LB988, but could you explain how that would work? [LB988]

SENATOR RAIKES: Well, one thing I can tell you is that, judging by that, temporary I think means seven years, because we adopted that as an amendment I believe in 2002.

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And it finally...well, this is the first...it's still in place this year. I think the 2008-09 school year would be the first year we don't have the temporary aid adjustment. The temporary aid adjustment, if you think in terms of our needs discussion this morning and calculation, when you got all through with the formula needs calculation, you applied a factor at the end which reduced that needs amount. And it took into account...it was an effort to reduce the needs proportionally both for equalized and nonequalized school districts. The details I can't exactly remember, but we did it that way. The other thing I would mention to you is that there was associated with it an opportunity by school districts to make up whatever reduction there was by the temporary needs adjustment with an increase in property tax levies, an increase beyond what they would have been allowed under the normal levying cap. [LB988]

SENATOR FULTON: And that is not effectual after this year or is it effectual in this year? Would it be able to help our budget situation now? [LB988]

SENATOR RAIKES: In the current year it is still in place. It would not be in place in the 2008-09 school year. To some extent you could argue that the temporary aid adjustment is a way to transfer... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...funding needs for school districts from the state to local property taxpayers. [LB988]

SENATOR FULTON: Okay. Okay. So I appreciate that information. And then lastly, Senator Raikes, I'll yield you the rest of this fleeting time to explain why you're not in favor of moving back a year per Senator Heidemann's idea, putting the date back to '10-11? [LB988]

PRESIDENT SHEEHY: Senator Raikes, 35 seconds. [LB988]

SENATOR RAIKES: Well, actually...thank you, Senator Fulton and Mr. President. I'll try to address that particular proposal when I have just a bit more time, if that's okay. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes. Senator Wightman, followed by Senator Fischer, Senator Heidemann, Senator Harms, and others. Senator Wightman. [LB988]

SENATOR WIGHTMAN: Well, I had meant to turn off my light, Mr. President. Since it's still on I'll go ahead and at least discuss Senator Carlson's question. First of all, I would second his thought that we ought to look hard at selling all or a major portion of the school lands. I think there would be a much better return. And if that money were held, I

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think it would be a plus for the state. I don't know if any of that has a lot of relevancy, but it does as we consider this bill, not too much relevancy with regard to LB988 itself, but looking down the road I think it certainly does. I'd also like to propose an answer with regard to per capita income. I think the only figure that we have available would be the total, not taxable, but front page income on the 1040 that you have for everybody within a county or whatever you're figuring the per capita income, and to divide it by the population. I have no doubt that that is the per capita income. Now frequently you see a figure that is quoted as average family income, figures other than per capita. But I think as long as you're talking per capita, that would be the per capita, but it includes more than earnings. It includes Social Security, I think. It probably includes everything. And again, some of that Social Security doesn't get factored in on your front page but it's listed on the front page, and again it probably includes that. But I don't know the answer for sure to that. Since I was planning to turn my light off anyway, I'll yield the rest of my time to Senator Carlson, if he wants it, or did you want any time? No. I'll just sit down. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Wightman. Senator Fischer. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. As you can see from my name plate, it's a little crooked, not that I'm a little crooked, but I prefer to think that maybe somebody has been leaning on it, leaning on District 43 here. So I need help in straightening that out. So if any of you have suggestions on how to straighten out that name plate or maybe how to straighten out the bill, I'd appreciate it. I do have some questions since we are now on Section 17. And I did not encourage--by the way, I did not encourage Senator Carlson to bring up the discussion of school lands. He did that all on his own. A number of you know that that's a topic that I can get set off on a little bit, too, but I did not encourage Senator Carlson to do that. I have some questions if Senator Raikes would yield, please? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield to questions? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FISCHER: Senator Raikes, under a new factor here, we have a system averaging adjustment. And that, I believe, is covered in Section 17 of the bill. Is that correct? [LB988]

SENATOR RAIKES: I think that's correct. [LB988]

SENATOR FISCHER: As I looked through the districts that are receiving funding under that, it's a need, correct? It's... [LB988]

SENATOR RAIKES: Yes, it's a part of the needs calculations, yes. [LB988]

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SENATOR FISCHER: As I looked through the districts that receive money--Hastings, Alliance...oh, gosh, Plattsmouth, Sidney...quite a few in Douglas County. We have Omaha, Elkhorn, Ralston, Westside. I'm just curious on how that is determined? They seem to be bigger districts that are receiving that allowance or that adjustment. Oh my goodness, Lincoln gets \$8.3 million. That's a big increase over the previous printout, isn't it? Anyway, I'm just curious on how those...why those are the districts that receive that? If you could explain it. [LB988]

SENATOR RAIKES: There are two requirements, Senator. Number one, they have to be a relatively low-spending district compared to the state average; and number two, they have to levy up fairly strongly. Those are the two factors. [LB988]

SENATOR FISCHER: As I looked through that list...we were at a briefing at the beginning of this year, and it was pointed out--I don't know if it was a list, I can't remember for sure--of the 10 or 20 most...districts with the highest student population and the percentage of growth that those districts experienced. And I remember that most of them, including Omaha, Lincoln, were in double digits on the growth in spending. And there was concern expressed at that meeting over the different ways--we talked about interlocal agreements earlier--but different ways that districts went around things and were able to see that double digit expenditure, basically. A lot of those districts seem to be the ones that benefit under this system averaging adjustment. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR FISCHER: Why? [LB988]

SENATOR RAIKES: Senator, if I could refer you to a handout that came earlier, and you may have lost it in the pile, I apologize for that. It shows standard, sparse, and very sparse districts, number of students, student count and so on. The 2007-08 need per student, that is the guaranteed amount funded to the district through the aid formula, the current one we have. For standard it's about \$8,400; for sparse it's a little over \$11,000; for very sparse it's almost \$14,000. So what you have is a funding level--I'm going to postulate here which I'll expound on later--whereby some of the sparse and very sparse districts, and I think you're referring to the fact that not many of them qualify for the system averaging adjustment, and part of the reason is with that high level of funding... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR RAIKES: ...those districts... [LB988]

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PRESIDENT SHEEHY: Time. [LB988]

SENATOR RAIKES: Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you. [LB988]

SENATOR FISCHER: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Fischer, Senator Raikes. Senator Heidemann. [LB988]

SENATOR HEIDEMANN: Thank you, Lieutenant Governor, fellow members of the body. If I could interrupt Senator Fischer and Senator Raikes just for a second and ask Senator Raikes if he would yield? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HEIDEMANN: One of the things that I want to point out is as this has started this morning, what did everybody do? Everybody looked at what it was going to do to their schools, you know. And the first thing I might point out is that's a snapshot in time. And everybody is focused on this one snapshot in time, on today, what it's going to do to us today. But I think we need to look a little bit further than that. And when you're buying into a major policy change, it's not just today. It's next year and the next year and the next year that we need to be concerned about. And I'm not only talking about just the schools. I'm talking about what it's...how it's going to effect the state financially. So we need to look on both sides of that aisle. But please don't base your decision on how this is going to affect my schools. I will let you know that in the first district my superintendents aren't going to like this, but we do pretty good. I will say I don't have a problem with LB988 as I look at the snapshot today. But I will, much to the dismay of my superintendents maybe, I am not comfortable enough to vote for LB988 yet, and I will not at this point because I don't understand it. I can see the snapshot of today, but I can't see and I can't predict and I can't tell them what's going to happen in year two and year three and year four and year five. One of the things that we drew up was the piece of paper that I just handed you. And it takes you away from your focus on your schools and what's it going to do to me, to what's it going to do to the schools as a little group by various different means. And the one thing that really caught me was by enrollment size and the percentage of increase what we're going to see. Do you see what's highlighted, Senator Raikes? [LB988]

SENATOR RAIKES: I do, Senator. [LB988]

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SENATOR HEIDEMANN: And I hate to say this, but as we have started down this path and you see how this affects certain schools, I almost call it Robin Hood in reverse. And I hate to say that, but it looks like we're taking away from the smaller and the littler and giving to the big. And maybe that's the way it needs to be, I don't know. Maybe that's what we have to have, but I don't know. But could you kind of expand on that? [LB988]

SENATOR RAIKES: I will try, Senator. And I will tell you, this surprises me because among the school districts that fare well, I think as you alluded to earlier, with LB988 compared to a continuation of the existing formula, are small standard school districts. You know...so this doesn't show that. This shows that...and again, I think if you take that grouping of 250 or certainly 500 students and below, you're talking about, in terms of school districts in the state, well over half, probably nearly 60 to 70 percent of the school districts. Again, it surprises me, because one of the main features of this formulation, of the aid formula, is to address the declining enrollment situation,... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...and an awful lot of those districts in that size category are experiencing that situation. So I don't know, I'm not going to tell you that I'm not believing this, but I'm certainly surprised by it. I have my doubts. [LB988]

SENATOR HEIDEMANN: If this information isn't right, I would definitely like to know that we...I think these are very firm numbers actually. And to be right truthful, I handed this out because it not only surprised me, but it surprised some other people that I was working with. But this is the way it played out. And we actually ran this, this morning, after the last amendment was produced. So food for thought, more than anything else, food for thought how this is all playing out. Don't focus on your one schools, don't focus on the schools in your district, let's just maybe talk about policy a little bit and talk about how this is going to affect the schools as a whole and how this is going to affect the school as a whole in year two, three, four, and five. And maybe... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR HEIDEMANN: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Heidemann. Senator Harms, followed by Senator Adams, Senator Wallman, Senator Loudon, and others. Senator Harms. [LB988]

SENATOR HARMS: Thank you, Mr. President, colleagues. I've quietly listened to this debate most of the day in regard to the funding change and the funding formula, and I don't disagree that it's a very important public policy that we are debating. I'm quiet basically because I don't know where I am on this particular funding formula. There are

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times that I support it, there are other times I'm not sure about it. My schools that I represent all come out fairly well. But when I look at the present funding formula that we have today, I wonder if the people who developed this and voted on this would ever have anticipated that today we would be confronted with a 17 percent increase in state aid. And I know that there are a lot of variables that create that, but had they thought about that and had they projected far enough in the future, if you add that to Medicaid, and in the next ten years we cannot print enough money to fulfill the demand that's going to be placed upon us with this present educational funding formula and Medicaid. So, Senator Raikes, would you yield please? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HARMS: Senator Raikes, as you look at LB988, have you talked at all with the fiscal staff and the fiscal analysts on the legislative side, which you have access to? Have you asked and looked at different variables to project into the future four or five years? Because that's what scares me about this funding formula, because I don't know what it's going to do. And I know you have to bring in a lot of different variables, which we could do. Have you done that yet so we have some idea of what this might do? [LB988]

SENATOR RAIKES: We've had a number of conversations, Senator, if that's your question. And I think, as you're suggesting, it's appropriate to have those conversations. [LB988]

SENATOR HARMS: Yeah, thank you. I think we have to have that. And I think before I could even begin to support this bill I would like to see exactly what happens and put all the different variables in there, what we think might happen or could occur so that we know in our own minds as we make this decision, we've looked at everything that we possibly can. Senator Adams, would you yield please? [LB988]

PRESIDENT SHEEHY: Senator Adams, would you yield? [LB988]

SENATOR ADAMS: Yes. [LB988]

SENATOR HARMS: Thank you, Senator Adams. I wanted to ask you a question that I did earlier when we were just visiting here. As I look at this funding formula and I look at the brackets that some of these schools are in, for example, Senator Carlson's, some of those lose a fairly healthy amount of money. Is this going to be then made up by property tax? I mean, is there going to be a shift from one pocket to the other with this funding formula? [LB988]

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SENATOR ADAMS: You ask a good question, Senator Harms. And as a matter of fact, I'm going to take the liberty of just using one of the school districts that I represent. As I look at the formulation on these spreadsheets today, one of the largest school districts in my legislative district, Seward, Nebraska, takes a pretty substantial hit in state aid--and they were going to anyway, precertification. Now with certification and changes in LB988, they really take a hit, which causes me to have to, like everybody else in here, look at, number one, what's the cause of that? Is there something we're doing wrong in the way that we have formulated this that we need to relook, or is there something that has happened inherent within that school district that has caused the downturn? And frankly, I've looked, and it's both. And if nothing else changed, Senator Harms, I have to ask myself, how is Seward going to deal with this? [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR ADAMS: Well, the way that they're going to have to deal with it is, (a) they're going to have to go to property tax. They are at a levy that would allow them to do that, but obviously we're shifting from one tax over to that ugly thing called property tax. The other thing I suppose they could do--I don't know what their book is like--they may go to their reserves, and I don't know what kind of reserves they have. [LB988]

