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Floor Debate
April 06, 2011

[LB148 LB152 LB177 LB235 LB279 LB297 LB306 LB386 LB600 LB648 LB682 LB683
LB684A LR142 LR143 LR144 LR149 LR150 LR151 LR152 LR153 LR154]

SENATOR FISCHER PRESIDING

SENATOR FISCHER: Good morning, ladies and gentlemen, and welcome to the George W. Norris Legislative Chamber. Our chaplain today is Senator Lavon Heidemann from the 1st Legislative District. Please rise.

SENATOR HEIDEMANN: (Prayer offered.)

SENATOR FISCHER: Thank you, Senator Heidemann. I call to order the fifty-eighth day of the One Hundred Second Legislature, First Session. Senators, please record your presence. Mr. Clerk, please record.

ASSISTANT CLERK: There's a quorum present, Madam President.

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

ASSISTANT CLERK: I have no corrections this morning.

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

ASSISTANT CLERK: New resolutions, Madam President, LR149, LR150, LR151, LR152 and LR153, all by Senator Harms. All will be laid over. That's all I have this morning. (Legislative Journal pages 1063-1065.) [LR149 LR150 LR151 LR152 LR153]

SENATOR FISCHER: Thank you, Mr. Clerk. We will now proceed to the first item on the agenda, Mr. Clerk.

ASSISTANT CLERK: LB682 was introduced by Senator Mello. (Read title.) The bill was introduced on January 19, referred to the Revenue Committee. The Revenue Committee reported the bill to General File with committee amendments. Those amendments were under consideration yesterday. Along with it an amendment to the committee amendments from Senator Mello, AM1012. (Legislative Journal page 1028.) [LB682]

SENATOR FISCHER: Thank you, Mr. Clerk. Senator Mello, you are recognized for a 2 minute recap on your amendments to the bill. Thank you. [LB682]

SENATOR MELLO: Thank you, Madam President and members of the Legislature. LB682 would adopt the Major Gas, Water, and Sewer Infrastructure Improvement and Replacement Assistance Act, which by the change...dramatic change in the bill through

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the Revenue Committee amendment, essentially limits LB682 to providing assistance in a turnback style financing mechanism similar to what we have passed in years past with the Qwest Center and other small arenas in regards to the sales tax that's paid on separated sewers or combined sewer overflow fees through the sewer use fee through local municipalities and public utilities. The underlying basis of this legislation is, there are cities, the city of Omaha and Plattsmouth at this point in time, who were federally mandated to overhaul their entire sewer system. It was not by choice, it was mandated. Thus, that mandate brings a mandated \$1.7 billion price tag for the city of Omaha in new fees and taxes that residents and businesses are required to pay. LB682 tries to provide a bit of relief. A bit of relief in regards to sales tax that through the mechanism that the city of Omaha and Plattsmouth both are utilizing to pay for these overhauls, provides some of that state sales tax the state would otherwise not receive to provide that money back to the local municipalities to help pay for the costs of the project. After the project's time period is up, under the bill is a life of the project, and for the city of Omaha it's a 15 year life project, and for Plattsmouth it's roughly a few more years left on their project. The money that is currently being turned back to the cities would be turned back to the state. Thus, the state is essentially providing a little up-front assistance and receiving that assistance at the end. With that, I have my light on and I'll continue my dialogue on LB682. Thank you, Madam President. [LB682]

SENATOR FISCHER: Thank you, Senator Mello. (Visitors introduced.) Senator Carlson, you are recognized for a point of personal privilege. [LB682]

SENATOR CARLSON: Thank you, Madam President. I just want the body to know that Margo and I visited Senator Wightman last night, and Jan, and he's doing well. It's been said that he's a good attorney and a good Senator, but not a very good patient because he doesn't have patience. But he's working hard at it. He's got to get his arms and shoulders strong enough that he can take himself out of the bed and into the chair or on crutches before he can come back. So he is working hard. He was in two hours of intense therapy yesterday morning. And I said, well, did you watch the session? He said, yes, but I went to sleep. (Laughter) So I thought I'll remind us that we'd better spike up the debate a little bit this morning so that we can keep Senator Wightman alert. But our thoughts and prayers need to be continually with him and Jan, and thank you for letting me share this.

SENATOR FISCHER: Thank you, Senator Carlson. And we do wish Senator Wightman well. With that, we will begin debate on the amendment to the committee amendment on LB682. Senator Carlson, you are recognized. Senator Carlson waives. Senator Krist, you are recognized. [LB682]

SENATOR KRIST: Thank you, and good morning. I want to start out the day very congenially and try to remind this body and the new members that they should review last year's debate over the sewer separation bill that Senator White presented to

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you...to us. It would be a good review in terms of where we have come as a body and how we failed to help out the city of Omaha, in my opinion, with that particular bill. Maybe it was wrong time, wrong place. I always think it's good to go back and review past legislative sessions and particularly when they particularly apply, specifically apply, I'm sorry, to the matter at hand. This is a very serious issue. CSO, and mark my words, CSO will come visit all of you. They will come across the state of Nebraska and they will tell you to separate your freshwater systems from your sewer systems and your sanitary systems. Grand Island, beware. With the amount of groundwater, you will be somewhat next. When it happens and your city is at the top of its levy and it needs the money to separate the sewer system over a period of time, and you need some kind of help, will you come here? Will you come to this legislative body in the future and ask for that help? The 49 of us need to think about Omaha and Plattsmouth today, but again it will happen. It will happen Sioux City, it will happen Norfolk, it will happen Grand Island, it will happen across the state because it's a federal mandate and a federal standard. If we could rewind the tape back to the days when Tip O'Neill found out that Boston had to do this same thing, and federally funded the entire system out of federal funds, we could go back to our representatives then and say, you know what, the Nebraska way might be to just jump on the bandwagon with Boston because it needs to be done, and if we don't do something, 30 years from now, they're going to have to do it by themselves. Do not confuse an additional amount of sales tax on this initiative. This initiative turns back the money that the taxpayers will spend at a rate of only \$3 million a year to offset the amount of interest that they will have to pay. And if you review Senator White's comments and his intent on his bill last year, last session, you will see exactly what I mean. If you don't do that, you're not equipped to make this vote when it finally comes up. It turns back \$15 million a year of taxpayers money that they have spent to separate their systems over the period of time that they will need to do that. And in Omaha's case, it appears to be about 15 years. You know what's going to happen to those businesses in Senator Mello's district and some on the eastern side of the state when they realize that their sewer fees are going to go up quadruple in the next couple years? They're going to plot out a little piece of land in Crescent or Red Oak or some place else where they don't have this issue. Some will say that setting back the tax is not the American way, it's not the Nebraska way, we shouldn't go down this road. Past legislative bodies have loaned millions of dollars to the Republican River, which has not been paid back yet because it's in court. So I think we have helped out individual communities and issues. We now have a new tax coming in so it's not on the books. Senator Heidemann's comments yesterday about tax turnback for money revenues that would be coming in. It's not there, folks. [LB682]

SENATOR LANGEMEIER PRESIDING

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR KRIST: It is not planned on coming in. It's new tax money coming in and it's

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coming out of the pockets on almost a triple tax on the people who have to pay for their sewer separation in the Omaha area. Take a look at Tom White's legislation. I'm sorry, I don't have the number off the top of my head. Take a look at the debate. Read the debate that happened last year and then make your decision. I suspect that when it happens at Norfolk, or happens to Grand Island, or happens to Scottsbluff, and if you're the top of your tax levy, you're going to be back here or your predecessors will be back here...sorry, your successors will be back here, and they will say, my predecessor didn't do anything about it for Omaha but, by gosh, I'm going to do something about it for Scottsbluff or Grand Island or Norfolk. [LB682]

SENATOR LANGEMEIER: Time. Thank you, Senator Krist. Senator Mello, you're recognized. [LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature. And I appreciate Senator Krist's eloquent points being made, which I want to recap a little bit of some of the friendly opposition we saw yesterday on this bill as Senator Krist started to walk us down this path, which...the first argument made which is, (1) that this is only for the city of Omaha. Well, if you read the bill and you read the committee amendment and you read AM1012, this piece of legislation is available to any municipality who faces this unfunded federal mandate, which I think is a critical component because I have heard many of us on this floor discuss unfunded mandates multiple times. And we find and go out of our way to ensure either (1) we eliminate those, or (2) we fund those. And as I was describing this earlier to my friends and colleagues before we started this morning, this is \$1.7 billion at least for the city of Omaha's purpose, and I could...Senator Pankonin should share a little bit more in regards to the amount for the city of Plattsmouth, in new taxes and fees that are being paid. This is not money that was currently being paid for these projects, which leads to the third argument that was made yesterday that we can't do LB682 and cannot do a half cent sales tax local option for municipalities. We can't do both. It erodes our state sales tax base. Well, colleagues, with all due respect, that's a false premise and a false argument. That's just a way to try to muddy the waters on a bill that is very crystal clear when you understand the logic behind it. There's a bill that will be debated that will allow municipalities with a vote of the people to raise their taxes, their sales taxes a half cent. LB682 does not raise taxes because the federal government came in and raised fees and taxes essentially to pay for this project in Elkhorn, in Bennington, in west Omaha, east Omaha, Bellevue, Papillion, everyone who is tied to the greater metropolitan area sewer system. These are fees and taxes that have been levied and have to be paid because the federal government is making us do this. This is not a vote of the people option. This is a tax that has been put on people that we are trying to provide a little bit of relief to, with, as Senator Krist mentioned, has some very serious economic impact. Not just on the large industrial users and businesses that we've heard from this session, but residential users as well, other commercial users as well. This is \$1.7 billion in new fees and taxes that is being taken out of the bottom line in businesses and out of residential payer's pockets to