SENATOR HARMS: Thank you very much. That's the very point that I have major concern about is that what we are going to be saying to the public, we've just fixed our financial conditions of the state. But you know what we've just done? We've just shifted it from one pocket to the next, the one portion of their pocket they don't want. I mean everyone came off the streets just like I did a year ago. And what's the thing we all heard as new senators and we all said to ourselves, we need to fix that? It was property tax was too high. And right now this funding formula is going to do just exactly what I'm talking about. It's going to shift it from one pocket to the next. And I don't think we can tolerate that. That's why I think we need to look at the variables,... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR HARMS: ...we need to look carefully. [LB988]

PRESIDENT SHEEHY: Time. Thank you, Senator Harms. Senator Adams. [LB988]

SENATOR ADAMS: Thank you, Mr. President. Senator Carlson, Senator Fulton, Senator Gay, others of you have brought up the issue of teacher pay, and I can't resist. I'm going to take just a moment. Beginning in the '08 school year, Wyoming,--and I know we're not comparing apples to apples--Wyoming's salary will rank twenty-fifth, or excuse me, twenty-first; Iowa will be twenty-fifth in the nation. And in Wyoming, the starting salary in the lowest starting salary bracket is estimated to be at about \$33,295; which, by the way, the Nebraska average salary--not starting but average salary--will be

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\$40,000. And I might also add as it relates to this debate, Nebraska ranks fiftieth in the percent of contribution it makes to state aid to education. Now, I realize that Nebraska, Iowa, Wyoming, we have different scenarios; we have different revenue sources; we have different natural resources; different situations. I don't think that the state aid formula--and I realize that as it escalates and we can look at how much goes to teacher salaries, maybe we can say that there's a lack of fairness there and we can blame it on whatever we want to blame it on. And I don't believe that the state aid formula is the place that we ought to be going to negotiate teacher salaries or negotiate for them, nor do I think that this state aid formula is the place that we ought to start looking at teacher salaries. It's complicated in and of itself. But I'll tell you what, I'm going to use this opportunity. This year I introduced LB1100, which was designed to make some adjustments in teacher pay. It was complex, it was unique. It wasn't just a coming out here onto the floor begging the Appropriations and the Legislature for money. That bill is still in committee. It will be back next year. Now it's going to come back in a different shape and form than the way that it came out. But I'm telling you this because when it comes back next year I'm hoping that it's going to get to the floor and we can have the discussion, but it's going to be separate from state aid. It's not going to be welded in as an amendment to state aid formulas, like maybe it could have been this time. I want it to be a separate discussion, a separate issue, and we can deal with it at that point. There isn't anybody in here that probably doesn't have a school district that's going to get hit. Senator Heidemann, I applaud you in wanting to look at this from a philosophy standpoint and not just a "how does it affect my school district"--but that's awful hard to do. And I'll be the first to tell you, I've been looking just like everybody else in here. Thank you, Mr. President. [LB988 LB1100]

PRESIDENT SHEEHY: Thank you, Senator Adams. Senator Wallman. [LB988]

SENATOR WALLMAN: Thank you, Mr. President, members of the body. I do appreciate Senator Adams, Senator Heidemann's comments, and Senator Harms, Senator Gay. This is a complex issue, and a lot of things about LB988 I do like, some I don't. A declining enrollment, it would be nice if we had some kind of an average in there because it hits them right now. And I'll ask Senator Raikes a question on that. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR WALLMAN: Is there issues that we could deal better with declining enrollment as far as the impact on the school district? [LB988]

SENATOR RAIKES: I believe LB988 is a significant improvement in terms of financial support of declining enrollment school districts, yes. [LB988]

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SENATOR WALLMAN: Thank you. And the teacher pay, I think that's a big thing. We...you know, it's outside the box here. But Senator Carlson brought up school lands that's in my area which has long been said they should be sold, and I think so too. And I know it will affect some people, but give the people that rent it or farm it a first option. And if Senator Raikes would want more, I'd yield the rest of my time to Senator Raikes. [LB988]

PRESIDENT SHEEHY: Senator Raikes, 3 minutes, 50 seconds. [LB988]

SENATOR RAIKES: Thank you, Mr. President. Thank you, Senator Wallman. Let me comment a little bit if I might on some of the discussion about teachers' salaries. There is concern appropriately placed about teachers' salaries in Nebraska. We've got states around us, Wyoming and Iowa mentioned in particular, that have taken actions to significantly increase teachers' salaries, or at least that's the way it seems. Don't lose sight of the fact that with LB988, even with a \$50 million cut in state aid, there would be a \$200 million increase in needs to school districts statewide. If it is the case that teachers' salaries and benefits amount to about 50 percent of a school district's budget, then my calculations suggest that there should be about \$100 million available for school districts to compensate or additionally compensate teachers. Now some of you have suggested, and I guess it surprised me a little bit, the ones of you that have suggested that we should take the control of teachers' salaries out of the hands of the local district and do some sort of a mandate at the state level as to how monies that come available to a school district be spent, in particular with regard to teachers' salaries. That has not been our practice. Our practice has been local control, local decision-making. Our practice to be successful has to depend upon a successful negotiation on the part of the teachers for that \$100 million additional money that they are entitled to. But I would remind you it is there. I think it's a fair statement to say that the state is doing its part. It is putting additional funding out there for school districts. They need to use that funding to compensate teachers additionally and to do whatever other things they need to do. Now there will be some school districts that will decide to use it perhaps other ways. They may decide to use it, rather than enhancing teachers' salaries, to lower property taxes, or they may decide to increase the superintendent's salary, or whatever. But the point is, our mechanism counts on that local control and that local decision-making that ensures that a part of that funding made available to school districts goes to support teachers' salaries. That's the way we do it. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: That's the way we have done it. In my opinion, that's the way we need to continue doing it. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes. Senator Loudon. [LB988]

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SENATOR LOUDEN: Thank you, Mr. President and members of the body. I would like to point out, as Senator Carlson mentioned about the school lands and some of them, there are certain criteria now that those school lands can be sold. If you have the lease on the school land, you can petition to have that sold if there is certain criteria met. So they are being put up for sale from time to time. Also, that is where your state apportionment comes on. And when you look on one of these sheets here and you see other receipts and stuff, a lot of that is what we always call state apportionment. And that's divided up amongst...on a per pupil basis amongst the children in the state of Nebraska of school age, and that is money that usually comes from the income off of the school trust fund or out of the school lands. At the present time those school lands do pay taxes, and it's called in lieu of taxes, and the counties that have school lands do receive taxes. And they have to pay their taxes just like any other piece of property. One thing I would like to ask while we're talking about teacher pay and that sort of thing is, I wonder if Senator Raikes would yield for a question? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield to a question? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR LOUDEN: In Section 18, Senator Raikes, it tells how this teacher incentive pay is. Can you explain to me how that works, because I mean if you...? I understand the ratio. If you have a master's degree and doctor's degree and all that, the ratio goes higher and that's what you get the incentive for. But how does that work practically for an average school district, especially out in rural areas that don't have that many teachers? [LB988]

SENATOR RAIKES: Senator, it doesn't depend on the number of teachers. It depends on their level of education. And I think you described it correctly, the way it's...the actual mechanics are to calculate points, so to speak, for teacher education, depending upon the advanced degree teachers and how much advanced, if that's the proper phrase, their degree is. You compare that with the statewide average for advanced work by teachers. And then based on that ratio, you multiply a percentage of basic funding times that number, which, you know, doesn't provide a total compensation for a district that has the higher experienced... [LB988]

SENATOR LOUDEN: Well, how much money are we talking about? Like someone with a doctor's degree, how much money are you talking about? It would be a percentage of the salary they receive, or a percentage of the salary that is paid to the teachers statewide with a doctor's degree? [LB988]

SENATOR RAIKES: No, the mechanism is to assign points based on their advanced degree, whether it's a master's or a Ph.D. or some such thing. [LB988]

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SENATOR LOUDEN: Right, right. But I was just trying to... [LB988]

SENATOR RAIKES: And then use that...multiply that number times a percentage of basic funding. So the basic funding, rather than the salary of that particular teacher, is the driver for the amount. [LB988]

SENATOR LOUDEN: Okay, the basic funding of that school district then? [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR LOUDEN: Okay. And that's that point thirteen and three-quarter percent is what you would... [LB988]

SENATOR RAIKES: 0.1375 times the basic funding for the school district. Yes. [LB988]

SENATOR LOUDEN: Okay. And that would be, yeah, point thirteen and three-quarters percent... [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR LOUDEN: ...or thirteen thousandths of a percent, or something like that. [LB988]

SENATOR RAIKES: 13.75 percent, yeah. [LB988]

SENATOR LOUDEN: Yeah. Of the basic funding, and that would be like the entire basic funding for the school district is how that would work? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR LOUDEN: Okay. [LB988]

SENATOR RAIKES: It's converted to a per teacher adjustment. [LB988]

SENATOR LOUDEN: It doesn't...okay. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR LOUDEN: Now that would be providing they have enough teachers. If there's only one or two teachers like that in a system, then that would be back down to zero and they wouldn't be eligible for any of that, is that correct? [LB988]

SENATOR RAIKES: Well, it would never go below zero, you're right about that. But it

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would depend on the proportion, not necessarily the absolute number, but the proportion of advanced degree teachers in that school district compared to the statewide average. [LB988]

SENATOR LOUDEN: Okay. Now as we discuss that, say perhaps there's a school district in the district that I represent that probably has maybe 15 teachers, and there's probably 3 of them with a master's degree in there. Will that do that school or will that do those teachers any good because of the percentage, if the rest of them all had a bachelor's degree? [LB988]

SENATOR RAIKES: Senator, I can't really answer that question. You know which district it is. You can look on this chart and see if there is a teacher education adjustment, and that would be a first clue. [LB988]

SENATOR LOUDEN: Okay. [LB988]

SENATOR RAIKES: I'm guessing, with 3 master's degree teachers out of 15 it probably wouldn't, but I don't know that for sure. [LB988]

SENATOR LOUDEN: Well, that's the reason I asked because... [LB988]

PRESIDENT SHEEHY: Time, Senator. Time, Senator. [LB988]

SENATOR LOUDEN: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Louden. Members wishing to speak on FA230 to AM2367: we have Senator Schimek, followed by...Senator Schimek waives. We'll have Senator Hansen, followed by Senator Erdman, Senator Harms, Senator Gay, and others. Senator Hansen. [LB988]

SENATOR HANSEN: Thank you, Mr. President, members of the Legislature. Senator Carlson just told me the Nebraska score was 6-1. And so I asked him what that meant? And he said, the baseball game--Arkansas. Nebraska leads 6-1. The point is we all keep score. We either keep score at a baseball game, a football game, on taxes. We have winners, we have losers. Everybody keeps score. I don't think we can get away from that. Even if we make policy, we have to determine the winners and the losers. I was wondering if I could ask Senator Avery a couple of questions? [LB988]

PRESIDENT SHEEHY: Senator Avery, would you yield? Senator Avery, yield to Senator Hansen? [LB988]

SENATOR AVERY: Yes, I will. [LB988]

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SENATOR HANSEN: Thank you, Senator Avery. Last night, I was driving and I heard someone on the media, the radio media, saying that the Legislature was going to...it sounded like the Legislature was going to balance the state aid on the shoulders of the Lincoln Public School system. Last weekend I went home with the best information that I had that I could find, and I went and talked to some superintendents with the best information that I had. And they were telling me that it was actually a cut, and I assumed that it was probably a decrease in the increase that they were going to get. But I found out that it was actually a cut from the '07-08 budget. Today we were given a new list of information, so I assume that that is our best information. So I was looking through that. The amount of information we got today was not really all that alarming to me because I had looked through a lot of information. When we look at cow records and formulate which cows we're going to keep and all of that, there's winners and losers in that process, too. But, Senator Avery, the question I guess I have for you is why? And one more explanation. Lincoln County is next to Lancaster County, so as I was perusing over Lincoln County, I looked at Lancaster County--and the numbers changed over the weekend. The white copy that I took home showed that Lincoln was going to get a \$3.62 million increase in TEEOSA yesterday, but then today's copy, according to the yellow copy they get \$9.65 million, an increase of 18.9 percent. And then Waverly, also in Lancaster County, got 199 percent increase. So I was wondering if you could explain what the increases of those were? You did off the mike, so I'd like to have you do that for the record. [LB988]

SENATOR AVERY: Thank you for that question, Senator Hansen. It's my understanding that at least for LPS they undercounted the number of students--900 part-time kindergarten students were not counted. So when they were added in, that affected the outcome. Also, we originally had proposed that we drop the adjusted valuation and go strictly to the assessed value. That, we found out, had some unintended consequences. We also, I believe I'm permitted to say this, we discussed with the state property tax office and they were concerned that this might lead to lawsuits. So we came back and we raised the adjusted valuation to 96 percent, and that also affected those numbers. I'm sorry that in Lincoln County your districts are losing money. But as I explained to you and as Senator Raikes has said many times, this is an adjustment to what in the past was perhaps some overfunding to some districts. And it's painful,... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR AVERY: ...and I understand that and I'm sorry. But to make it fairer, I think LB988 needs to pass. Thanks for the question. [LB988]