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pay for something that they did not want to do. They did not choose to do, but was instead mandated by the federal government to do with no financial assistance. The argument that we can only do one or the other is a bit disturbing in my mind. And the reason why I say this is because it's trying to tie in a bigger issue for the sake of the city of Omaha's purpose. Senator Ashford has a bill that we will debate that provides to all municipalities as does LB682. LB682 affects villages, first-class, second-class cities, cities of the metropolitan and primary class. Now my good friend and colleague, Senator Heidemann wants to focus exclusively on the city of Omaha, which is his prerogative. But LB682 makes no mention of the city of Omaha. It provides uniformity across the board. That if any city faces this federally unfunded mandate... [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR MELLO: ...they also qualify for this turnback style of financing. And the reason why is, this is sales tax that the state would not receive otherwise. If the federal government came in tomorrow and said, city of Plattsmouth and city of Omaha, you no longer need to do this, the state would not see this additional sales tax. The cities would not see the additional sales tax. Thus, we would probably not be debating LB682 because then in theory they would eliminate the federal mandate for all cities across the country. But that is not the case, colleagues. We have a responsibility to try to provide some relief to any municipality regardless of where it's located, regardless of it's size when the federal government comes in and mandates a project of this size and scope. This is not an Innovation Campus-style project, this is not a Centennial Mall-style project. This is the largest, the largest public infrastructure project... [LB682]

SENATOR LANGEMEIER: Time. [LB682]

SENATOR MELLO: ...in the history of the state of Nebraska. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Mello. (Doctor of the day introduced.) Continuing with discussion to AM1012, those wishing to speak, we have Senator Loudon, Smith, Heidemann, Council, Pirsch, Pankonin, and others. Senator Loudon, you're recognized. [LB682]

SENATOR LOUDON: Thank you, Mr. President and members of the body. As you noticed on the committee statement that came out of committee 5 to 3, and I was 1 of the 5, now as that came out of the committee with our committee amendment on there, this was for cities that had a combined sewer overflow problem. And at that time, and it's our understanding that there are only two, Plattsmouth and Omaha. So that's what this amendment was designed for and that's what this bill was for. Now as we look at the AM1012, there's that part down there at the bottom of it that puts in all cities and everybody in the world, you might say. Now in my district we have all kinds of problems.

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We've got arsenic problems up there. They're having to do something about their water. They've got to have community wells because the government lowered the arsenic levels from, I think, 50 parts per billion to 30 parts per billion, which is about a half a teaspoon full in a swimming pool. But I want you to pay attention here because I guess those of you that are Republicans you can say, well, read my lips, but I'm not going to vote for AM1012 because that wasn't part of the deal that we got it out of committee. And those of you who are Democrats, I would say, well, I'll make it very clear that this changed the whole complex of that amendment when we put AM1012 on there, so I will not vote for AM1012. If AM1012 is adopted to it, I won't vote for the bill because this is going down a different road than what we started with out of the committee there. The committee, as the bill, AM626, came out to me, it was a sense of fair play. Omaha has its problem with this combined overflow problem and they're going to have to spend a bunch of money. They're going to have to raise their sewer fees. They raise their sewer fees, then that's all sales taxable so the state would actually get more sales tax money because they have to raise their sewer fees in order to pay for this system that they have to overhaul. So that was part of the reason that I could see giving them back that turnback money on that sales tax that they're charging for the sewer fees. Originally, it was turnback money on gas lines and water and everything else in Omaha, and the committee set it down to where it was just going to be on the sewer fees. So at the present time it was directed strictly toward the sewer fees, and that was the reason I voted to get the bill out of committee. I thought it was, to me it was a case of fair play in there that I didn't think the state should receive a bunch of windfall money just because Omaha had to fund this combined overflow. Now what they're doing, and my understanding with it is most of that turnback money will be used to service bonds in order to pay for some of this. And it looked like to me it a good business plan as far as I could understand it. So I think this is where we are on this. This, as I pointed out to Senator Mello, that I cannot support the amendment on there although if he did want to change...take it out and just change the dates to July of this year when he wanted to start it, that's something else we need to talk about depending on how soon they are ready to start some construction work and how soon they need to have the money because otherwise that was the main thing that his amendment, AM1012, did, was change the dates when it was going to start to be implemented. But at the present time I think the bill is all right if we don't tinker with it too much. And, of course, that's what always happens when it gets out here on the floor. If you get to tinkering with some of this too much, why, it makes legislation get headed down the wrong direction. So that's my stand on the thing. That's the reason I voted it out of committee because as the bill...as the committee amendment came out, I think it was a workable solution. [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR LOUDEN: I think it was something that we needed to take care of. And with that, I thank you, Mr. President. [LB682]

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SENATOR LANGEMEIER: Thank you, Senator Louden. Senator Smith, you're recognized. [LB682]

SENATOR SMITH: Thank you, Mr. President. Good morning, colleagues. I rise in support of LB682 and the associated amendments. I do not particularly like the turnback of taxes and that as a tool, and I have deepest respect and regards for Senator Heidemann. I understand his position on this and I understand it's not the most ideal approach. However, I do believe that this goes beyond affecting just Omaha or just Plattsmouth. This is about job retention in the state of Nebraska. It's about job retention and it's about tax revenue retention for the state. There are some major users, utility users in the Omaha metro area that we are at risk of losing over this sewer separation funding. And we heard from them in the Natural Resource Committee and I do believe their concerns are legitimate, and I believe that it is a very serious and real risk to the state of Nebraska if we do not throw these businesses a lifeline. And it's not just about the large users. It's about all of the smaller businesses that make their living on supporting these large users, these large employers in the Omaha metro area. It's about the individuals that are in support services around the Omaha metro area that receive the benefit from their businesses from these large users. So I'm asking my colleagues to please keep in mind that the purpose of a tax turnback, whenever it's associated with economic development and job retention, is a useful method of protecting our economy. And I ask them to please consider supporting this bill. I think it's very important. And if Senator Mello is available...Senator Mello, if you're available to yield for some time here, I would like for you to just tell me if I'm understanding this correctly that this particular piece of legislation, unfortunately it tends to help the large users, these large employers more on the back end, there's not immediate relief for them, but it does provide some relief for them, not as immediate as I think that they need, but it does provide relief. Please correct me if my assessment is wrong. [LB682]

SENATOR LANGEMEIER: Senator Mello, would you yield? [LB682]

SENATOR MELLO: Yes. And thank you, Senator Smith. Yeah, in my opening, the issue that we've heard out throughout the session regarding some of the large industrial users in the metropolitan area, this bill affects them and it affects everyone, commercial and residential users by the more funding that we put back that they're paying into the project, which is what this bill does, it will lower their fee in the long run. So while it might not provide immediate relief, let's...it will provide relief over the lifetime of the 15 years' worth of the project in the bill as it states. While a big component of the challenge that we see with some of the large industrial users is the local component of how the fee and the model has been established within the greater metropolitan area, that's another issue that I'm working on as well. But for the purpose of LB682, by passing it, it provides relief over the course of 15 years to these large manufacturers and employers in the area. [LB682]

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SENATOR SMITH: Okay. Thank you, Senator Mello. And again, I just underscore that... [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR SMITH: ...this legislation is important for job retention in Nebraska. It is important for Nebraska, not just Omaha. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Smith. Senator Heidemann, you're recognized. [LB682]

SENATOR HEIDEMANN: Thank you, Mr. President and fellow members of the body. Just continuation a little bit of yesterday, I want to start out that I did leave off...I talked a little bit about how much time my wife and I spend in Omaha. I want to also say that we do spend a little time in Louisville, but in Plattsmouth there are very nice places to be, so excuse me, Senator Pankonin, because I did make that mistake, I have decided I am going to support AM1012 to the committee amendment, but then it is my intention to, hopefully, kill the bill, total overall. I want to touch on a couple of things that I've heard on the floor this morning that this is a bill for Nebraska. I will argue that. This is a bill, when they talk about CSO, combined sewer overflow, the only communities that I can come up with so far that this will affect will be Omaha and will be Plattsmouth, as we know it. If there are any others out there, I would hope somebody could stand up and tell me who they would be. Hopefully, factual. Also heard on the floor today that this is new tax money, this isn't accounted for, this isn't General Fund loss. I've talked with the Fiscal Office, this is in the forecast. If you want to do this as a priority, that's fine. But I will tell you that this is a General Fund loss. Eventually we heard...I've heard all kinds of figures flew out here, but by year six, seven or eight, this will cost the state of Nebraska over \$5 million a year. And if that's where you want to head, that's fine, but just know which path you're going down and what it's going to cost you. I do have a little problem with this policy. We did this for the arena and I don't think it's a secret that I had some problems with that, with the sales turnback. I would argue if you was going to do that at least you're building new...you're creating new opportunities, and if I had to support a turnback, it would be more for the arenas than it would be for this. I've heard that this is the largest federal unfunded mandate out there. Dollarwise you probably can't argue that per capita. And we talked about a little bit about towns across the state. I did some quick math. Hopefully, it's correct. Per capita, it's about \$3,000 per capita in the city of Omaha. I will tell you that there are little towns across the state of Nebraska, federal mandate projects, I have one in my district. I figured out over \$7,000 per capita it's going to cost them, a federal unfunded mandate. And this bill will not help them. And that's a little bit...I don't think this is...if you don't have trouble with the tax policy, I don't believe that the policy that we're looking at it is fair and balanced across the state. And I looked up a few...this actually comes from information that I put out last year, federally funded...unfunded, excuse me, projects across the state that are going to have to be