SENATOR HANSEN: Okay, thank you, Senator Avery. Yes, I do want to point out that North Platte is going to lose \$1.07 million. Our sparser districts, the school districts are going to lose 8 percent, 9.5 percent, 16 percent. Our very sparse school, our one and only very sparse school is going to lose 26 percent. There are winners, there are losers,

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and I'm not going to vote for LB988. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Hansen. Senator Erdman. [LB988]

SENATOR ERDMAN: Mr. President and members of the Legislature, I rise to clarify some comments made by the Chairman of the Education Committee, just in case he didn't hear me correctly. My questions to him regarding Section 18 had absolutely nothing to do with who had control over these teachers' salaries in the state of Nebraska. And in fact, he's even admitted as much that this section has nothing to do to contribute to actually more pay for teachers in Section 18. It's more needs to the district, and the district can then do whatever they want to. He just said that as well. And so to somehow make the allusion that my point was that we as a state need to determine that, is actually factually incorrect. In fact, that bill was before the Education Committee. Senator Hudkins introduced that bill last year and the Education Committee killed it. It wasn't my idea to make teachers' pay schedule all be on one schedule. And what we've been doing, at least from my perspective today, is trying to understand what the bill does. I'm not throwing grenades at the Education Committee; others around here may want to. I'm trying to understand what this does. I have yet to ask about my specific districts. Do I have some that get hit? You bet. I've got districts that lose 30 percent of their state aid. I'm not talking about needs. Yeah, their needs continue to go up, but their actual aid dollars go down by 30 percent. I have no idea how that happens, except I'm going through the bill, section by section, to understand what the new provisions are, because they're not losing it under the existing program. That's what I've been doing. And so to Senator Heidemann's comments, I think they're spot-on. This shouldn't be about one district. This should be about the overall policy. And that's what we're trying to come to an understanding of, at least that's what I'm trying to do. So my questions to Senator Raikes on Section 18 were a matter of clarification. And I think he has adequately pointed out that there is no direct benefit to teachers' salaries if Section 18 is a part of this bill or not. There's the potential that a district that has more teachers with advanced degrees has a higher formula need, but there is no direction in the aid formula that it goes to pay for their salaries, nor is there any direction in that section that it actually provide a benefit to the district if they have an advanced degree in some unrelated area. It was simply a question about the process because for the first time we're putting this in our aid formula. This is not an easy conversation because of the complexity of this discussion. Try to read this bill and then explain it to somebody, in a minute, what it does. I can't even do it yet, and we've been talking about this for 7 hours. But what I haven't done is attack the members of the committee nor the Chairman for what they're trying to do. Now if we want to do that, then let's play ball--and we will keep score on that, Senator Hansen. But the fact is that's not what we've been doing today. I have to be able to go back and explain to my constituents, regardless of whether they're receiving this state aid, or whether they're going to be asked to make up the difference, or whether they're just simply interested in the impact to their school in their rural community about how this affects them. And I'm getting closer. But until--and this has

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been a tradition of the Education Committee--until the bill hits the floor and until there are amendments to read, you are pretty much wasting your time or spinning your wheels of trying to understand what they are before they get here. We've done it on LB126, we did it on LB1024, we did it on LB641, we did it on LB653, we're doing it on LB988. It is complex and things are moving. But we need to nail the target to the wall right here and understand what we're doing and why we're doing it. And that's what this discussion has been about. And if there are others that perceive some other intent, then I can't help them... [LB988 LB641 LB653]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR ERDMAN: ...because that's not my intent. I don't know what to do with LB988 right now. I think there are some strong policy arguments to be made about reforming our state aid program, not just for the financial stability of the state long-term to be able to afford it, but from the standpoint of the school districts that are affected by it, understanding how it operates. Not just for their benefit, but for the taxpayers of the state to know how this works locally, as well. As I said earlier, this is the most controversial, complex issue that will ever come before this Legislature. And I hope, Senator Heidemann and others that have pointed out, that we continue to have a discussion about the policy and not take potshots at members of the Legislature. I would ask that FA230 be withdrawn. [LB988]

PRESIDENT SHEEHY: FA230 is withdrawn. Mr. Clerk, you have items for the record? [LB988]

CLERK: I do, Mr. President. Thank you. Enrollment and Review reports LB1019 to Select File with E&R amendments. I also have amendments to be printed: Senator Erdman to LB961; Senator Erdman to LB959; Senator Hudkins to LB961. And that's all that I have at this time, Mr. President, thank you. (Legislative Journal pages 1001-1011,) [LB988 LB1019 LB961 LB959]

PRESIDENT SHEEHY: Thank you, Mr. Clerk. We will return to floor discussion on committee amendment, AM2367. Members wishing to speak: Senator Harms, followed by Senator Gay, Senator Heidemann, Senator Wightman, and Senator McDonald. Senator Harms. [LB988]

SENATOR HARMS: Thank you, Mr. President, colleagues. Senator Heidemann, would you yield for a minute? [LB988]

PRESIDENT SHEEHY: Senator Heidemann, would you yield? [LB988]

SENATOR HEIDEMANN: Yes. [LB988]

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SENATOR HARMS: Yeah, it is kind of shocking, isn't it? (Laugh) Senator Heidemann, you talked earlier about a model of taking LB988 and running it parallel for a year. Could you talk a little more about that and what your thoughts might be about that? I like that idea. It at least gives us some thoughts or how this thing is going to play out or how it might work, and we might be able to make some appropriate projections in the future. Could you share a little more about that? [LB988]

SENATOR HEIDEMANN: It would be my thought, and you would have to...this would be something that if everybody would agree and we would have to get the Education Committee to work with us, but to actually go ahead and pass LB988, but don't implement it until the year 2010-2011. Start compiling all the data that it's going to take to figure out what LB988 is going to do. And in between that time you would have to come up with some kind of mechanism just to get you to that point, whether it be temporary aid adjustment, or you could actually take parts of LB988 and implement them almost...you could implement them this year to access some money to help balance the state budget. But during this whole time you're going to find out what LB988 is not...with more data you're going to find out a little bit clearer what it's going to do and see how it plays out. It's not rocket science. We're not exactly going to have the system that we have right now, because we're going to modify it a little bit, unless you just do a temporary aid adjustment, and then actually you would be running the system side by side for a year or two. And if you did that, you could actually see how it played out. If you take parts of LB988 and do it a little sooner, then you wouldn't quite be comparing them anymore, but you would know what LB988 was going to do to you. [LB988]

SENATOR HARMS: Thank you very much, Senator. Senator Raikes, would you yield please? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HARMS: Senator Raikes, can you tell me what the average percentage of increase in state aid is, in general, for our public school systems? [LB988]

SENATOR RAIKES: State aid or spending or needs? [LB988]

SENATOR HARMS: No, just state aid--just the amount of money we give them, not in spending. Do we know how much state aid is an average we'd give to our public school system? [LB988]

SENATOR RAIKES: I don't have that on top of my head. I would tell you that there have been years, within the last four or five, where the state aid number has actually gone down. And you may know that as well. [LB988]

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SENATOR HARMS: Yeah. Would you say it's close to 50 percent? [LB988]

SENATOR RAIKES: Fifty, did you say fifty? [LB988]

SENATOR HARMS: Yes, 50. [LB988]

SENATOR RAIKES: I'm sorry, Senator. The question is, how much of our total budget goes to state aid? [LB988]

SENATOR HARMS: No. What I'm saying is...well, that would be fine. What I'm trying to get to, you talked about local control, and what I'm looking at in the percentages that each school might get, anytime you start pushing over 50 percent, my question is, where does the Duis amendment fit into here? And do we actually have local control or not? That's really what I'm driving at is the Duis amendment and does that fit, because if you're getting more than 50 percent money coming from the state, then you don't control much of your school system. We were talking about salaries and this whole thing. I'm beginning to wonder and question whether or not we actually have local control? [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: Well, certainly the concept we operate under is that we do have...we do have a partnership between the state and the local school district. The state is responsible for education constitutionally, as you know. We divide the funding responsibilities between state and local. And we have statutes that govern what school districts, school boards can do, in addition to how much they can levy. Now I am certainly not expert enough to tell you what the legal ramifications are via the Duis amendment or something else. But I can tell you that that is the general mechanism under which we've operated. And I will also tell you that we've left the question of teachers' salaries to the local school boards to determine. [LB988]

SENATOR HARMS: Thank you very much, Senator. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Time, Senator. Time. Senator Gay. [LB988]

SENATOR GAY: Thank you, Mr. President. Listening to Senator Harms, I couldn't agree more, there's a certain...the uncertainty of this into the future is just something don't want to look at. Everyone is looking at this, how is it affecting...who's the winners, who's the losers. And that's the way it happens. I looked from last Thursday to...I think last Thursday to today, my school district picked up \$2.9 million. They're still losing a little bit of money, but not enough to worry about. So I have a different position, I guess, than many of you. But even then, still look at this thing, how it can change so much in just

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one day. But when we look at the total, 10 percent, you know, well, it's better than 17, I'd agree on that--but 10 percent spending overall. And we have a formula that is changing, you know, as we speak day to day. It's just too much. I mean if we have some kind of amendment out there where we delay it and look side by side where we're at, it's just...that's the way to go. When we talk about school...teachers' salaries though, I do think...I disagree a little bit with Senator Adams, what he was saying. And I know he's very passionate. He had that bill earlier. And he's passionate when it talks about salaries. I am too. We just have a difference of opinions. But when school districts are receiving 35 to 40 percent of their budget, we are a partner with those school districts. And we're telling them what to do in this bill on many things. We're talking about class size requirements, we're talking about levy limits, we're talking about...we're moving things all the time--poverty. So we are a partner. And I think it is right probably at some point to talk about, well, where is an incentive maybe to pay teachers more? How do teachers help with poverty? So I do think the discussion is probably pertinent at this point. There are some ideas we heard today that were probably new ideas that the rest of us get to hear and talk about that aren't on the Education Committee. So I think there's some important issues being done here. We had a component where we could have taken some of this savings and moved on earlier. And that was removed from the Appropriations bill so we could discuss this today. Where is...why could we not add that onto here or delay dates? And maybe that's what we need to look at. So if we have a delayed implementation on this thing and we come back, I don't know how that would all work. But there are still a lot of questions, I think, on this. I'm at fault like the rest, because I guess some of the solutions we're not coming up with, but that's what we need to be looking for. So as we look at the big picture I understand where you could be swayed into doing that. But two, three years, four years down the road or longer, I mean we're putting this into the base budget the way I understand it. So maybe I'm misunderstanding it wrong. But would Senator Raikes yield to a question? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR GAY: I'll just...I see the senator is working his way there. The question I would have for Senator Raikes is, when we put this money into the budget, does it go into the base budget that will continue to be built along, or does some of this fade away as we go along? How does this work in long-term budgeting that Senator Harms was alluding to? How would this change that budgeting? [LB988]

SENATOR RAIKES: Senator, we, I shouldn't say always, but for as long as I've been around here have included funding the state aid to schools as a matter of the budget. We've had a number of different formulas, revisions of the formulas, and so on and so forth. So we've always included it. We've revised... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

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SENATOR RAIKES: ...the funding amount according to whatever changes we made in the formula, and also as to whatever our expectations were regarding such things as valuation changes. [LB988]

SENATOR GAY: Some of these changes though, Senator, is Senator Heidemann off that it could not be delayed and we could have a comparison? Is that just not (inaudible). [LB988]

SENATOR RAIKES: Well, you could. Probably you could do anything. And certainly it's up to the body. You could kill the bill right now and then it would be delayed for a very long time, probably. You know, some of the concerns raised, and obviously the reason I don't want to do that is I think this is a good policy change. I think it's something we ought to do. You bring up the issue of, gosh, I want to know exactly what's going to happen with this formula for each year of the next umpteen years. You don't know that about the current formula. And in fact you are fairly well...I think if you look at the information, you've got to be concerned about some of the inequities that are in the current formula. [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR RAIKES: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Gay, Senator Raikes. Senator Gay, that was your third time on AM2367. Senator Heidemann, followed by Senator Wightman, Senator Langemeier, and Senator Flood. Senator Heidemann. [LB988]

SENATOR HEIDEMANN: Thank you, Lieutenant Governor and fellow members of the body. Would Senator Raikes yield to a quick question? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield to a question? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HEIDEMANN: Is LB988 good policy in '08-09, in school year '08-09? [LB988]

SENATOR RAIKES: I believe so. [LB988]