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done, and I just will throw a few of these out. In Senator Carlson's district, the little town of Guide Rock has some sewer rehab that's going to cost \$150,000. They're going to have to come up with that money someplace. If they do it with sewer fees, sorry this isn't going to help them. Senator Dubas, Aurora wastewater treatment upgrade, \$3 million. In Doniphan, in her district, once again a lagoon expansion for \$1,150,000. [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR HEIDEMANN: Senator Wallman, the little town of Barneston, I used to play football there when I was in high school. They're going to have to do a lagoon lift station, \$300,000 federal mandate, unfunded. This bill isn't going to help them. Senator Janssen in Scribner, wastewater treatment, \$750,000. This bill will not help them. Senator Sullivan, St. Paul lagoon, sewer rehab, \$1.2 million. This bill will not help them. Clearwater, another one in Senator Sullivan's district, \$1.9 million. Senator Christensen, in Benkelman, wastewater treatment, sewer rehab, \$2.3 million. Senator Hansen, North Platte is going to put in a \$7 million sewer rehab. This bill will not help them. There are a lot of...I could go district after districts, little town after little town. Let me tell you, they're out there. There's a lot of things that the federal government is doing to us that I don't agree with. They do it without matching funds, which isn't good. [LB682]

SENATOR LANGEMEIER: Time. [LB682]

SENATOR HEIDEMANN: Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Heidemann. Senator Council, you're recognized. [LB682]

SENATOR COUNCIL: Thank you, Mr. President. I rise in support of LB682 and the corresponding amendments. I sit here and listen to the arguments in opposition and those arguments that suggest that to provide assistance to the taxpayers in Omaha and Plattsmouth is not addressing an issue affecting this state. It is addressing this state. Omaha and Plattsmouth are integral parts of this state and I think we ought to focus as much on the health and safety issues related to this combined sewer overflow project as we are concerned about the economic consequences of not addressing this issue. Senator Mello has aptly identified the problem and that is a mandate. But what you need to know is the historical context. As a resident, almost a lifelong resident of northeast Omaha, I've had to deal over the years with the consequences of a combined sewer. In the spring when we have heavy rains, it is not uncommon to have raw sewage backing up into the basements of those residents in the eastern part of the state. The city of Omaha has been addressing this issue over the last couple of decades through its capital improvement program, but it only does so much a year because of the concern of the leaders of the city about increasing property taxes. And that to have

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effected this separation on any faster schedule, or any sooner, would have required significant increases in property taxes to address. So while the city of Omaha was attempting to address the problem under its schedule based upon its revenues, the federal government stepped in and said, you must do this and you must do it in this period of time. Senator Smith talked about the corporate community and the impact. I want to talk to you about the residents of Omaha and Plattsmouth and the impact that this project will have on them in the absence of additional funding and that funding coming in the form of state assistance. It is projected that without state assistance, the average homeowner in Omaha will see their sewer fees increase by \$50 a month. Fifty dollars a month and then on top of that, that \$50 is subject to sales tax. So while I hear Senator Heidemann talking about it's included in the projections, you know, the question is, should it be included in the projections? But this is a situation that the option available to the city of Omaha is a massive increase in property taxes in order to meet this mandate and meet the federal deadline. Now the state of Nebraska, whether you want to admit it or not, will, in fact, have a windfall from this project because of the sales tax that is charged on the sewer fee. And it's amazing to me that it's included in the revenue projections because the city of Omaha could very easily... [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR COUNCIL: ...change their plan right now for how they're going to fund it. This is the current plan to fund it is with an increase in sewer fees. There would be no projected revenue to the state if the city of Omaha elects to go the property tax route, which we profess in this body to want to minimize as much as possible. Here we have an opportunity to provide assistance to keep that sewer fee to a point where the residents, and particularly low-income residents, can afford to stay in their houses and pay their gas and water bills. I mean, we need to understand the impact of a \$50 a month increase on somebody's gas and water bill in order to correct this problem, which is a health and safety problem. I believe that we as elected representatives of this state have an obligation to provide assistance to address... [LB682]

SENATOR LANGEMEIER: Time. [LB682]

SENATOR COUNCIL: Thank you. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Council. Senator Krist, you're recognized. [LB682]

SENATOR KRIST: Thank you, Mr. President. I want to do just a little bit of a gear shift here. There are many kinds of federal mandates. I am familiar with one and I talked about it on the mike last year during Senator White's bill proposal for a much more comprehensive funding which would eliminate all the taxes from these kinds of projects. But in Senator Pankonin's district, I'm privileged and lucky enough to own a little

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A-frame. Around that lake...around that little recreational place, which is, by the way, an SID, the federal government came in and on Tuesday morning the levy was high enough, it was strong enough. On Wednesday, miraculously, it was too low and it needed to completely be recertified. That project cost that little community of 300 and some odd homes over \$2 million. It had to be bored, it had to be looked at, it had to be structurally recertified. It had to be raised, in some areas as little as an inch, in some areas as much as five inches. I think seven was the peak. Neither here nor there. If that community would not have received a matching fund from the Lower Platte NRD, which by the way if you trace the money back, where's it come from? It's administered at a local level but it comes from us because we see the need to help homeowners, taxpayers, maintain their property value. Let me fast forward. Do you know what happens if...what would have happened if we would have not raised that levy and recertified it? You know what would have happened to our tax value? And we should be concerned with that, Senator Heidemann, because I pay taxes. My value would have gone down, therefore, my tax revenue in that area would have gone down. You know what else happens? You can't have a septic tank. A sewer system has to be installed. So that matching fund to allow that little SID to do what they needed to do kept a revenue base where it was. Did it cost us some money? It certainly did because it's money that we put in the NRD pocket to help projects around the state. So here's my point. It doesn't make any difference whether we do it through the NRD, whether we loan the money. It looks like it's going to be a gift to the Republican River. If we loan the money to the Republican River or if we work towards managing our water problem, everything in this state that has to do with keeping money in the pockets of its residents, its citizens, that's our job. And if we can't figure out a way to help the people of Omaha overcome a 1.8, \$1.7 billion project over a period of a decade, shame on us. If you listen to Senator Council and Senator Smith, they both aptly said, big business, individual homeowner. They are equally as important. We don't want them to walk across to Crescent or Red Oak to build a building and carry on business that they had already been carrying on in Omaha. And that's what will happen. We don't want the community in Omaha in different areas and I have them in my district as well, neighborhoods with fixed income folks who are going to be hit with \$50 a month increase. [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR KRIST: We need to do something to help the projects along. And Senator Heidemann can list them all day long and he can say, this district, and this town, and this town, and this town, but let me remind you what I said in onset, my first time at the mike, when CSO comes after Grand Island, Norfolk, Scottsbluff, and tells you to do the same thing and you're at the top of your levy, will your successors come back to this body and feel like we've done what we needed to do to enable them to get the kind of help that they need, or will they say, shame on them, I'm going to do something to make that work now. Thank you, Mr. President. [LB682]

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SENATOR LANGEMEIER: Thank you, Senator Krist. Senator Mello, you're recognized.
[LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature. A few points of clarification as we continue this dialogue. Senator Heidemann, while a friend and colleague, rattled off a number of communities across the state who have sewer problems of their own. What he failed to mention is that these communities, like most communities, if not all communities in the state outside the city of Omaha and Lincoln, receive USDA funds to help pay for their sewers. Those are federal funds, colleagues. The city of Omaha and Plattsmouth, on the other hand, do not get those USDA loans and grants to pay for their sewers. That's a critical component to this argument that you're hearing in opposition is that cities across Nebraska are facing aging infrastructure problems. Thus, why are we allowing just LB682 at this point in time to affect two cities? Well, it's in part because their projects are unique to Nebraska because no other cities at this point currently are designated as combined sewer overflow cities. But the other component is that there's no federal assistance that is provided to them to help alleviate the cost. I could give you the history of this project but that only strengthens, I think, the argument against what Senator Heidemann is trying to muddy the waters on, which is, we shouldn't do this just for the city of Omaha and Plattsmouth because we should do it for everyone, which I explained to him, if we could, I would be more than willing to look at amendments to do that. But right now there's only two CSO cities. That is the focus of the committee amendment on LB682. The other point of contention I really have, and I think it's for those who support providing municipalities the option to raise their local option sales tax with a vote of the people, I would remind you that that is a vote of the people. That is not a guaranteed tax increase. And frankly, that has no realm or reason to be involved in this discussion of LB682 because it has no correlation at all. This is state sales tax under LB682 that would be designated to be turned back to these projects because this is state sales tax and with the committee amendment, the local option sales tax also gets turned back to pay for the project. This is sales tax that the cities and state would normally never get and because of a federal mandate, we are receiving this additional funding. Instead, this bill would redirect that money to pay for the local project. If a city chooses to raise their local option sales tax, they choose to do that, that takes a vote of the people and by no means is that guaranteed to even happen. And in Omaha's case, that money is not going to be used or has never been discussed ever using to pay for a federally mandated project, which right now they already have a financing mechanism which is paying taxes and fees through their sewer use fee. So anyone who would try to make the argument that the city of Omaha can just adopt the local option sales tax increase, which is Senator Ashford's bill, and we'll be done with our sewer woes, is unfortunately sadly mistaken and is using false logic because neither one of those are connected, because either (1) the people who are making that argument fully don't understand the financing mechanism that's in place for these sewer separation projects, which for the case of Plattsmouth and Omaha is the

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sewer use fee. The sales taxes that we're talking about is the additional sales tax windfall that we're receiving. Now it's my understanding now, and I believe it's because after this project came to light last year, that now the Forecasting Board and the legislative Fiscal Office are taking into account this \$1.7 billion project into our fiscal projections. That's fine. In years to come, we will lose money out of our fiscal projections. Absolutely, right. For the 15 year period under LB682, we will turn back a portion of that sales tax to the city of Omaha and Plattsmouth. The state does still receive roughly... [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR MELLO: ...\$2.5 million over the course of that 15 year period. That's what they're receiving now. We just hold the state flat. So to some extent if that's an argument that Senator Heidemann wants to make is that it will affect our fiscal budgets in years to come, I'm more than willing to say, okay, it will. But the question is, did we really count on that for future spending? No, we didn't do it until this past year when this project came to light. And I don't think we should do it in the year...and I don't think the state or local governments should be counting on this additional windfall as we move forward with future budgets. One point to make and I've been talking with Senator Loudon, if LB682 moves to Select I'll be bringing a Select File amendment to help clarify that at this point in time it's only cities of the first-class and metropolitan class that would be affected by the date changes. Senator Loudon's concern is that this opens it up to multiple cities. While there's only two cities that are affected by it right now, I'm more than willing to acknowledge that there are only two classes of cities that are affected... [LB682]

SENATOR LANGEMEIER: Time. [LB682]

SENATOR MELLO: ...by it at this point, and I'd be willing to bring that amendment on Select File. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Mello. Senator Hadley...oh, excuse me. Mr. Clerk, for an announcement. [LB682]

ASSISTANT CLERK: Judiciary Committee will have an Executive Session at 10:00 in Room 2022.