SENATOR HEIDEMANN: Is LB988 good policy in '09-10? [LB988]

SENATOR RAIKES: I believe so. [LB988]

SENATOR HEIDEMANN: Is LB988 good policy in '10-11? [LB988]

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SENATOR RAIKES: I believe so. [LB988]

SENATOR HEIDEMANN: And if that's the case then, why the fear of delaying it? If it's good policy, and I know you have a fear of slowing it down, but if it's good policy, if we delay it, we will be convinced and embrace it. I think a lot of problem that we have right now, or a lot of reluctance to move forward is that we don't totally understand it. And we don't totally understand what the current formula does all the time. We have a better understanding of that, though, than we would of LB988. Because how is LB988 going to affect us in year three? Briefly. (Laugh) [LB988]

SENATOR RAIKES: Senator, let me turn that around. If LB988 is good policy in 2015-16 or whenever you want to delay it to, isn't it good policy this year? And to just respond quickly--or this next year--just to respond quickly, there are some characteristics of the current formula that I think are going astray and have gone astray. The longer you let that go, the more difficult it is to make the adjustment that is needed, both for the Legislature and for the affected school districts--the Legislature in terms of the members dealing with the school districts, as well as the budgetary impacts. So if you have...I'm not saying you rush into something blindly, and I've also argued that this is certainly not something we have rushed into blindly. We've been working on this since 2002. Parts of it have been implemented. This basically would include some more parts of it. So that's my position on that argument. [LB988]

SENATOR HEIDEMANN: And we actually agree on something. There are some inequities out there, aren't there? Yes or no. [LB988]

SENATOR RAIKES: I believe so, yes. [LB988]

SENATOR HEIDEMANN: And I agree with that. And there probably won't be a whole lot of people that would argue that, even the people that have the inequities, that are probably getting too much. But those inequities have taken place over the last ten years and we've seen them. And I don't know what it would hurt to delay it one year or two years. If those inequities have been there for ten years already, how much more would it hurt? And you have to admit, when you're talking about how much it costs the state of Nebraska, even though there are inequities, it's a very small amount compared to how we are funding the larger school districts. [LB988]

SENATOR RAIKES: Did you say one year or two years? [LB988]

SENATOR HEIDEMANN: I think the discussion is '10-11. [LB988]

SENATOR RAIKES: Well, you know again, I think that the longer you put off a needed change in policy, the more difficult it makes it, and also you're left with what I believe is

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a fiscally unsustainable provision in place currently. Now you can say, well, we're going to cobble something up... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...so that we take care of the fiscal problem, but we're not going to do the policy change. And I would argue, what sense does that make? You don't know what you're doing in terms of individual school districts. I really thing that you need to address both issues at once. [LB988]

SENATOR HEIDEMANN: It would give you an opportunity, though, to see how LB988 played out. And if it is going to be good policy in '08-09, '09-10, '10-11, you will be right. And we're going to move on with LB988. And we won't...you've told me before that there's never a major policy decision that we don't have to go back and tinker with. Yes or no? [LB988]

SENATOR RAIKES: Yeah, except the ones that I've been involved in. (Laughter) The ones you are involved in are the ones that... [LB988]

SENATOR HEIDEMANN: He has told me that there will probably have to...you will have to tinker with this. And why not get it into place and start running it and tinker with it before it becomes...you implement it instead of after? [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR HEIDEMANN: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Heidemann. Senator Wightman, and this is your third time, followed by Senator Langemeier, Senator Flood, and others. Senator Wightman. [LB988]

SENATOR WIGHTMAN: Thank you, Mr. President, colleagues. I have some questions and some discussion I'd like to have with either Senator Raikes or Senator Adams. But since I talked to Senator Adams off the mike, I probably would direct them at him, if he would yield. [LB988]

PRESIDENT SHEEHY: Senator Adams, would you yield? [LB988]

SENATOR ADAMS: Yes, I would. [LB988]

SENATOR WIGHTMAN: One of the things I see coming up down the road as we apply LB988 or whatever funding formula we have is I think there is going to be a tremendous shift in property values from the east end of the state to the west end of the state in the

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next couple of years due to two things: rapidly escalating values of farmland and declining values of residential property. Do you think that's a fair statement? [LB988]

SENATOR ADAMS: I think that probably is, Senator. [LB988]

SENATOR WIGHTMAN: And I just did some figuring here. For example, our \$2,000 land is probably selling for \$3,500 now, some of it maybe \$4,000. And I know you gave me some instances that probably would indicate even a 50 or 60 percent increase perhaps in the last year or two. [LB988]

SENATOR ADAMS: That's correct. [LB988]

SENATOR WIGHTMAN: As an example, if Dawson County was one-third ag value, and let's say it went up 35 percent and let's assume that residential values remained about stable in these ag counties, primarily ag counties, which I think will be the case because I think they're going to have a much stabler market than the primarily urban counties, that might translate into an 11 or 12 percent increase in Dawson County. And I think you indicated in York County it might even be a little higher than that. Would that be a fair statement? [LB988]

SENATOR ADAMS: I think, potentially, yes. [LB988]

SENATOR WIGHTMAN: And I think probably in Senator Fischer's district we might see a 90 percent increase because, or 90 percent ag land, which assuming it went up 40 percent could be as high as a 36 percent increase in her district. Of course, again most of her district is probably not being equalized. By the same token, because of the sub prime lending, I believe we could see Lincoln and Omaha, Lancaster County and Douglas County drop by 10 percent. Do you think that would be a fair estimate? [LB988]

SENATOR ADAMS: I think it's possible, certainly. [LB988]

SENATOR WIGHTMAN: So can you tell me, down the road, what that would do to your formula funding? And I don't really think you'll be able to give me a very definitive answer. But it is going to shift the state aid, under the formula, a great deal to the population centers, would it not? [LB988]

SENATOR ADAMS: It would seem to me that it would have to. You're right, I don't know how to definitively predict or describe any of that, but based on the scenario you've described. [LB988]

SENATOR WIGHTMAN: And that probably doesn't tell us anything other than that these formulas are in a constant state of flux and we're going to have to review them from year to year. And you probably can't get very accurate in any given year because

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valuations have already changed substantially that aren't reflected in any formula funding right now. Would that be true? [LB988]

SENATOR ADAMS: I think that's probably right. You know the intention of an equalization formula is to try to smooth that out as much as we can across the state, what we're spending on students as well as tax rates, but there are variables that can mess that up on any given year. [LB988]

SENATOR WIGHTMAN: But the end result, you agree, could be a substantial shift in the formula funding from one area of the state to the other? [LB988]

SENATOR ADAMS: Just population alone. That too is going to make a difference in that shift. I would agree with you. [LB988]

SENATOR WIGHTMAN: Thank you, Senator Adams. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Wightman. Senator Langemeier. [LB988]

SENATOR LANGEMEIER: Mr. President, members of the body, I'd like to ask Senator Heidemann a question... [LB988]

PRESIDENT SHEEHY: Senator Heidemann, would you yield? [LB988]

SENATOR LANGEMEIER: ...if he would yield. [LB988]

SENATOR HEIDEMANN: Yes. [LB988]

SENATOR LANGEMEIER: Senator Heidemann, thank you. Your idea of delaying this two years is intriguing to me. And if we get over the idea of my districts, none of them really get helped, none of them really get hurt, so if you're looking at just the dollars and cents. But if we're looking at a policy standpoint, I do want to ask one question about the numbers. And I've already told you what page to look at. But on the blue pages there, let's take Schuyler, for example, where I live. They currently get \$5.5 million in state aid. The calculate...the mighty computer that tells us all what to do on state aid kicked out that they should be \$6.8 million for '08-09. You with me so far? [LB988]

SENATOR HEIDEMANN: Right. [LB988]

SENATOR LANGEMEIER: And if we adopt LB988, they get \$6 million, so they're down \$800,000 of an increase that they were going to get, instead of getting basically...they still gain. My question is, if we delay this two years, and we've talked about this already, but let's say we delay it and they get \$6.8 million, like the computer says they should

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get. And then in two years we got to come back and cut them, I'd hate to have them build a budget on getting \$6.8 million and then have to come back and cut. Now you've told me that they won't get the \$6.8 million, and that's what I want you to elaborate on is how they wouldn't get that to prepare in these two years? What do we do in these two years, I guess, is my question? [LB988]

SENATOR HEIDEMANN: I think it would be in the '07-08 year, we still have temporary aid adjustment. And this is something that was put into place during the tough years of the early 2000s. We could take that kind of mechanism and a temporary aid adjustment, and this is somewhat by memory, but I believe the temporary aid adjustment saved the state of Nebraska \$30 million. You could take a mechanism like that and either save the \$30 million, which is going to take probably a little bit away from everybody for the '08-09 year and '09-10 year and make it work, and that would be your transition. If you needed more than \$30 million, you could increase the rate of the temporary aid adjustment and access \$40 million, whatever you set it at, \$50 million, or \$60 million. You could get yourself out of our budgetary problems with a temporary aid adjustment, and you could have a transition into LB988. [LB988]

SENATOR LANGEMEIER: But the years we did that temporary aid adjustment was the same year we didn't go from \$1.05 down to \$1, correct? We left them have the \$1.05... [LB988]

SENATOR HEIDEMANN: Correct, and they accessed... [LB988]

SENATOR LANGEMEIER: ...when we changed their aid, so we then would push that back to property tax. [LB988]

SENATOR HEIDEMANN: Well, the temporary aid adjustment was with the \$1.05, but it wasn't...and it wasn't the same thing. The \$1...not going to \$1 and keeping it at \$1.05, they accessed \$56 million, approximately, more property tax. The temporary aid adjustment is different than that, at least that's the way I understand it. This adjusted their aid, but allowed them to access more property tax. Not all of them did that. [LB988]

SENATOR LANGEMEIER: Okay. Well, thank you for answering the question. And I look forward to a proposal that you may offer here in the coming hours to try and deal with that, and I appreciate that. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Langemeier. Mr. Clerk, you have an amendment on your desk. Senator Christensen, followed by Senator Erdman on AM2367. [LB988]

SENATOR CHRISTENSEN: Thank you, Mr. President. I just want to have you think about the precedents we're setting here by changing this. We certified our schools in

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February. If we turned and put this enactment right now, we have just turned our back upon the schools that we certified with the amount of money that they had to use. Delaying this at least allows schools to plan. But they've already signed their contracts, they've set up their plans for the year. Now we're stepping in, one month later, and saying they got to recertify, they have to redo everything, which is not good policy for this Legislature. We're going down a difficult road right now if we go back on our schools on what we told them just a month ago in our certification. We need to think about what we're doing here. At least if you delay it, you can look at it. It kills my districts, I'll be honest with you--42 percent hits, 36 percent hits. It's not pretty. But at least give them time to plan. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Christensen. Senator Erdman. [LB988]

SENATOR ERDMAN: Thank you, Mr. President. Would Senator Raikes yield to a question, please? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Senator Raikes, we have spent all day on this bill and specifically this division. My question is, if we go forward, if the bill goes forward, if the amendments are adopted, what middle ground is there? Is there any interest in Senator Heidemann's amendment? Are there opportunities for individuals to sit down with you or other members of the Education Committee as we go forward? I kind of want to know that because obviously that will impact it. This is it. If we have to vote on this bill as it's proposed by the committee, kind of practically how do we go forward? How do you see this going forward? [LB988]

SENATOR RAIKES: Senator, it's I think a very good question. And I don't want to offer something that I won't honor when push comes to shove, so to speak. But I will tell you that I am very concerned that we need to address inequities in the formula and we need to address the fiscal sustainability of the formula. Senator Heidemann has proposed that we delay the implementation of the formula for...until 2050, I think, (laugh) is what he's.... We have talked about what is a reasonable middle ground on that. And then if you did something like that, what would you do in the meantime? Those are all, I think, productive discussions that we could have. I am not going to tell you that as of this moment there is agreement, but I think that there is certainly room for discussion. [LB988]

SENATOR ERDMAN: Okay. Thank you, Senator Raikes. Members of the Legislature, I look at the next 25 years of our budget and I see the reality coming down the path. Whether it's this program or other programs, I think Senator Raikes has pointed out an