SENATOR LANGEMEIER: Thank you. Senator Hadley, you're recognized. [LB682]

SENATOR HADLEY: Mr. President and members of the body. First of all, I do like Omaha again. I echo what Senator Heidemann said about spending money there and such as that. Would Senator Council yield to a question? [LB682]

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SENATOR LANGEMEIER: Senator Council, would you yield? [LB682]

SENATOR COUNCIL: Yes. [LB682]

SENATOR HADLEY: Senator Council, you said that Omaha had known about this problem for quite some time and just didn't have the funds to handle it. How long have they known about the problem? [LB682]

SENATOR COUNCIL: Well, we've had combined sewers, Senator Hadley, from the...almost the inception of the city. So I know that probably the last 15 years there have been appropriations from the budget through the city's Capital Development Fund allocated to sewer separation. But the...as indicated by the cost of the project, \$1.7 billion, there's only so much of the Capital Development Fund that could be allocated on an annual basis without a significant increase in property taxes. [LB682]

SENATOR HADLEY: Thank you, Senator Council. I guess I...that comment caught my ear because I guess we're forgetting this is a terrible federal mandate, right? We have a couple cities dumping sewage into the Missouri River. And it's absolutely terrible that the federal government would tell us we can't do that. We shouldn't be doing it. And they told us 20, 25 years ago that we shouldn't be doing it. And now it's reached the level that the state has to try and step in. What has happened for the last 20, 25 years? Has it changed? Have the cost not gone up in the last 20, 25 years? Has the cost not increased? Secondly, I'd like to answer Senator Krist when he said other towns might be involved in these types of things. The city of Kearney six year ago had it's well field on the Platte River, right down near the Platte River, recognized there could be a real problem with the EPA, polluting of the well field and such as that. So they went out and built a new well field. Tacked the price of it on to the sewer and water user. Well, I'm going to talk to the city manager. He should have come to the Legislature to help out on that. [LB682]

SENATOR LANGEMEIER: (Gavel) [LB682]

SENATOR HADLEY: Thirdly, I do see a connection between the half cent and this. The connection is one gives \$45 million to the city of Omaha if they pass it, the other gives them \$5 million a year. There is a connection. And to say that there isn't a connection, I think is disingenuous. They both benefit, basically, the city of Omaha. Nothing wrong with that. I think Plattsmouth gets, I've heard anywhere from eleven to thirteen thousand dollars a year. But I want to go back to my initial point. If the city of Omaha has known about this for 20 and 25 years, how come they haven't come to the state before that to help out? As Senator Council says, this is dumping sewage into basements, dumping raw sewage into the Missouri River, and we're upset because it's a federal mandate to fix that? I would hope that if we were ever in a position to have a state mandate and the city was doing that, we'd tell them to fix it. So again, I will not support either the

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amendments or LB682. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Hadley. Senator McCoy, you're recognized. [LB682]

SENATOR McCOY: Thank you, Mr. President and members. We've had an interesting discussion on this topic thus far. And I felt it necessary as a member of the Natural Resources Committee, I guess, to stand up and talk about Senator Mello's companion legislation to LB682 that we heard earlier this year which was LB683, which sought to create a Stormwater Management Commission. Some of these large industrial users that you've heard mention of today and yesterday came and testified on LB683. I think it's pertinent to this discussion to talk a little bit about that. And the reason for that is because I think you've heard a few people stand up in support of this legislation, LB682, and say that perhaps this will afford relief to these industrial users, and it may. But the city of Omaha spent two years and \$500,000 to come up with a plan that charges the 29 largest industrial users seventy times, I'll repeat that, seventy times the rate of other commercial users in the city of Omaha to handle this problem. You know, a lot of us asked the questions in that hearing that day of how could this happen? We had the mayor of Omaha, his chief of staff come and testify, along with other officials from the city of Omaha. This is a major problem, not only the underlying CSO problem in my opinion, but the situation that these industrial users find themselves in, in my belief, an unfair situation. But I believe in part this morning we're being asked to address a problem at the state level that the city could have handled and still could handle a much different way. You've heard Senator Council and others talk about what a burden this is on residential users, of which I am one. And that is true. It's also been a burden on these 29 largest industrial users, and I agree with that. But in the middle we have a category of commercial users, thousands of them in Omaha. Do any of them want to see their rates go up? I'm sure not. And they have gone up, but they haven't gone up seventy times what they were before. The city could have done this...or I should back up, the city still could share this more equitably amongst all the users in Omaha. And I ask, why they haven't. We asked that question in the committee. I stand in opposition to LB682 because I think it goes about this in the wrong way. Thank you, Mr. President. [LB682 LB683]

SENATOR LANGEMEIER: Thank you, Senator McCoy. Senator Pankonin, you're recognized. [LB682]

SENATOR PANKONIN: Thank you, Mr. President. I'm speaking again on AM1012 and the underlying bill, still in favor of both. I think we've had great discussion this morning and learned more about some of the pieces of this puzzle. Senator McCoy's comments, Senator Smith's comments, I've appreciated and it is complicated, but I also having lived close to the Omaha area and watched the Omaha media over the years. Senator Council's description of what's happened many, many times, we get our big rains in the

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spring, May and June, and so many people have to suffer in her district and others with these basements or their houses that have waste water that backs up. And that's a miserable, miserable situation. And as I talked about the history yesterday and Senator Council talked about it today, obviously, Omaha in the eastern part of the community was...settled early as was Plattsmouth and the technology was such that it wasn't what we use today. And it's an unprecedented problem that affects our state's largest city, our state's largest economic driver. But I also want to tell you that Plattsmouth is a community that's poised to grow. Just south of Omaha, has a lot of not only the physical area to do that, but I was just over there Sunday and you can see where they're laying out areas for more potential development, and when companies or individuals look at these issues about what these rates will be for their water and sewer, and these all get taken into account. And so I think some of the comments that were made today also plight economic development. If we can help in some small way it can help these communities grow and prosper. But I still think there's an issue here that is important not only to my community, but to Omaha. And it's one that maybe the city of Omaha hasn't applied totally correctly as Senator McCoy said, but I do think we need to try to help them if we can. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Pankonin. Senator Heidemann, you're recognized. [LB682]

SENATOR HEIDEMANN: Question. [LB682]

SENATOR LANGEMEIER: The question has been called. Do I see five hands? I do see five hands. The question for the body is, shall debate cease on AM1012? All those in favor vote yea; all those opposed vote nay. Have all those voted that wish to? Record, Mr. Clerk. [LB682]

CLERK: 25 ayes, 9 nays to cease debate. [LB682]

SENATOR LANGEMEIER: Debate does cease. Senator Mello, you're recognized to close on AM1012. [LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature. AM1012 makes a change as I described and I will be revisiting this change when LB682 gets to Select, which I hope it does, which changes the date in regards to cities of the first-class, second-class villages, which there is only a first-class city that applies, which is the city of Plattsmouth to make them be able to apply for the state assistance July 1, 2011, and allowing the cities of the metropolitan class to continue that date of July 1, 2013, which was anticipated when they would have another rate increase. While I have some time to close on AM1012, once again this is a simple amendment, simple change to improve what I believe is the committee amendment in the sense that it does have a minimal impact in this current biennial budget of give or take between \$11,000 to

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\$13,000 over the course of the two years. I think it was a very interesting point that I just heard and I would be remiss to not refute it because I think it's, unfortunately, it's just inaccurate. Senator McCoy, who was well engaged in last year's debate in killing LB952 last year, described what has been going on as an ongoing process between myself and have recently involved Senator Langemeier of trying to deal with what is a local government issue regarding the fee structure and the fee model and the financing model that the city of Omaha has developed over the last five years. LB682 does not change that model. LB682 never intended to change that model. LB682 provides more assistance to cities who are facing that problem. So to state that this is an issue that the city of Omaha could just handle tomorrow, first off, it's unfortunate Senator McCoy has not been involved in the conversations and understand that we have been working on it. We are in meetings. We are discussing it. If he would have approached me I would have explained to him more of what has been going on. Are we where we want to see the model? No. We want to see changes, but that's a local government issue that's determined by the mayor of Omaha and the city council of Omaha, not by the state Legislature. LB682 is a different approach. These amendments that we will discuss takes a different approach. It is the additional sales tax that Senator McCoy, myself, others who fall within the Douglas, Sarpy County areas, who are connected to this regional sewer system, as well as those who are connected to the city of Plattsmouth system, it's about turning back that additional sales tax that we pay because of this federally mandated project to help go back and pay for the project, thus reducing the fees and the burden that all of us have to pay. It's not a silver bullet and I described that both to the committee and on the floor. But I also described that this provides relief to residential, commercial, industrial users in the city of Omaha and Plattsmouth. They will pay less if we pass LB682. Any point to be made of trying to bring up a contrasting bill, LB683 that I have in front of the Natural Resources Committee which studies storm water management, which is another component of this issue that we are not discussing on this bill because it doesn't have the direct connection of trying to provide tax policy is, we can have that conversation. It's another issue to study. I believe we will study it and Senator Langemeier has been very helpful as the Chair of the Natural Resources to provide that education and that foresight and guidance to help provide ways to look at sewer issues and storm water management issues. But the underlying issue of LB682, colleagues, is not a choice between storm water...between additional sales tax options or turnback taxes. This amendment, actually, just provides some date changes. It's an issue of whether or not the state has a role in regards to the largest economic impact facing our state right now, larger than transportation funding, larger than education funding. We are talking about the largest public infrastructure finance project in the... [LB682 LB683]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR MELLO: ...history of the state. There's nothing that compares in size, nothing that may never compare in size to what we're discussing. So for those who are

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obviously in opposition to this bill and wish for people to pay more taxes and more fees who are affected by it, that's their prerogative. But to misstate facts and to misstate and to allude to other issues that do not fall within LB682 is just...it's unfortunate, because it's not what the underlying bill does and it's not the intention of the underlying bill. The underlying bill is to provide assistance to those communities that face a federally mandated unfunded project because they are paying millions of dollars, billions of dollars in more sales tax and more sewer fees that we as a state, and them as a city, would not otherwise use to backfill our budget problems. Good fiscal management would say, you would turn this money back because you didn't plan on it in the first place, and at the end of the day if you don't turn it back, you're simply raising... [LB682]

SENATOR LANGEMEIER: Time. [LB682]

SENATOR MELLO: ...taxes and fees on people. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Mello. You have heard the closing on AM1012 offered to LB682, the committee amendment. All those in favor...the question is, shall AM1012 be adopted? All those in favor vote yea; all those opposed vote nay. Have all those voted that wish to? Record, Mr. Clerk. [LB682]

CLERK: 33 ayes, 1 nay on the adoption of the amendment to the committee amendments. [LB682]

SENATOR LANGEMEIER: AM1012 is adopted. We return now to discussion on the committee amendment, AM626. The floor is open for discussion. Those wishing to speak, we have Senator Utter, Ken Haar, Howard, Council, Krist, Mello, Pahls, Christensen, and others. Senator Utter, you're recognized. [LB682]

SENATOR UTTER: Thank you very much, Mr. President and good morning, colleagues. First of all, I just have to tell you that I'm envious of my row mate, Senator Mello, and his skill and I'm envious certainly of his youthful good looks. I can remember the time when I was youthful, can't ever remember the time when I had the good looks that he's got, and I'm also envious of his skill, his polished oratory, and his compassion toward representing his district, but overnight folks, I didn't change my mind. I think we're heading down the wrong road with expanding the use of turnback taxes. I think it's the wrong direction to go. I would also like to just address Senator Mello with a question if he would yield, and this will be a new experience, he and I sharing this microphone, but we'll give it our best. [LB682]

SENATOR LANGEMEIER: Senator Mello, would you yield? [LB682]

SENATOR MELLO: I would. [LB682]

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SENATOR UTTER: Senator Mello, can you just give us a taste of what will the turnback tax...what effect is that going to have on the average monthly sewer bill of a resident in Omaha? [LB682]

SENATOR MELLO: Well, Senator Utter, at this point in time the city has not ran financial projections based on LB682 because it's fairly complex legislation, and it's still being determined as Senator Heidemann and the Fiscal Office and myself are trying to determine what the total financial impact over the lifetime of the project would be. I would be mistaken not to provide a little clarification that's in the legislation. It's the legislative Fiscal Office's interpretation and I would agree with that interpretation. I think the city does now as well, which is, the city of Omaha, and I can only speak for them, I'd have to let Senator Pankonin speak a little more for the city of Plattsmouth if he understands it, they're bonding at least for the city of Omaha to pay for this project can go anywhere up to 40 years. And it's estimated, possibly longer, roughly 2050 to pay for the life of the project, which means that would be an additional...and I originally...we originally thought projections, the lifetime of the project was 15 years because that is the total amount of time that's needed under the EPA DEQ decree to pay for it. If you elongate that from instead of 15 years to roughly 40 years, that changes the amount of money that would be put back into the project compared to what we originally anticipated. So while we originally anticipated a 15 year maximum window, which I have discussed with Senator Heidemann, if that's something that we want to do as similar to the Qwest Center and similar to the arena bill we passed last year on turnback is put a 20-year window, we can look to do that as well on LB682. But as it's drafted now, the lifetime of the project is going to be based on the lifetime of the bonds to pay for the project, which is a much larger than the \$40 million over 15 years that we originally anticipated. Thus, I think the city of Omaha will have to go back and look at the total amount of money they might qualify for under LB682, which would have probably a much more dramatic impact in the fee structure when we discuss \$40 million to potentially \$100 million or \$150 million over a course of 40 or 50 years. [LB682]

SENATOR UTTER: Thank you, Senator Mello. You did a great job of using up my time, by the way. Thank you very much. (Laughter) I will...folks, I urge you as we come to the end of this debate, hopefully, that you take a good look at what we're doing with regard to tax policy for this state and what we're doing in terms of the expansion of the turnback tax proposals that we have heard about... [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR UTTER: ...and seen and that I'm sure people are dreaming about today following up on this bill. And I urge you to vote against the bill. Thank you very much. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Utter. (Visitors introduced.) Returning to

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discussion on AM626, those wishing to speak, we have Senator Ken Haar, Howard, Council, Krist, Mello, and others. Senator Haar, you're recognized. [LB682]

SENATOR HAAR: Mr. President and members of the body, I would like to relinquish my time to Senator Mello. [LB682]

SENATOR LANGEMEIER: Senator Mello, 4:50. [LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature and thank you, Senator Haar. I would be more than willing to offer some time back to Senator Utter if he'd like it since I want to make sure that he had ample time to discuss his perspective on the bill, which I appreciate Senator Utter and Senator Heidemann's views on this legislation because the fact is they're principled in their opposition to turnback tax policy. That is where Senator Heidemann has been at. That is where Senator Utter has been at. That is their opposition. I understand that and I can appreciate that. I know that there are some who feel that we should not be trying to provide assistance to these cities because other cities are impacted by mandated projects as well. As I would like to continue further that dialogue, the reason that LB682 came to fruition is last year's debate, I distinctly remember, and unfortunately it fell along a urban-rural split, which is always a concern to me as a member of the Appropriations Committee, as someone who tries to look out for statewide interests with the understanding that the CSO project as it affects the greater metropolitan area does not just affect my legislative district, does not just affect the employers in my legislative district. It affects all the residents in businesses in all of Douglas and Sarpy County. And the reason why this bill came to fruition is last year there was a debate and there was an opposition and filibuster led by some of the opponents today who do not support LB682, who did not support last year's legislation for very similar reasons. That they felt that the state should not be involved in trying to assist with what is known as the largest public infrastructure financing project in the state of Nebraska. That is their opinion and perspective and at the end of the day I also respect those who have principled stands in regards to why they oppose certain kinds of tax policy. Last year it was a sales tax exemption that they felt they couldn't support a sales tax exemption. This year it's a turnback tax style financing mechanism. The underlying issue, though, that regardless of one's views on tax policy, the underlying issue behind LB682 that unfortunately we're not hearing some of the opponents acknowledge, is that this is tax money that is coming from businesses and residential payers that we have never forecasted and never planned on until last year's debate on this issue. Why? Because I asked the Tax Commissioner in last year's Appropriations Committee hearing about it. And until we discussed LB952 last year, this was never put on the books. We had never thought about putting and adding the additional sales tax from the state level into our forecast or into our projections because we never projected what the rate increases would be from the city of Omaha and the city of Plattsmouth. I beg the question, why would we continue to do that now and we have the option not to do that and there's LB682?