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obvious issue that's facing us. The sooner we have the ability to address that, the more options we have on the table. That's the same with this program or other programs. I'm not completely comfortable with LB988. And I'm inclined, and this is an inclination not a commitment, but I'm inclined to see this bill go to Select File. It may not happen today, but I'm inclined to see that we have a meaningful conversation about what some of these solutions might be. I think if we don't, I think that's potentially...depends on how far you want that to go to be irresponsible. I think it makes it harder for those of you that will be here after this session and into the future to make decisions, not because of those of us who are here, but because you're losing time. You're losing time before the imminent danger hits. And I will tell you that when you get to the year 2017 and you're cutting state programs, state agencies, just to fund this program, including the university, that's not a discussion any of you are going to want to have. I again am not comfortable with LB988. And to be candid, state aid is probably the most complex part of education law that we have. And yet we delayed the implementation of the learning community bill one year, we delayed the implementation of the assessments bill one year, we're delaying the implementation of other educated-related matters at least a year. If those were as important as they were and yet we're understood that it was a philosophical or practical opposition to the timing, then why doesn't this one qualify either? Now, under that theory, you still potentially have an impact on the budget in the short term and most likely long term, but we already have that. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR ERDMAN: At this point I'm not interested in voting against the bill because of the potential of solving the problem. I'm opposed to the bill in the form that it's in. But I'm open, and this may come back to bite me as it has in the past, whether it's Class I's or others, to be a part of a meaningful conversation to figure out what that might be. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Erdman. Senator Flood, you're next in the queue, or we can go to Senator Raikes to close. Senator Flood waives. Senator Raikes, you're recognized to close. [LB988]

SENATOR RAIKES: Thank you, Mr. President and members. It's been an excellent discussion. I appreciate your comments. And obviously I would appreciate your support for advancement of this, or adoption, I should say, of this amendment. It is a significant part of the LB988 proposal. It deals with the needs formulation and the reformulation of the needs calculation and thereby is a critical part of the formula. The discussion has, I think, generated understanding, I hope, on the part of several of you. I know it has been the same for me. I have been made more aware of some of the concerns you have and have gotten...been forced to scramble around and learn a little bit more about some of the provisions of both the existing law and this proposal as a part of doing this. I do believe, as I said in response to Senator Erdman's question, that we need to move

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forward. We have issues that we need to address in the aid formula. There are equity issues that we need to address. And I firmly believe that the sooner we address them the better. So that, obviously, is a driver for me. I am absolutely concerned about fiscal sustainability. I don't think we can put that off. So I am particularly interested in LB988 because it is a way that we can address both of those issues in the same proposal. I'm interested in having discussions, as we talked, but at this time I would ask your support to adopt this amendment so we can move on. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes. You have heard the closing. The question before the body is the adoption of AM2367. All those in favor vote yea; opposed, nay. Please record, Mr. Clerk. [LB988]

CLERK: 28 ayes, 10 nays, Mr. President, on the adoption of the first component of the Education Committee amendments. [LB988]

PRESIDENT SHEEHY: AM2367 is adopted. [LB988]

CLERK: Mr. President, the second component of the committee amendments, Senator Raikes, I now have AM2368 in front of me. (Legislative Journal pages 993.) [LB988]

PRESIDENT SHEEHY: Senator Raikes, you're recognized to open on Education Committee amendment, AM2368, to LB988. [LB988]

SENATOR RAIKES: Thank you, Mr. President and members. Thank you for the support. Somehow I lost my sheet which describes exactly what is in this amendment but...or division of the amendment, I should say. Thank you. This one deals with some particularly important provisions regarding the use of spending information to arrive at the needs calculation, and particularly relevant because this accounts for, I've mentioned, a reduction in state aid of approximately \$50 million. As near as I can tell, and I may be off a little bit, the provisions in this section probably account for about \$20 million of that reduction. They involve the following sorts of factors. For one, currently, and it was unbeknownst to me, in using General Fund operating expenditures to arrive at the needs calculation, we had been including expenses by school districts that were other than those that were obtained through either local or state funding. So, for example, if you had a school district that received a donation either in-state...from either an in-state or out-of-state source that was used to fund a particular program in that district, that amount of expenditures was used in the calculation of needs, and therefore, committed the state to that amount of funding. And as you know, several of you that have dealt with this sort of an issue know that that has typically not been our practice. That if, for example, you have a federally funded program, the federal funding dries up. You come to the state and say, well, gosh, my federal funding is gone, so state you need to pick up the funding. Generally speaking, certainly the answer has not been a uniform yes. Maybe in a few instances that's been done, but it hasn't been typical. So

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that's one of the changes that's made here. Another change deals with student growth. There was a double counting, or there is currently in statute a double counting of student growth. Student growth gets counted, in that as you multiply the cost per student times the number of students, if you have more students the needs number goes up. So that's one way. But also there was a provision that allowed for the cost growth factor itself, the multiplier, to go up as student numbers went up. So that, again, was a correction we made, and again amounted to a significant--I can't remember exactly the number--but amounted to a significant difference in the amount of funding. Finally, the cost growth factor is reduced in LB988. The cost growth factor is the number used to bring two-year-old expenditure data up to the period for which we're certifying needs. It was 1.07 or is 1.07 in current statute. This would reduce it to 1.06. All of these provisions lend themselves to the sustainability, the fiscal sustainability of state aid, both in the upcoming year and the years thereafter. So I would be happy to address questions, but I think these are provisions that we need to include. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes. You have heard the opening of the second division, AM2368, to LB988. The floor is open for discussion. Members wishing to speak, Senator Fischer. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. Senator Raikes, do we have a handout that deals with any of these provisions that you just went over? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR FISCHER: I'm sorry. Would Senator Raikes yield? [LB988]

SENATOR RAIKES: Senator, a handout. Surely there's one that deals with this; you've got so many. There would be...I guess I would say that the answer to that is indirectly only, Senator. It's incorporated into the general funding numbers. [LB988]

SENATOR FISCHER: Is it in this? Do we have it? [LB988]

SENATOR RAIKES: I forgot about that one. You're right, there is a handout which says LB988 as amended by committee amendments, and general funding operating expenditures. That section deals with this division of the committee amendment. Thank you for pointing that out. [LB988]

SENATOR FISCHER: Senator Raikes, where funding now will be excluded from outside sources, could you give some examples of what those outside sources would be? [LB988]

SENATOR RAIKES: Senator, if you decided to take \$10 million out of your petty cash account and donate it to Broken Bow Public Schools for a program that they

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implemented, which would then end up as a part of their General Fund operating expenditures, under current practice that then would...or that amount of money, that whatever, \$10 million or whatever it was, would drive the needs calculation for the state so that, in effect, the state would be asked to pick up that contribution from thence forward. [LB988]

SENATOR FISCHER: On the transfers then to building and bond funds that are excluded, could you give some examples of those? [LB988]

SENATOR RAIKES: I don't know that I have an example, but I could...I'll certainly try to get one for you. I don't have one, though, that is meaningful right at the moment. [LB988]

SENATOR FISCHER: Do you know where the...are you talking about transfers from General Funds that would then go into a district's bond or building fund? [LB988]

SENATOR RAIKES: Yes, either...yeah, it would have to be a General Fund transfer to impact this because that's the pot of money, if you will, that drives the needs calculation. [LB988]

SENATOR FISCHER: Okay. The levy overrides, currently can you have the proceeds from a levy override in the operating expenditures under the current formula? [LB988]

SENATOR RAIKES: Right. If a local district passes an override, uses the money to fund operations, then that amount of money goes into the, again, the pot of money that's used to drive needs. This provision would suggest that, beginning in 2010-11, those funds would no longer be included. And again, the concept behind it is that that is a local decision, a local spending decision that should impact what is done locally. That local vote should not commit the state thereafter to funding that amount of money. [LB988]

SENATOR FISCHER: And then the growth by 6 percent. Currently, it's at 7 percent? [LB988]

SENATOR RAIKES: Seven percent plus the student growth component that I mentioned, and that is a factor I think that appeared in recent years. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: And I think it was just the standard cost group, if I'm not mistaken, and there was enough growth in that cost group that it caused that component to appear. So I think in this past year the actual cost growth factor was one point...or it was 7.8 percent. So we're eliminating that and dropping the basic growth to 6 percent.

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[LB988]

SENATOR FISCHER: That 6 percent growth then, that doesn't count the student growth anymore, though. Is that right as I'm reading this? [LB988]

SENATOR RAIKES: Well, yeah. That would grow...that would grow the expenditures 6 percent per year, or actually not 6, a total of 6 percent for the two-year period to get from the expenditure information to the needs calculation. And again, you're right, student numbers are being taken into account in... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR RAIKES: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Fischer, Senator Raikes. [LB988]

SENATOR FISCHER: Thank you. [LB988]

PRESIDENT SHEEHY: Senator Gay, followed by Senator Fischer. Senator Gay. [LB988]

SENATOR GAY: Thank you, Mr. President. I'd yield my time to Senator Raikes, if he wants to follow up that question he was just. [LB988]

PRESIDENT SHEEHY: Senator Raikes. [LB988]

SENATOR RAIKES: Thank you, Senator Gay. To finish up on that, the cost growth factor is the mechanism that's used to move the expenditures, the actual...the most recent available information we have that we use to drive needs, the two years forward to get to the needs number. And obviously that's an important factor in not only the total obligation of the state in terms of needs and state aid, but also an important factor in how quickly that grows from one year to the next. So if you're looking at sustainability over time and whether or not state aid might skyrocket off into some large number, unmanageable number in the future, this reduction from 7 percent to 6 percent is an important part of that. So I'll stop there. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes. Senator Gay, you have 3 minutes, 40 seconds. [LB988]

SENATOR GAY: Thank you, Mr. President. Senator Raikes explained some of the savings. He said this is about \$20 million of the \$50 million we're getting at. Coming up, so I can look on the other amendments, where's the rest of the savings going to happen, Senator Raikes? [LB988]

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PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Senator, I didn't quite...I heard \$50 million, but I didn't hear the rest of your question. [LB988]

SENATOR GAY: Senator, you had mentioned, I think, when you stood up, you said this is about 20...this is an important part, it's about \$20 million of the \$50 million we're going to retrieve. But where is the other \$30 million, looking ahead? Was it in the past or is it coming up in future amendments? [LB988]

SENATOR RAIKES: No. The \$50 million that you're talking about would be for, if you recertified the February 1, it would be \$50 million less than the recertification. So the various sources are...I think there's some saving that results from the change in assessed versus adjusted and that local effort rate change. I'll have to puzzle on that a little bit. I don't remember exactly right now the other sources, but I'll work on that for you. [LB988]

SENATOR GAY: Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Gay. Senator Fischer. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. Senator Raikes, on this sheet that we were looking at before and we talk about the General Fund operating expenditures, I think Senator Gay was referring to that in how much money will be saved under this proposal. And I'm sorry; the Speaker came over so I did not hear your answer. [LB988]

SENATOR RAIKES: You didn't miss much. My answer was... [LB988]

SENATOR FISCHER: Well, but I paid attention to the Speaker so that's all that matters. [LB988]

SENATOR RAIKES: Okay. But at any rate, in this particular case it was a wise choice because I didn't have an answer that was worth listening to. [LB988]

SENATOR FISCHER: Oh. [LB988]

SENATOR RAIKES: I'll work on that, but I think this is about \$20 million. There is some reduction in state aid that comes from the change in assessed versus adjusted. Actually, the...I think maybe those three areas are the dominant part of it: assessed versus adjusted; the cost growth factor; and the refinement, if you will, of General Fund operating expenditures as a base for calculating needs. So I think those three areas are

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really the significant parts. [LB988]

SENATOR FISCHER: And what was the total on those three, please? [LB988]

SENATOR RAIKES: I didn't quite hear you. [LB988]

SENATOR FISCHER: What was the total dollars saved on those three parts then? [LB988]

SENATOR RAIKES: Well, I think that's most of the \$50 million, but I don't have an actual accounting for you. I'll work on that. [LB988]

SENATOR FISCHER: May I ask how you determined these General Fund operating expenditures, how you determined what was going to be cut in that? Did you have examples from other districts? Did you just look at total amounts that districts were spending in this area or did you target certain examples in districts? [LB988]

SENATOR RAIKES: The latter, Senator: targeted instances in which there were funds being spent by a school district that were supplied to that school district by other than either local taxing sources or state-funded operations. So federal funding, to some extent, and then other private contributions if...I'm not sure that was a huge factor but that was another item that was included. Federal funds were actually...amounted to some significance. [LB988]

SENATOR FISCHER: I know that Bellevue school district receives a very large amount of federal funding in their impact aid. How does Bellevue come out on this in the future? Will that impact aid suffer? Will it cause them harm in the changes in LB988? [LB988]

SENATOR RAIKES: Well, it's a good question and, you know, I think that the impact aid received by the Bellevue school district is maybe comparable to impact aid received by some of the districts serving Native American students. The idea behind that aid, particularly the impact aid, is that--and I think this was hashed out in a court case or two which happened before I was around here--but the idea is that that money is to be provided by the federal government for that school district to deal with situations they have above and beyond whatever is covered in the state-funded or locally funded components of the district. So I think... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...in Bellevue's case, it amounts to roughly \$12 million a year, but I might be quite a ways off on that. [LB988]

SENATOR FISCHER: I believe I remember when I was looking through one of the

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printouts earlier today that Winnebago school district loses a significant amount of money too. Is that because of the Native American population in that district and does that deal with federal funding also? [LB988]

SENATOR RAIKES: I don't think that would, Senator. I'll have to look at that because I don't remember that district particularly, but I'm guessing if state aid goes down for that district it's probably got more to do with valuation increases in that district compared to the number of students. But I'll have to look to say for sure. [LB988]

SENATOR FISCHER: Okay. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Fischer. Senator Gay, followed by Senator Fischer and Senator Carlson. Senator Gay. [LB988]

SENATOR GAY: Thank you, Mr. President. Senator Raikes, would you yield to a question? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR GAY: Thank you, Senator Raikes. Senator Raikes, on that federal funding, so you're talking...and I think this is a good...so if you receive federal grants, what kind of...you said there's some significant amount of money, and what's that...how much is that? I mean, what idea? And what kind of grants are they getting? This is just because I've never been on a school board. I'm not familiar with how these are funded. But is that going on a lot throughout the state where you get federal grants? And then that should be up to the local effort and we shouldn't then continue on these grants, nor be asked to continue the grants, but can you explain that a little further? [LB988]

SENATOR RAIKES: Senator, probably not to your satisfaction in a sense that I don't have a good listing of those. My impression is that it's not evenly distributed across the state. There are some school districts that receive relative bigger percentage of their budget from those kinds of programs as compared to others. But the basic idea that if it is a grant program, federal or otherwise, and most of them would be federal, that the school district receives the grant, spends the money. And the way we do, I think as you know, in other programs, you got the grant, you spent the money, the grant is gone. You still want to do the program, so do you have a right, so to speak, to commit the state to continuing funding that program? And the answer is no. Typically, the answer is no. [LB988]

SENATOR GAY: Yeah. So...and that's a good...and that is good that we...you're right, we shouldn't be on the hook to continue what would be a local program. Another thing

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you had mentioned on student growth, you said that's sometimes being counted twice. Can you...how does that work? I mean where (inaudible)? [LB988]

SENATOR RAIKES: Well, there was a provision that actually included student growth or, you know, an option for an increase in student growth right in the cost growth factor. So, for example, if you've got a cost growth factor of 7 percent, which it is, so you multiply the number of students. You increase it and you multiply it times the number of students. If the students grew at the same time the costs grew, the product is, of course, going to grow by both of them. But there was, in addition, a component that caused the cost growth factor itself to go up, in addition to the increase that would be experienced by multiplying the number...the cost per student, if you will, by a higher number of students. So it really was a double counting of student growth. And that's in the current formula. It would be eliminated by this provision of LB988. [LB988]

SENATOR GAY: Okay. So on the...if a...and I don't know if this happens a lot either, but if there was a school foundation adding money in there, they can't use that either then, right? So they're on their own on that. [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR GAY: We're not matching... [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR GAY: ...school foundation money. [LB988]

SENATOR RAIKES: Conceptually, that is exactly the theme, that if this is a, you know, if there's no effort to discourage this sort of thing, you know, it's certainly well received, but you don't allow a local group to commit the state on an ongoing business to an expenditure program. [LB988]

SENATOR GAY: All right. Thank you, Senator Raikes. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Gay. Senator Carlson, followed by Senator Heidemann. Senator Carlson. [LB988]

SENATOR CARLSON: Mr. President and members of the Legislature, I would like to, as Senator Stuthman would indicate, engage in a little conversation with Senator Raikes. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

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SENATOR RAIKES: Yes. [LB988]

SENATOR CARLSON: Senator Raikes, you heard my comments earlier about school lands. What do you think of the idea of selling school lands and investing that money and using the income for education? [LB988]

SENATOR RAIKES: Senator, that is an interesting proposal and one, I think as you know, that's been kind of around the horn a few times within the Legislature. I think currently, if I'm not mistaken, there is about \$500 million that is accumulated funds from sales of school lands and other sources, but there still is something over a million acres, if I'm not mistaken, of school lands that are held by the Board of Lands and Funds and are being operated by them. So...go ahead. [LB988]

SENATOR CARLSON: Okay. I don't know...I don't know anything about this, but do you have any idea how the \$500 million that's in cash, how is that handled? Who's in charge of that? [LB988]

SENATOR RAIKES: Senator, my understanding is that it's invested and the Investment Council, I believe it's called, does that. There are two funds. There's the school something fund and also a temporary fund. The receipts go in one fund and I'll have to read up here to find out exactly how that works. But basically it's managed and controlled by the Nebraska Investment Council, and the monies then are, as you know, the earning of that are distributed to school districts on a per capita basis, I believe. [LB988]

SENATOR CARLSON: I think...I think you're right on that. And I was told that the cash amount is in the area of \$500 million. I didn't know about the million acres of land. That's an interesting figure. If those million acres are worth \$500 an acre, then that's another \$500 million. If they're worth \$1,000 an acre, that's another billion dollars. I think that perhaps in total value maybe it could be worth \$1.5 billion, and if that could net 4 percent that would be \$60 million, as compared to the current \$28 million that education is realizing. Do you know, because again I don't, you have...approximately how many public school teachers do we have in the state? [LB988]

SENATOR RAIKES: Senator, I can't give you an exact number but it's, I think, slightly over 20,000. [LB988]

SENATOR CARLSON: Okay. Thank you, Senator Raikes. Would Senator Fischer yield? [LB988]

PRESIDENT SHEEHY: Senator Fischer, would you yield? [LB988]

SENATOR FISCHER: Certainly. [LB988]

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SENATOR CARLSON: Senator Fischer, you indicated in Cherry County there's about 200,000 acres of school lands. Would you have any idea what those acres might be worth? [LB988]

SENATOR FISCHER: What they're worth on the open market or what they're worth when the school lands increases their lease by 25 percent? [LB988]

SENATOR CARLSON: Probably either way or both ways. [LB988]

SENATOR FISCHER: Land in Cherry County, if you're looking at a balanced ranch with... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR FISCHER: ...subirrigated meadows and a balance of pastureland with hills, right now recently there was some sold for over \$400 an acre. [LB988]

SENATOR CARLSON: Okay. And what would the valuation be for...what was the other purpose you said? [LB988]

SENATOR FISCHER: Oh, for the...no, I was just being a little sarcastic on school lands, Senator Carlson. [LB988]

SENATOR CARLSON: Okay. Okay. All right. Okay. Well, I appreciate that and that puts it in the ballpark of what I figured the value of that land may be, and I think that it's been pursued in the past but it's worth pursuing again. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Carlson. Senator Heidemann, followed by Senator Erdman and Senator Fulton. Senator Heidemann. [LB988]

SENATOR HEIDEMANN: Thank you, fellow members of the body. I'm trying to get a handle on what exactly this is going to do to us fiscally. Would Senator Raikes yield to a couple questions? [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HEIDEMANN: What's the cost savings in this year going to be, approximately, right now, as the bill we're working on right now? [LB988]

SENATOR RAIKES: With the amendment to the committee amendment, Senator, the

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one that moves to a 96 percent adjustment and then increases the local effort rate 5 cents, I think the number is 50.5 or .7 or something like that. If you, instead, did...just going strictly to assessed, I think you add about another \$25 million...or \$10 million. Okay, I'm getting signaled \$10 million. Oh, okay. So actually under that scenario, the total reduction in state aid compared to the 2000...the February 1 certification would be a little over \$60 million. [LB988]

SENATOR HEIDEMANN: And as we go forward with this and if we adopt LB988 as we see it now, we're still going to be \$8 million short just to get back up to balancing. And this body has a lot of A bills before it and some of these A bills have a lot of interest in. We would actually have to access more money then to pass some of those A bills, which there's going to be some interest in. We would need a little bit more money to do that. Where do you think we can access that money? Is it a possibility, Senator Raikes, if we pass LB988, as it looks right now, there would be a temptation to go back and try to actually access some more from TEEOSA? Do you think that's a possibility? I'm just trying to figure out where we're going to come up with probably at least... [LB988]

SENATOR RAIKES: Are you suggesting further reduce the state aid amount for the 2008-09 school year? [LB988]

SENATOR HEIDEMANN: I'm trying to think out of the box. I'm trying to figure out what will happen and I'm just trying to get your thoughts. [LB988]

SENATOR RAIKES: Well, Senator, again I hope I was clear yesterday in my conversation with you on this topic. The \$58 million is on the sheet. I appreciate that. But there is no statutory requirement that we do that. We do have to, I think, come up with at least a zero cash balance at the end of the biennium, and that would suggest that there's \$200 million there. Do I think it would be wise to do spending that brought the cash balance down to zero? Absolutely not. I think what we need to be focused on is that out-biennium number, the minus \$378 million. I don't know that we need to be all that concerned about how we end up, whether it's minus 58 or minus 8 or plus 2 or whatever, at the end of this biennium, but we do need to do things that reduce the burden that you're going to face next year in creating a biennial budget when you're looking at a \$378 million hole. [LB988]

SENATOR HEIDEMANN: Isn't it true though, for every dollar we spend this year it's going to affect us by \$3 in the out-year, so the more we address it this year it's going to help us in the out-year? [LB988]

SENATOR RAIKES: I don't disagree with you. [LB988]

SENATOR HEIDEMANN: All right. [LB988]

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PRESIDENT SHEEHY: One minute. [LB988]

SENATOR HEIDEMANN: I'm trying to get a handle not only on this year, and we're going to have to continue this conversation because I don't have very much time left, but what's going to happen in '09-10 as far as what this bill is going to do to us fiscally? [LB988]

SENATOR RAIKES: My expectation is that this will reduce significantly the state aid amount that's paid out, compared to leaving the current formula in place. Now I will mention to you there's a provision or two that comes on board, and I think it's already been mentioned--Senator Fischer mentioned it--and beginning in 2010-11, which is a year after you're talking about, the expenditures that result from overrides, locally voted overrides, come out of the GF... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR HEIDEMANN: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Heidemann, Senator Raikes. Senator Erdman. [LB988]

SENATOR ERDMAN: Lavon, you want it? Mr. President, I yield the time to Senator Heidemann. [LB988]

SENATOR HEIDEMANN: Thank you, Senator Erdman. If Senator Raikes would continue on? [LB988]

PRESIDENT SHEEHY: Senator Raikes? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HEIDEMANN: In Section 19, we talk about student growth. How much money is that going to cost, say, in the year '09-10? [LB988]

SENATOR RAIKES: Student growth...student growth can be...I mean, as you know, Senator, student growth can be or can result in an increase in the needs calculation even if as a state we don't increase in the number of students served. Because generally the way we deal with student...say we have students moving from one district to the other. The districts that the students are leaving, their needs are not reduced, for reasons that we've discussed this morning, but the ones, the districts that they move to, we do increase the needs. So transferring students within the state can reduce... [LB988]

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SENATOR HEIDEMANN: Increases needs. [LB988]

SENATOR RAIKES: It can increase needs. [LB988]

SENATOR HEIDEMANN: It can increase needs. Is there any kind of a figure on the student growth by the year '09-10 that we're looking at, how much money that's going to cost us? [LB988]

SENATOR RAIKES: I don't have a projection on that. I don't know either what the expectation is in terms of students moving from one district in the state to another, or from the perspective of students moving from out of state to within the state. Both of those would affect the number that you're talking about. [LB988]

SENATOR HEIDEMANN: Some of the people that I talked to, when trying to get a figure, a handle on what this is going to do in the out years, they're giving me a figure of \$10 million in the year '09-10 on that cost already,... [LB988]

SENATOR RAIKES: For student growth? [LB988]

SENATOR HEIDEMANN: ...'09-10. [LB988]

SENATOR RAIKES: For student growth. [LB988]

SENATOR HEIDEMANN: For student growth. Would you think that might be in the ballpark or...? [LB988]

SENATOR RAIKES: Well, I don't know. I certainly would suggest to you that it would be less with these provisions than if you didn't have these provisions, but I don't have a good feel for whether or not those are...if the number comes from someone who has made a study of it, I would...I can't argue with them. [LB988]

SENATOR HEIDEMANN: This kind of goes back to me as a snapshot in time. I don't think we need to look at the snapshot in time, but what it's going to do to us in the following year and the year after that. And if it is an increased cost of \$10 million in '09-10, that is...and we see our savings go from \$50 million to \$40 million, and then in Section 20 we talk about a new school part of it, that...is there an estimated cost on that? [LB988]

SENATOR RAIKES: There are a couple of provisions there that...I'll mention not only the new school but also the student growth adjustment, and that's for rapidly growing districts. We talked about that, you might remember, last session. The idea of that provision is that you make funding available for an increasing number of students. You make that funding available at the same time the students show up rather than a year