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There's no need to do that. That's not good fiscal policy in my mind because this is money that we shouldn't be taking unless...unless our intentions just need to be known. And that at the end of the day is all I ask when I opened up on LB682 as I asked for your thoughtful consideration of some of the underlying issues of whether or not this body and whether or not our state government wants to tax those in the city of Omaha, Douglas County, Sarpy County, and those attached to the city of Plattsmouth sewer system, we want to tax them more money than we should because the projects that they're dealing with are mandated out of our control as a state. [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR MELLO: Out of our control...out of their control as a local government. And the question of the underlying tax policy in my mind is not whether or not...we're not eroding our state sales tax base, it's whether or not we want to collect more taxes on the businesses and residential ratepayers in Elkhorn, in Bennington, in Omaha, in Bellevue, in Plattsmouth, in the areas that are affected by the CSO project. That's the underlying tax policy issue because we had never...we had never planned, never forecasted accepting or receiving this money until this issue was brought to light. So the question is now, what do we do when this information has been brought to light? Do we provide some assistance in relief back to pay for the project and relieve their burden, or do we simply take the money back over the course of this project, take the additional sales tax at the state level, the \$1.7 billion and spend... [LB682]

SENATOR LANGEMEIER: Time. [LB682]

SENATOR MELLO: ...it to our accord. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Mello. Senator Howard, you're recognized. [LB682]

SENATOR HOWARD: Thank you, Mr. President and members of the body. District 9 in Omaha, the district that I represent has many, many older residents. These people want to remain in their homes, to put it bluntly. Many of these people have lived in their homes their adult lives. They've kept up their property. This is their home. They don't want to leave it and frankly, we don't want them to leave their homes. It's better if they stay independent, it's better if they don't go on our Medicaid program, it's better if they're self-sufficient. But when we add additional burdens on to these people, if we're going to be talking \$50 a month more on their sewer bills, these things become real deciding factors. People reach a point where they say, we can't continue. We can't continue to keep our homes up, to put in new furnaces, new roofs, address the plumbing problems, basically do all the maintenance that goes on with a home and now pay this too. And when that happens and these homes go on the market, home valuation is lower now, real estate is not really moving yet. We hope it will in the future, but we just create a

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domino effect. This is an important bill not only to those people that I'm describing to you, the people that live in my district in Omaha, but to all of us. I say to you, it's no less important than when we've dealt with issues regarding the Republican River, the vegetation that we had to eliminate on our streams because it was clogging things up. No different than when we're out here addressing the issues that are critical to those of you who are farming, and I've always been very respectful of that. I remember when I came down here and I was told, you represent your district but you're a state senator. And that's very, very true. Right now this issue has the greatest impact on two areas in Omaha, but we all have the responsibility to deal with this. We are all senators representing the state of Nebraska. Yesterday, I was out in the Rotunda speaking to a group of fourth graders from a school in my district from Field Club and there were a lot of kids in that group. And their teacher introduced me as the senator that represents the district where their school is located. And she asked them, do you know what your senator does? And they said, well, she comes down here and she works and she's here every day. And the teacher said, she works for you. She watches out for what's going on in your district and in the state of Nebraska. She's here to work for you. And that's what we're all here for. We're here to represent those people that trust in us, that gave us their vote. They really are expecting us to do the right thing for them and that's reasonable. This bill is the right thing not only for the people in Omaha, but for all of us. We're all in this state together and we all need to pull in the same direction. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Howard. Senator Council, you're recognized. [LB682]

SENATOR COUNCIL: Thank you, Mr. President. Yeah, I need to take this time to correct some errors in the conclusions drawn by my colleague, Senator Hadley, to the statements I made earlier when I was on the mike. Senator Hadley construed my comments as suggesting that the federal government told the city of Omaha 20, 25 years ago that they needed to address this sewer separation project. That was not the case. What Omaha...the city of Omaha has known for 20 or 25 years is that when we have heavy rains, the sewers back up in those areas of the city that have combined sewers. And Omaha was addressing the needs of the residents of the city of Omaha. If you look at the document that Senator Mello passed out originally when the debate began on this subject, you will note that the city of Omaha has been addressing the issue of sewage in the Missouri River through federally approved processes, including the construction of interceptors, system diversion structures, lift stations, all of these actions were taken with the approval of the federal government as a means of reducing the amount of sewage that was going into the Missouri River. It wasn't until three or four years ago when the EPA said there is too much sewage going into the Missouri River, and you must immediately take action to separate your sewers. So I think that needs to be clear because Senator Hadley's comments would leave you with the impression that the city of Omaha has known that what they were doing was not approved by the

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federal government and that the federal government told them years ago to take this action in terms of separating its sewers. No, what the city of Omaha was doing and should have been doing was addressing the concerns of its residents who had suffered through these spring rains when sewage would back up into basements, including my own. So the fact that this has been a known problem is not the fact that it's a federal mandate. It became a federal mandate three or four years ago. And so I don't want to leave you with that impression that you're somehow being asked to come to the rescue of the city of Omaha because they neglected to carry out a duty imposed by the federal government many years ago. That duty wasn't imposed until recently. And it needs to be addressed and many others have talked about the impact. If we can take action that would reduce the impact of this on residents in particular, and businesses generally, the entire state benefits from that, because if you start to consider the impact on, for example, state utility assistance programs when these low-income residents cannot pay their gas and water bill because it has increased up to \$50 a month, you'll consider it a state problem then when you see requests for increases in the budgets for those utility assistance programs because that will be the only place that these residents will be able to turn to for help in addressing this additional financial burden. By passing LB682... [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR COUNCIL: ...we provide an opportunity for the cost to those residents and businesses to be reduced. As Senator Mello indicated, the amount of that reduction has yet to be determined, but I can tell you that there will be a reduction as a result of this. And when we talk about last year's debate, I was one of those who supported Senator White's bill because again we were saddling these residents with not only an increase in the sewer fee but a sales tax on top of that. And if we're going to permit the sales tax to continue on that portion of the sewer fees being increased to comply with this mandate, then we should be in a position to turn back some of that additional sales tax to the city of Omaha to relieve that burden... [LB682]

SENATOR LANGEMEIER: Time. [LB682]

SENATOR COUNCIL: ...on Nebraska residents. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Council. Senator Krist, you're recognized. [LB682]

SENATOR KRIST: Thank you, Mr. President. I, too, rise to try to talk to some inconsistencies. We're up in Omaha, lived in Omaha all my life except for the time I spent away in the Air Force. And I will tell you that going back to 1954 with Johnny Rosenblatt, there was effort going on to separate sewer systems. Rosenblatt, Dworak, Sorensen, Leahy, Zorinsky, Cunningham, Veys, Veys had a big impact on separating

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parts of the city. If you ask my colleague, Senator Price, he'll tell that you some of the other parts of the county around the city have been separated for some time. That is also the case inside the city of Omaha where those efforts have gone on. So this has been going on for a long time with quality leadership that we don't have to question was allowing the sludge to go into the Missouri River. That is an inconsistency. Starting with Mayor Mike Boyle, Tomasek, Simon, Conley, and Morgan, we started to step things up a little bit more and it wasn't until the early 2000's and now were talking about the waning years of Anzaldo and Daub, did we reach a compact with the EPA in order to clean up the remainder and separate the remainder of our sewer system. So, you see, going back to basically the mid-'60s quality leadership in the Omaha area has been working to separate and to provide water systems that are both sanitary and do not flush the sludge down to St. Louis. The difference is, and I think you need to keep this into...take this into account, the difference is that when we're talking about the mid-'60s, and you can look it up yourself, a quarter of a million people. You know what that area constitutes today? Look at your current census. Probably pushing two million people are using some portion of that water system, that sewer system around the metropolitan area. So it's not only just separating the systems, but it's the growth of the community around the metropolitan area which, in fact, we've all talked about in some degree as being a huge economic generator for the state. One other inconsistency that I'd like to talk to when it was brought up on the mike that there was a smaller portion of business that was shouldering a larger responsibility, that's true. But it has to do with the amount of output in the sewer system that a business might have. You can well imagine that a construction site, a company that has a construction, maybe a storage facility, a lumberyard, per se, might have a little less output than a slaughterhouse might have. So do you charge the dry customer, so to speak, as much as you do the wet customer? No, there has to be some proportion. There are those who will speak against this bill as though it is a turnback and it is something we should not do. I would say when you remove all the emotion from it, when you remove all the locality from it, it's the right thing for us to do to help the citizens in Nebraska who are shouldering a larger responsibility than they need to based upon a federal mandate. Thank you, Mr. President. [LB682]

SENATOR LANGEMEIER: Thank you, Senator Krist. Senator Mello, you're recognized. [LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature. Thank you to Senator Council and Senator Krist for providing, I think, what is sorely needed in this debate is some historical perspective that this is not an issue that just sprang up on us overnight and we're trying to put out a fire. This has been an ongoing issue that the state has been involved in. And the state does have a role in the combined sewer overflow projects that are the backdrop of what is LB682. Actually the city of Omaha and city of Plattsmouth, or at least the city of Omaha, I should say the city of Plattsmouth, I believe, is through the EPA, but the city of Omaha's decree is signed with

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the state of Nebraska. Our own Department of Environmental Quality is with...is who the consent order and consent decree is with. They are the ones overseeing the CSO completion and arrangements for the city of Omaha. So to some extent the state has started to get involved and needs to be involved more than just an overseer of whether or not this project is moving forward, which is what we're trying to do in LB682. You know, it's...I think we...we've had the debate over the last, well, yesterday, an hour or so, and today, a couple hours, in regards to one component of LB682 is the tax policy, whether or not you believe the state should give back some of the state sales tax, in conjunction with the local option sales tax that's collected, from federally unfunded mandated projects. That's the underlying tax component I think is what we've come to decipher. The other issue that is seemingly out there, and Senator Heidemann, I know, has his light on and will probably continue to discuss it, is whether or not the state should be involved in local sewer projects at all or local infrastructure projects. Well, we have heard the need for the state to be involved in infrastructure financing this session, and I think we've heard it the last two years as well. So that issue has been solved, I think for the most part. But the issue that remains out there, and it was alluded to by Senator McCoy and by others, is the economic impact that these unfunded federally mandated projects have. Senator Howard discussed in regards to the economic impact it has on seniors of trying to keep them in their homes when they will see a new tax and fee put on them, close to \$650 a year, that they had never paid before. As we've discussed on the floor, both in my opening and others, the impact it has on the 29 largest water users in the city of Omaha, which pay roughly \$85 million of the entire project--29 users. The economic impact it has on them is significant, possibly sending some of the most well-known established manufacturing plants in the state of Nebraska out of state: Skinner Baking, Kellogg's, Greater Omaha Packing, Nebraska Beef. Colleagues, LB682 is, frankly, it comes down to whether or not we want to acknowledge the severe economic impact that this project, which was not chosen to be entered into but was mandated by the federal government to the cities of Omaha and Plattsmouth, of whether or not we as a state feel compelled to provide an extending hand of relief. And that extending hand of relief is not an overarching, I would say, expression of gratitude or compassion... [LB682]