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later. Now, you know, you can argue that that simply moves it one year, it doesn't increase the total, but basically the increase remains in effect until the student growth goes away. The new school adjustment, I don't know that I have a cost figure, but that's basically to reflect for a district the additional cost incurred as you operate,... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...as you put into operation additional class space. Now it doesn't include anything about the cost of building the building, if that's what's involved, or remodeling the building. That all comes from local support. But this is a provision that would reflect the fact that in...as you build a new school building, particularly in a rapidly growing district, you're probably going to overbuild for a couple years or you're going to have extra capacity so that you don't have to build a building every year. That's what (inaudible). [LB988]

SENATOR HEIDEMANN: Would you argue with the figure of saying \$2 million for that part of it? [LB988]

SENATOR RAIKES: No, I wouldn't. I wouldn't. [LB988]

SENATOR HEIDEMANN: You think it might be around that figure? [LB988]

SENATOR RAIKES: I wouldn't...I don't know that, obviously, but I think that would be a reasonable estimate. [LB988]

SENATOR HEIDEMANN: So down the road there will be savings probably with LB988, but as new things kick in, they are going to be less and less and less as we move on. [LB988]

SENATOR RAIKES: It's going to work both ways. Some of the provisions will lead to savings. [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR HEIDEMANN: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Heidemann. Thank you, Senator Raikes. Members wishing to speak on AM2368: Senator Fulton, followed by Senator Fischer, Senator Gay, Senator Heidemann, and Senator Erdman. Senator Fulton. [LB988]

SENATOR FULTON: Thank you, Mr. President. If Senator Raikes would yield, this is actually something I want to get... [LB988]

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PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FULTON: Thank you. This division of the committee amendment, Section 7, GFOE, this appears to me to be the budgetary consideration within the bill. Would that be a correct characterization? [LB988]

SENATOR RAIKES: It is certainly one...well, when you say "budgetary," you're talking about the total fiscal impact of the bill? Are you... [LB988]

SENATOR FULTON: Yeah. The overall...I'm looking at this from the overall state budget and what this would do to the appropriation sheet that we have out before us, the appropriation sheet that's attached to today's agenda. This GFOE adjustment is fairly significant, correct? [LB988]

SENATOR RAIKES: It is, and it along with the other two, which would be the cost...or the, yes,... [LB988]

SENATOR FULTON: Right. [LB988]

SENATOR RAIKES: ...the cost growth and the assessed adjusted, account for most of what you're talking about. [LB988]

SENATOR FULTON: Okay. Is there a...so this particular AM2368, this division of the committee amendment, could you put a dollar figure on just this division? On AM2368, what kind of savings are we recognizing in the overall budget picture? [LB988]

SENATOR RAIKES: I think...does that section have the assessed adjusted? It would be everything except the assessed adjusted, and I think that's like...do you think it's that much, the way we've got it now on the 50? We're guessing a little bit, Senator, but I would say certainly over half. [LB988]

SENATOR FULTON: Okay. Well, thank you, Senator Raikes. This is actually...this...it's good that we have this divided. I mean I understand it's more time consuming, but having this divided out, this AM2368 is actually part of the budgetary consideration that we had in the Appropriations Committee. So...I mean, I know that we have a ways to go in the overall budget, but this particularly that you're saying is probably more than half of the overall consideration that LB988 is even putting forward. [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FULTON: Okay. Well, it's important people understand that. Thank you,

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Senator Raikes. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Fulton. Senator Fischer, this is your third time on AM2368. [LB988]

SENATOR FISCHER: Thank you, Mr. President and members. As I mentioned this morning, I have been involved in different school finance issues for a number of years. It started out with the passage of LB1059 back in the late eighties, early nineties, and at that time there was a part of LB1059 which was the income tax rebate. And I know that a lot of people in my area supported school finance and the changes, the major changes that came about in LB1059 because of that income tax rebate, because districts in rural Nebraska, especially, were always assured that some money would be coming back to their districts. Over time, that changed. When I was on the Nebraska School Finance Review Committee, I believe Senator Withem was on it with me at that time when he was Education Chair, and a change was made to limit how much...at what percentage districts could receive money back for their income tax rebate. And I think, if I remember correctly, that that was like 16 percent. It was capped, and it was capped at that time so money could go for option students. I see on these forms here--I have a lot of questions--but just looking through the forms, there's a...it's a yellow form with the "change to Needs Stabilization for 1 percent growth and 25 students," is the form I am referencing here. There is "Net Option Funding," there is an "Income Tax Rebate" column, and then you go further to the right, there's a "Non-equal Minimum Levy Adjustment." If I could make some comments, Mr. President, and then if Senator Raikes could respond, please. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR FISCHER: Thank you. As I looked through the districts, Senator Raikes, I see under the "Income Tax Rebate," for example, in Antelope County we have Elgin Public Schools. They have a rebate of \$25,500.23, but their nonequal minimum levy adjustment takes away that exact sum. And that carries through to the few districts that that affects. For example, in Butler County we have David City Public Schools. They receive for an income tax rebate \$88,301.45, and then that is taken away under the nonequal minimum levy adjustment. Also in Butler County, the East Butler Public Schools, they gain an exact amount; that exact amount is taken away. Hartington Public Schools in Cedar County, that happens; North Bend in Dodge County, that happens; in Grant County we see that; in Keya Paha County we see that; in Platte County, with Humphrey Public Schools; in Rock County; and Seward County with Centennial; Sioux County; and Thayer County with the Bruning-Davenport Unified System; last page, in Wheeler County we have Wheeler Central. And those are the districts that this affects. Could you give an explanation of what's going on? What's going on there? [LB988]

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SENATOR RAIKES: I could, I think, Senator, and this, of course, as you know, are all provisions of current statute. [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: The only thing that's changed is the option student payment is adjusted to reflect the basic funding instead of the...what I think is a cost...a statewide average cost group cost or something like that in the current formula. But if you...we have, as you know, a minimum levy penalty for equalized school districts. We have a nonequalized minimum levy penalty for nonequalized school districts. So one of the districts that you mentioned was Elgin, and their income tax rebate, I think you said, was \$25,000. The column in which it's taken away is the "Non-equalized Minimum Levy Adjustment," and if you look up on the right side of one of these blue sheets I haven't identified, their levy is 85 cents. With that low a levy, the... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR RAIKES: That's what's going on. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Fischer. Thank you, Senator Raikes. Senator Gay, this is your third time to speak on AM2368. [LB988]

SENATOR GAY: Thank you, Mr. President. Looking at these...I'm going...going to go back to...Senator Erdman brought this up earlier in the debate, earlier in the day, and it's still something that Senator Harms, others are talking about. I think the main concern for everybody...well, I'm not going to speak for everybody because I can't. A main concern for me is the 10.9 percent and we're still saying we're saving money. And just one thing I do want to say, it's been a long day and I know Senator Raikes has just held up and given great answers in explaining this, and Senator Adams as well. I don't think anyone in no way is criticizing. We're just trying to understand how this whole thing...how this whole thing works. And we are not here to always agree on things and that's fine, but I know they're concerned and I know they're trying the best they can. We just have differences of opinions on this. But I guess on another note, Senator Raikes, if Senator Raikes would yield to a question... [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR GAY: Thank you, Senator. Senator, you talked about this thing as ever-revolving, always changing. In the future then, when others are gone with more experience, what are the things that we need to look out for and change then? Because

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this is not perfect. It's not static. What is going to be...you know, we're adding \$80 million to the baseline budget. Growing at 10.9 percent, it will consume...that Medicaid will consume everything. What should we look out for into the future then and what can you change so we don't have a 10.9 percent growth rate, yet still educate kids? Teachers' salaries, all these things we like to talk about. In your opinion, and I want to give you time, but how would you...what would you look at in the future? [LB988]

SENATOR RAIKES: Well, it's certainly not easy, Senator, but you're on the right track. You've got to look at the levels of funding versus the levels of commitment that you can make as a state. We've done a number of things, I'll tell you, and you already know about them. We brought up the temporary aid adjustment, which is basically a way, I hope, you know, given the circumstance--and it was probably me more than anyone else responsible for it--that it was a way to transfer the state's obligation to local property taxpayers. Now we also have addressed the issue with the levy lid. We, you know, if you raise the levy lid and you raise the local effort rate, basically the school districts become wealthier, if you will, or they have more resource that they can access. So the obligation for state aid in the needs minus resources equals aid goes down. So that's one thing we've done. We've also directly addressed school spending. We had a two-year period in the mid-2000s where we dropped the basic allowable growth rate, the spending rate that schools could have, to zero for two consecutive years. So those are measures that you wouldn't like to take casually, but at the time we did it we didn't really have any choice. There was not enough money at the state level to fund state aid without doing those things, so that's what we did. The hope here is that you can come up with a mechanism that will control spending increases at the state level so that you don't have to employ those kind of measures. Now certainly I think it's wise, in addition to doing that in the aid formula, to have a healthy cash reserve, so that if need be you can dip into that for short periods. I think you also need to operate in such a way that if there are years in which... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...state aid is reduced because of enhanced valuation increases or something like that, you put money back into the cash reserve. [LB988]

SENATOR GAY: Okay. And on the enhanced valuation, the one thing, and you and I have discussed this, 99.95 percent...and you need to be at 1.0 for...to get that cliff effect we had talked about, I think some people were being penalized for working on a lower...trying to lower their levy rate because the assessed values were going up. Well, that's the rules of the game that we're living by. And then we changed it and you made some efforts to fix that, and I appreciate that. I still think we got a ways to go on that and that's why...the formula, to me, I don't think we still got to the point where it's not just going to spit it out again. Next year we have the same thing, and that's why again I appreciate what you're trying to do, but I still think the comprehensive review of this,

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putting the brakes on this thing, otherwise I just... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR GAY: Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Gay. Thank you, Senator Raikes. Senator Heidemann. [LB988]

SENATOR HEIDEMANN: Thank you, Lieutenant Governor, fellow members of the body. Looking at what section we're on, I believe that we're talking about formula need reduction. And I was looking at Section 28, the cost growth factor, and I was wondering if Senator Raikes would yield to a couple of questions. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HEIDEMANN: Can you explain to me a little bit about the cost growth factor, where we're at right now as far as cost growth factor with the standard, sparse, and very sparse, and where we're going under LB988? [LB988]

SENATOR RAIKES: The cost growth factor, as you know, Senator, is what's used to bring the two-year-old expenditure data, which is the most recent we have available at the time we need to do the certification, up to the time period for which we're certifying. There are two things done with the cost growth factor in this proposal. One of them is to eliminate that provision which actually allows the cost growth factor itself to become larger if there's rapid student growth or if there is student growth. The second thing is to drop the level of the student growth factor from 1.07 without that student growth provision, to 1.06. So both of those directly impact the rate at which the General Fund expenditure amount is increased over time and then serves as the basis for the needs calculation. [LB988]

SENATOR HEIDEMANN: And we're taking the cost growth factor then down to what for the sparse? [LB988]

SENATOR RAIKES: It would be the same for every school district, 1.06. [LB988]

SENATOR HEIDEMANN: So it's 6 percent, though, isn't that...? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HEIDEMANN: Yeah, that's... [LB988]

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SENATOR RAIKES: Well, no, it's 3 percent per year. [LB988]

SENATOR HEIDEMANN: Per year, which... [LB988]

SENATOR RAIKES: Well, (inaudible) not. If you do the math right, it's 1.03 times 1.03, and for some reason in the formula, to keep it simple, we just add 3 and 3 and get 6. [LB988]

SENATOR HEIDEMANN: So under LB988, we're going to the cost growth factor of 6 percent. [LB988]

SENATOR RAIKES: Oh, for a two-year period. [LB988]

SENATOR HEIDEMANN: And how much money...or is this a cost or a cost savings? [LB988]

SENATOR RAIKES: Well, reducing the cost growth factor, I can't see a circumstances under which that's not a cost saving. Now particularly it plays out over time, because as you know if you have a 7 percent for a period of years, say ten years, versus if you have it 6 percent for a period of, say, ten years, by the time you get to the tenth year that extra percent makes quite a bit of difference. [LB988]

SENATOR HEIDEMANN: This is one section of the bill that is actually probably pretty easy to figure out what it's going to do, wouldn't you agree? [LB988]

SENATOR RAIKES: Yes. Yes, it's all very simple, Senator. [LB988]

SENATOR HEIDEMANN: And how much...we've determined it is a cost savings. How much is that cost savings? Can you give me an estimation? [LB988]

SENATOR RAIKES: Just for the cost growth factor, I think...gosh, I don't want to...something in the neighborhood of \$30 million. [LB988]

SENATOR HEIDEMANN: Thirty, thirty-five million... [LB988]

SENATOR RAIKES: Yeah, something in that neighborhood. [LB988]

SENATOR HEIDEMANN: ...you're thinking? So just food for thought: If we would ever delay implementation of LB988 and we would want to go... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

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SENATOR HEIDEMANN: ...with something that would get us from where we're at now until LB988 is implemented in 2010 and 2011, I think this would actually be one factor that you could look at to get us there. There would be a cost savings, easily calculated, and you could do it for a period of time until you got to LB988. You could do this in connection or also with maybe like the temporary aid adjustment, do them together, and you could probably access the amount of savings that you need to...would to be to balance the budget. There are certain parts of LB988 that we can access, and if not them, we could do the temporary aid adjustment. My point being is this is a...the cost growth factor is a savings. It's easily calculated. It would be easily a number that we could recertify on. I think it's something that maybe down the road it might come into play. [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR HEIDEMANN: Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Heidemann. Senator Erdman. [LB988]

SENATOR ERDMAN: Thank you, Mr. President. I just have one question for Senator Raikes on this division, if he would yield. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR ERDMAN: Senator Raikes, we had a discussion earlier this session about a bill that you had introduced that took a different form, became LB1079 that would have limited school districts' ability to be rewarded for their legal endeavors against one another. That was introduced. It's still in committee. As I read the definition of Section 7, which is the General Fund operating expenses for school districts that count towards their needs, I don't see that provision in this bill. I understand that bill is still in committee. Were you unable to convince your colleagues on the Education Committee of your proposal, or what is the...why is that not a part of this proposal? [LB988 LB1079]

SENATOR RAIKES: Well, it's a very good question, Senator. I think it could be. And actually, I might just restate a little bit your explanation of the impact of this. What that proposal would do would be to say that a school district can spend whatever they deem appropriate for legal fees, but in terms of how much of that ends up in the GFOE that is used to calculate needs, only that portion that's below, whatever it was, .2 percent... [LB988]

SENATOR ERDMAN: Fifteen. [LB988]

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SENATOR RAIKES: ...or .15 percent... [LB988]

SENATOR ERDMAN: I think it was .15. [LB988]

SENATOR RAIKES: ...of GFOE. So again, it's a way...I think the argument in favor of it is that it's a way to not commit the state to stepping up for the funding for legal fees for a school district when that exceeds a certain amount. Now certainly the case can be made that you have legitimate and even honorable reasons for hiring attorneys to do various things, you know. And there are some certainly tragic situations that may arise where you have a...you know, you have a crash of a school vehicle, and students are injured or whatever, and lawsuits that...and you wouldn't want to prevent a school district from obtaining appropriate legal advice for dealing with that situation. On the other hand, it's a separate question as to whether you allow that legal expense, however much, to drive the commitment of the state in funding state aid on down the road. [LB988]

SENATOR ERDMAN: So it's a possibility but it's not in the bill because... [LB988]

SENATOR RAIKES: It's not in there now, you're right. [LB988]

SENATOR ERDMAN: ...the committee hasn't taken action yet or the committee... [LB988]

SENATOR RAIKES: It's a tough committee. I... [LB988]

SENATOR ERDMAN: (Laugh) Okay. Thank you, Senator Raikes. And just...I would point out, as we go through this process again, what the need of a district is, is defined by statute. It may be a difference of opinion about what their need actually is. And as we go through this process, we can say that there's a greater need in certain parts of the state than others, but that's based on what the statute says, not based on reality at times, and sometimes those two are the same. But there is a need in certain parts of my area for some stability in funding because you have no other place to send kids. They need to have some aid from the state to equalize the cost and to be able to provide a meaningful process. But as we're talking about whether it's legal services or whatever that's counted towards their operating expenses, there are things that we're counting now that we weren't counting before that potentially drives the costs of areas, as well. And so it's not...when you...at least when I look at this, and whether we're talking about the legal services or... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR ERDMAN: ...other areas, the need of a school district is simply defined by a majority vote of the Nebraska Legislature. I would hope that we're doing a good job of at

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least understanding what those needs are, but that's generally going to be those disagreements between where money goes in what part of the state and where that ends up as far as those needs for those communities and what valuations or resources they have to meet that. So the idea that somehow our needs are obvious for everybody, is not. It's simply defined in statute based on the way the Legislature chooses to vote. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Erdman. Senator Nelson. [LB988]

SENATOR NELSON: Thank you, Mr. President. I'd like to address a question or two to Senator Raikes, if he still has the stamina to yield. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield to some questions? [LB988]

SENATOR RAIKES: Yes, I would. [LB988]

SENATOR NELSON: Senator Raikes, I've been listening to a lot of this, a lot of these figures, trying to understand. I hear various figures quoted. I've heard \$50 million and \$58 million savings by what's proposed in overall LB988 is...which of those figures do you feel is most accurate as far as a reduction in aid? [LB988]

SENATOR RAIKES: Senator, with the committee amendment and the amendment to the committee amendment, \$50,500,000 or \$50,800,000 is the number. [LB988]

SENATOR NELSON: Right around \$50 million. And... [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR NELSON: ...there's...under the formula that was certified, or the certification in February, there was about a 17 percent increase in aid. Is that correct? [LB988]

SENATOR RAIKES: That's correct, \$132 million total. [LB988]

SENATOR NELSON: So what will this take us down to, about an 8 or 9 percent increase? [LB988]

SENATOR RAIKES: That's probably right. [LB988]

SENATOR NELSON: Okay. [LB988]

SENATOR RAIKES: The way it's structured right now, \$50 million is an \$80 million increase. That's on a base of about \$770 million, I think. [LB988]

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SENATOR NELSON: Uh-huh. [LB988]

SENATOR RAIKES: So instead of the February 1 certification being \$900 million and a little bit, it would be \$850 million and a little bit. [LB988]

SENATOR NELSON: All right. Senator Christensen raised the question, well, aren't we putting the districts, if they were basing their contracts and expenses on the certification on February 1, we're putting them in a bind. Have we gone far enough? Here we are, you know, the middle of March. Do you think what we would be doing with LB988 would adversely affect them that much? [LB988]

SENATOR RAIKES: Well, I think it's a legitimate concern and I think that it's one of the reasons, in my own case, that as soon as it looked to me, following the February 1 certification, that we were going to need to recertify, I tried to make it a point in speaking with every group of school administrators or officials to let them know that there would be a recertification. And then, of course, there was additional information about it when LB988 was introduced as well. The budgeting process for school districts doesn't end until, I think it's August maybe or the first part of September--October actually. So it's not that we're beyond the deadline or anything like that. But on the other hand, I don't think...I don't want to be cavalier about brushing off suggestions that school districts need time to adjust to whatever state aid amount they're going to be certified. [LB988]

SENATOR NELSON: All right. One final question, and the one that concerns me most: In your opinion, the changes that you're making here, the adjustments that you're making in LB988, will those effectively protect us from a 17 percent increase next year, the following year, or are we going to...or do you feel that we're going to be, at most, in the 9 or 10 percent increase area, or if that much? [LB988]

SENATOR RAIKES: Well, Senator, as has been pointed out several times, I'm not going to be here next year so I firmly and absolutely guarantee that that won't happen. But seriously, I am very confident with the provisions we have in this bill that we will control spending increases... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...for school districts. [LB988]

SENATOR NELSON: All right. Thank you, Senator Raikes. Thank you, Mr. President. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Nelson. Senator Heidemann. This is your third time on AM2368. [LB988]

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SENATOR HEIDEMANN: Thank you, Mr. President, Lieutenant Governor, and fellow members of the body. If I could have a conversation with Senator Raikes. [LB988]

PRESIDENT SHEEHY: Senator Raikes, would you yield? [LB988]

SENATOR RAIKES: Yes. [LB988]

SENATOR HEIDEMANN: It's been a pleasure this afternoon. (Laugh) And actually, you know, we've had good discussions here and maybe I said that lightly, but after I said it, in all seriousness, we've had a lot of good discussion. If nothing else, we've definitely, if you've been listening, we've probably brought you up to date about how the state aid education formula works a little bit and how we fund our schools. The thought that I'm trying to get in my mind, that we're saving at the state level \$50 million...is that correct? [LB988]

SENATOR RAIKES: Right. Fifty million dollars compared to the February 1 certification, but a plus-\$82 million compared to what schools are funded in the current school year. [LB988]

SENATOR HEIDEMANN: Is there any idea, out of that \$50 million that we're saving, are they going to be able to access from local property taxes? [LB988]

SENATOR RAIKES: Well, that's why, you know, the needs formula or the needs...formula needs is critical because that basically describes the total funding available to school districts from all sources. So that's the clue to that. Now you are going to have some school districts, and you know about this, you've got school districts that receive state aid but yet have a relatively low levy, 95 cents or maybe even below. So if their state aid, perhaps because of an appropriate adjustment in the formula, goes down, they may in fact levy, rather than at the minimal levy, something above that. Can you claim then that, well, the change in the state aid formula caused an increase in property taxes? Well, you probably can, but, you know, by the same token in that particular situation I don't think it's clear that we have gone the wrong direction. [LB988]

SENATOR HEIDEMANN: Can...was there any estimation, though, of how much more this is going to cost the state or the people that pay property taxes in the state of Nebraska? Can you come up with a dollar figure, \$10 million, \$20 million, \$30 million in extra property taxes? [LB988]

SENATOR RAIKES: Of course, the way we do school funding, as you know, Senator, is that those decisions about exactly what the levy is going to be are local school board decisions. And they also have... [LB988]

SENATOR HEIDEMANN: But if they don't get it from the state, they've got to get it...to

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continue operating as they normally would, they've got to get it from someplace. And if they have room under the lids, they have to get it from where? [LB988]

SENATOR RAIKES: Well, you've got school districts that are all over the board on that. You've got some that if it's possible to levy additional or get a higher levy, they'll do it and spend the money. You've got some others that, even though the levy is low, they simply will not do that. They'll reduce their spending at the school district rather than increase the levy. And they're both...both situations are present in the state, as I'm sure you know. [LB988]

SENATOR HEIDEMANN: Are you thinking, though, \$20 million, \$30 million? I... [LB988]

SENATOR RAIKES: Total funding, total funding for school districts in Nebraska, is about \$2.5 billion--about \$2.5 billion. That's the total needs calculation. So if you're saying state aid drops \$50 million, will school districts reach to... [LB988]

PRESIDENT SHEEHY: One minute. [LB988]

SENATOR RAIKES: ...make up that \$50 million, by increasing property taxes by \$20? I don't know. I mean, it's... [LB988]

SENATOR HEIDEMANN: You know, we was trying to estimate before what it was going to do when you talked about going from adjusted to assessed and the LER from 95 to a dollar. That's correct, isn't it? [LB988]

SENATOR RAIKES: And that's still the way it is, yeah. [LB988]

SENATOR HEIDEMANN: Except now you're going to 96 percent. [LB988]

SENATOR RAIKES: Right. [LB988]

SENATOR HEIDEMANN: And before, we was thinking that maybe \$25 million of property tax, but because you went to 96 percent, it could be 30, if not up to 40. [LB988]

SENATOR RAIKES: Well, again let me remind you, that conversation was how much state aid savings comes from that, and I think it's another step to say that whatever state aid saving is automatically going to be made up by a property tax increase. I think your own discussion about the temporary aid adjustment reflects that. You had a temporary aid adjustment. You had the option for school districts to... [LB988]

PRESIDENT SHEEHY: Time, Senator. [LB988]

SENATOR HEIDEMANN: Thank you. [LB988]

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PRESIDENT SHEEHY: Thank you, Senator Heidemann. Thank you, Senator Raikes. Further floor debate on AM2368? Seeing none, Senator Raikes, you're recognized to close. [LB988]

SENATOR RAIKES: Thank you, Mr. President, members of the Legislature. Again, a good discussion. I think we've covered a lot of the issues and I appreciate all the input and the insight. I do ask for your support for this division. Thank you. [LB988]

PRESIDENT SHEEHY: Thank you, Senator Raikes. You have heard the closing. The question before the body is on the adoption of the second division, Education Committee amendment AM2368 to LB988. All those in favor vote yea; opposed, nay. Please record, Mr. Clerk. [LB988]

CLERK: 33 ayes, 6 nays, Mr. President, on the adoption of the second component of the Education Committee amendments. [LB988]

PRESIDENT SHEEHY: AM2368 is adopted. Mr. Clerk, do you have items for the record? [LB988]

CLERK: I do, Mr. President. Amendments to be printed: Senator White to LB1001A; Senator Erdman, Raikes, and Kopplin to LB988. (Legislative Journal pages 1011-1013.) [LB1001A LB988]

And I have a priority motion, Mr. President. Senator Nantkes would move to adjourn until Wednesday morning, March 19, at 9:00 a.m.

PRESIDENT SHEEHY: You've all heard the motion to adjourn until Wednesday, March 19, 2008, at 9:00 a.m. All those in favor say aye. Opposed, nay. We stand adjourned.