SENATOR LANGEMEIER: One minute. [LB682]

SENATOR MELLO: ...because essentially our extension of relief is providing some of the money that people are paying us already for this project. So it's not that we're giving them additional General Fund dollars and they're coming in asking for an appropriation, which other entities have come in years past. We are simply saying you are paying \$1.7 billion--in the case of Omaha--in new fees and taxes, that we want to provide some of that money back to help pay the project cost and to lower your fees in the long run. That, colleagues, is what I see as good public policy. It's good economic development policy, it's good tax policy, and it's good state policy. Thank you, Mr. President. [LB682]

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SENATOR CARLSON PRESIDING

SENATOR CARLSON: Thank you, Senator Mello. Senator Pahls, you're recognized.
[LB682]

SENATOR PAHLS: Thank you, Mr. President and members of the body. I'm going to take a little bit of a different direction on this particular bill, because if anything, Senator Mello, you are fighting an uphill battle here. I did notice that, of course, the number of Omaha people were proponents of it, Lincoln was a proponent of it, and the United Cities of Sarpy County. So you did have proponents, but most of them were from the eastern part of the state. How I've been trying to approach many of the votes that I've been taking this year is what I call trying to be fair and to take a balanced approach. And I've really been curious about our discussion on tax policy. You know, when it came to roads, we listened, even though I voted for it but may not be totally in agreement with that proposal. But we do need...our roads need to be improved. The water issue, I thought there was an awful lot of support for that. Education is yet to be heard, but I'm sure there will be support for that, and areas such as Medicaid. And, of course, a lot of these things happen to be around the eastern part of this state, because you take a look at the amount of roads. The water issue is probably more of a rural issue; perhaps not. Education: a good many of the students are in the eastern part of the state. And, of course, those people in need are probably from the eastern part of the state. So that's what I'm looking at. I'm looking at the fairness and the balance of this. I am a little bit amiss when...and I appreciate what the Chair of Appropriations, who's really coming out against this, because he is against this tax policy, which I have no argument at all, because he needs to do that. But I didn't hear this same argument when we talked about roads from the Appropriation. I did not hear this same argument when we talked about the water issues from Appropriations. Those will have dramatic effects on our future. Now I'm not saying right or wrong, but it seems like we're picking and choosing. And some of you, and I've said this before, who are new, this is sort of chess game up here. Find out who is speaking to what bills, when they are introduced, how they are on the schedule, the movement back and forth. There is a system here involved. So I'm just looking for fairness. I can still remember my mother telling me: don't keep that chip on your shoulder. So this is a small town, this is a rule. I have this chip on my shoulder, but I was born and raised and spent a lot of years there. So I wanted fairness for that shoulder. Then I have the other shoulder; I've lived in Omaha a number of years. I don't want to have a chip on my shoulder there, and say, hey, we're the big dog; we deserve more. There needs to be a sense of balance here. For some reason, there is a mystery about the city of Omaha, and this was brought to light a number of years ago when I taught at Wayne State. A number of the students at that time, who were from the surrounding areas for the most part, to them Omaha was a big mystery. There was something...I don't know if it was wrong with the...well, I wasn't there, but there was not something wrong with that community. That was a big mystery. And also when I taught at Atkinson, Nebraska, there was almost like a fear. It's almost like we have two

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different states here, and I'm trying to balance this out. Senator Hadley has done this quite often, and to his credit, he says he thinks that the eastern part of the state gets more than its share. So what I started taking a look at, just let's take a look at the all taxes involved, these tax incentives. Now LB775... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR PAHLS: Thank you...LB775, the Nebraska Advantage, I'm sure it does help a lot of the business world--primarily, probably in the Omaha metropolitan areas. Then I look at tax exemptions, which I have not talked about, but I see in ag world, that's around a billion dollars. I take a look at federal subsidies--and we even had a senator on the floor said that he gets federal subsidies. I look at property tax: 75 for farm, 100 for the rest of us. So...but in all this, let's see if we can't build something here that works, and I probably will continue this, my discussion, later on. What I thought was interesting, when Senator Hadley says he would vote for allowing the city of Omaha to... [LB682]

SENATOR CARLSON: Time. [LB682]

SENATOR PAHLS: Thank you. [LB682]

SENATOR CARLSON: Thank you, Senator Pahls. Senator Christensen, you're recognized. [LB682]

SENATOR CHRISTENSEN: Thank you, Mr. President. I'm not sure how the Republican River issue got drug into this, but I think I might speak to it a little bit. The occupation tax that has been collected is setting in the bank, ready to pay the state back. Senator Carlson and I will give you our word it would be paid back. Why isn't it done yet? It's challenged in the Supreme Court. It's waiting to see if it has to be sent back to the people. But once that's determined, if it's constitutional, which we believe it is, it will be immediately given...paid to the state. If it's not, it's got to go back to the people. And with what was LB862, last year, we corrected the potential issue with that, so future receipts could go back to pay the state back. And it will be done. It's due next year. As soon as the court case is done, we'll be able to get that completed. Would Senator Mello yield to a quick question? Is he...there he is. [LB682]

SENATOR CARLSON: Senator Mello. [LB682]

SENATOR CHRISTENSEN: I'll go a little further. The Republican River is a state issue. We have a 1943 compact. The liability falls upon the state. If the NRD is not in liability...or not in compliance, the state is liable. [LB682]

SENATOR CARLSON: Senator Mello, would you yield? [LB682]

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SENATOR MELLO: Yes. [LB682]

SENATOR CHRISTENSEN: Senator Mello, if we continue to dump sewage into the river and this isn't fixed, who will be fined? Is it the state or the city? [LB682]

SENATOR MELLO: Well, unfortunately, Senator Christensen, that's a hypothetical that I can't really answer because that won't happen because the city of Omaha is mandated right now through a decree that they have to fix this, so they have to fix the problem. There's not a matter of theoretically allowing them not to do it and more sewage going into the river, so. [LB682]

SENATOR CHRISTENSEN: But it's the city is mandated to do it and not the state, correct? [LB682]

SENATOR MELLO: Correct. [LB682]

SENATOR CHRISTENSEN: Okay. Thank you. So that's the point. I want to separate the difference here. The Republican River issue that we dealt with, yes, we've put some state dollars in, and yes, there is a portion of them, a majority of them have to be paid back. Well, I shouldn't say a majority. Between what was done with some of the predecessors before Senator Carlson and I got down here, and what was done our first year down here, we'd be paying back near 50 percent. We will get that paid back as soon as we get determination from the courts. There's the difference and the separation in these two issues. One is a state signed compact and the liability falls on the state if the Republican is not in compliance, versus the city of Omaha is mandated to fix this federally and the liability falls upon the city. It is a choice of this body whether we're going to help with it, but there is a big difference between the Republican River issue and the issue we're looking at here with the state right now. I guess at this time I'll quit right there with addressing that issue. Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Christensen and Senator Mello. Senator Heidemann, you are recognized. [LB682]

SENATOR HEIDEMANN: Thank you, Mr. President and fellow members of the body. I want to point out a few things and hopefully we get this discussion over with today. It's been a good discussion. I think there's been good points made on both sides. Could I get Senator Mello to yield to a question or two? [LB682]

SENATOR CARLSON: Senator Mello, would you yield? [LB682]

SENATOR MELLO: I would be delighted. [LB682]

SENATOR HEIDEMANN: Okay. Without taking up too much of my time, because I was

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watching you and Senator Utter go back and forth, would the city of Omaha do this if the federal government didn't tell them they had to? [LB682]

SENATOR MELLO: I think at this point in time that they had not planned on doing a \$1.7 billion overflow project without a federal mandate. No, that was not in the city's master plan. Doing sewer updates have been in their master plan but not to a project of this size. [LB682]

SENATOR HEIDEMANN: I just do not believe that, even without the federal mandate, that the city of Omaha, the people, the city of Omaha would not want to stand up and, I consider, do the right thing. Are you saying without the federal mandate that they're okay putting raw sewage into the Missouri River during high rainfall events? [LB682]

SENATOR MELLO: Senator Heidemann, I think that's an unfair question, because I don't speak on behalf of the city of Omaha, and I think for me to give an answer would be...I would not be, I think, legally able to say that one way or another. I think the reality with the challenge of water quality in Omaha and the greater metropolitan area is not just in regards to sewage; it also is in regards to storm water management, which is another issue that has yet to be addressed actually within the city of Omaha's area. [LB682]

SENATOR HEIDEMANN: Also there's something that I want to point out in this bill, I've heard a lot of senators stand up and say they don't want to see the fee increase. Isn't that...yes or no? I mean you would rather not see a fee increase with this, if you didn't have to. [LB682]

SENATOR MELLO: Well, by passing LB682, I think everyone knows there will be fee increases. It's a matter of relieving the high projection of those fee increases (inaudible). [LB682]

SENATOR HEIDEMANN: But, in reality, you don't get any turnback tax unless you get a fee increase, because the turnback is only on the fee increase and not the fee itself. [LB682]

SENATOR MELLO: You're absolutely right. That's why the... [LB682]

SENATOR HEIDEMANN: (Inaudible) fee increase. [LB682]

SENATOR MELLO: That is why the fiscal projections that we have had debate about is somewhat debatable, because the city has not been able to run the changes in the fees in regards to without fully getting their hands wrapped around how much money they would get back to help lower those fees and pay for their construction costs. So that's why the entire fiscal note process--and I applaud the Fiscal Office for working with us

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and the city of Omaha, trying to find a way to get that accurate information--it would change dramatically. [LB682]

SENATOR HEIDEMANN: Thank you, Senator Mello. I want to say that there...I think that the city of Omaha does have a problem with their CSOs, and I think they realize that problem and they've tried to maybe not address it as soon as they would have liked, and because of that it's become a huge problem. They've probably tried to access some money from the federal government, talking to the federal delegation. They are now here talking to us to try to get some help here. But, in the end, I have faith in the people and the city of Omaha that they're going to stand up and do the right thing. They're going to put on their boots, go to work, and address this problem and do the right thing, and they can do it on their own. And we can encourage and we can help them do that by voting no on LB682. [LB682]

SENATOR CARLSON: Thank you, Senator Heidemann and Senator Mello. Those still wishing to speak: Senators Nelson, Wallman, Ken Haar, Smith, Pahls, and Mello. Senator Nelson, you're recognized. [LB682]

SENATOR NELSON: Thank you, Mr. President and members of the body. This has been an interesting discussion, and let me pose some questions here. Senator Christensen said he doesn't know why the Republican River Valley and the water issues are involved in this. I know why. Because we're going to face a problem down the road there. I don't know if many of you know that our United States Supreme Court has reopened the case between Nebraska and Kansas with regard to our noncompliance back in 2005 and 2006. And it could very well cause us payment of additional millions of dollars--we don't know how much, depending--because Kansas seems to have an edge now since it's going to be reopened, and they're going to come back and we're going to be faced with additional expenses out of our General Funds here, that we didn't contemplate. And what are we going to do? Suppose we do, in two or three years, face a huge issue out in western Nebraska, both on the Platte and the Republican. Are we going to ask the people out there that caused the problem to pay for that? Is this a statewide issue? When we talk about should have, could have, did the state of Nebraska, did we address the issues out there of the additional irrigation and all the wells that went in and caused part of this problem? Did the people of Omaha cause that? No, we didn't. But it's a statewide issue and it may very well be that the people in western Nebraska are going to be asking us for our help. And Omaha is asking for help at this time and Plattsmouth is asking for help. And it's no abrogation of our tax policy to take a look at payback or, you know, whatever the term is here that we're doing here, just as we did on the Qwest Center. So what's fair, it's fair. And I don't know think we can isolate these issues. Yes, Omaha could have perhaps looked at this and tried to put money aside; Plattsmouth as well. But there are also other and bigger issues at the time that the city council and the mayor have to speak, and it's always easy to put things off. The state of Nebraska has put things off. And I just think that we ought to be

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statesmanlike about this and not say it's your problem. As Senator Heidemann said, dig down and dig out your own money; you're on your own. This is something that we didn't contemplate. It's a mandate. Western Nebraska may be facing the same sort of mandate if, as a result of the Supreme Court's action here and the reopening, we're going to wind up owing a lot more money to the state of Kansas. Where is it going to come from? I suspect that we as a Legislature are going to deal with that, and people across the state of Nebraska are probably going to contribute one way or another through the state fund. That would be the right thing to do. And I think that if Omaha is going to be part of that and Lincoln is going to be part of that, in that (inaudible), in that attitude toward that issue that's probably going to come up, then I think it ought to work the other way. And the members of this senate here, members of this Legislature, should look at this in that sort of light and realize that this is a windfall of the state of Nebraska, and by gosh, we're not going to give up the possibility that we can get extra money for our General Fund. Yes, it's in the forecast, but things can change in a couple of years. Hopefully, our economy is improving here to the point where we're not going to have the financial problems that we do right now. And we don't have to rely on the people of Omaha, the backs of the people of Omaha, to provide additional revenue to us for the next 15 years. So I'm urging you to act as a statewide Legislature... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR NELSON: ...and look at the interests of people in the eastern part of the state as well as the western part of the state. And I'm asking you to vote green on AM626 when it comes to a vote at this time. Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Nelson. Mr. Clerk for an announcement. [LB682]

ASSISTANT CLERK: Mr. President, the Revenue Committee will meet in Executive Session in Room 2022 at 11:00.

SENATOR CARLSON: Thank you, Mr. Clerk. Senator Wallman, you are recognized. [LB682]

SENATOR WALLMAN: Good morning, Mr. President, friends all. Water. I've heard it said many times, that's our state highway--water, rivers. It will be a concern of the state of Nebraska if we don't fix these things. And Senator Mello, you have to commend him for bringing this forth. You think I don't have a dog in the fight? I've got the Blue River goes into Kansas. We have dogs in the fight, folks. Water quality, water quantity--these things we have to pay attention to. And so, like a good neighbor, Nebraska should be there. And I would yield the rest of my time to Senator Pahls. [LB682]

SENATOR CARLSON: Thank you, Senator Wallman. Senator Pahls, 4 minutes.

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[LB682]

SENATOR PAHLS: Thank you, Mr. President, and thank you, Senator Wallman. Just to continue a little bit more of my dialogue, and I must say I hope you were listening to Senator Nelson, because again I think he's approaching this from a fairness issue. Right now, a certain part of the state may be, in the near future, in trouble, but it may also be the other part of the state in the future, and you will probably be hearing dialogue like this going the opposite direction. Then it will be interesting to see people standing up. But what I want to...just put everything in perspective so we start understanding how I personally approach issues. And so one of the things I started--in fact, this was in 2007 when I was on another adventure called tax exemptions--I had my staff, and with other help, compile the tax revenue for the state of Nebraska by county--by county. Now this is old data but it should give you an indication of what life is all about. Just to give you an example--and I happened to pick the senators who serve on Revenue and Appropriations, just some of the counties that they represent. Adams County, Senator Utter...now I didn't do all your counties (inaudible). Your total tax bill was \$79 million--I'm going to round these numbers off. Buffalo County, Senator Hadley, was \$117 million. Pankonin, your county, Cass County, was \$64 million. Senator Fischer, Cherry County was \$19 million. Now these are the total taxes. This is your state income and property tax. I'll just skip over here a little bit. Senator Heidemann from Johnson County, yours is \$10 million. That's the total package of taxes. Lancaster, yours is \$797 million from Lancaster, for all those senators from that area. Sarpy, Senator Cornett, yours is \$338 million. Senator Harms from Scottsbluff, yours is \$82 million. Senator Louden from Sheridan, yours is \$14 million. Senator Adams from York, yours is \$44 million. Now those are the total numbers of all the taxes that are collected in that county. Now I'm going to flip over to Douglas County. The taxes covered in Douglas County: \$1.712 million (sic--billion). I do realize Douglas County receives a lot of state aid and other help, but I want you to notice that differences in the amounts of money... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR PAHLS: Thank you...the difference of the amounts of monies collected from all the counties. And what I will do is, now again, this was 2005 information; that would be different. I don't have the Fiscal Office to help me with this, but I'm sure they could give us up-to-date numbers. But just notice the difference. I believe that Douglas County is doing it, right now, it's fair share. Now a lot of that money is coming back but we're talking about \$1.7 billion. And some of these counties, we're talking \$10 million total. And then when we get to property tax, Douglas County is the only county that has nine digits. Most counties have eight or less. So that shows you that Douglas County does pay its share in property tax, because I've heard the argument that more money should be collected from... [LB682]

SENATOR CARLSON: Time. [LB682]

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SENATOR PAHLS: Thank you. [LB682]

SENATOR CARLSON: Thank you, Senator Pahls. (Visitors introduced.) Senator Ken Haar, you're recognized. [LB682]

SENATOR HAAR: Mr. President and members of the body, there seems to be two arguments going around against LB682. I favor LB682, by the way. The one Senator Utter has brought up, Senator Heidemann, not favoring the turnback tax for this kind of project. And I have to respect that. I disagree but I respect that. But there seems to be another kind of discussion going on and I would just describe it as spank Omaha and those terrible people in Omaha because, my gosh, they've been dumping sewage in the river for a long time. Well, if we're going to spend a lot of time on the sins of the past, we're never going to get anywhere. We're finding, for example, that perhaps our coal plants from public power are spewing out too much mercury and they're going to have to fix that. So I guess we could say, well, they should have thought of that in the past. Things change; things change. We learn and go forward, and that's the way I look at this project in Omaha. Maybe it could have gone forward a few years earlier or whatever. But I think this thing of trying to single out Omaha or Lincoln, or urban or rural, or the Republican River or whatever, is a waste of our time and I think is not looking at our responsibility properly. I was talking to my young guest this morning, Michaela, a fourth-grader who thinks that there should be more women in government--and I agree with her, and we were talking about the murals around the Capitol. And I think she's on another tour, right now, that...but the theme, the theme of all the murals in the Capitol, to me, seemed to be: we're all in this together. Nebraska is one state; we are one people. It's not the people of Omaha or the people of Scottsbluff or the people of whatever; it's the people of Nebraska. We're all in this together, and I think that's a theme that we have to watch, certainly as census data goes forward, as people move into more urban areas. We have to be reminded all the time: we are one state. Otherwise, it's very quickly in the future going to boil down again to an urban versus rural--where are the most people, where are the votes--and that's the way we're going to do it, not caring about we're all one people. So again I would like to express my support to AM626 and LB682. We're all one people in Nebraska, and this is a case where the people of Omaha, I believe, deserve our attention with LB682. We're all in this together. Thank you. [LB682]

SENATOR CARLSON: Thank you, Senator Haar. Senator Smith, you're recognized. [LB682]

SENATOR SMITH: Thank you, Mr. President and colleagues. Once again I rise in support of LB682, and my focus on the microphone here is really about the private-sector employers, the private-sector jobs. I rise to support this bill, to advocate for the protection of these private-sector jobs in our state and also to retain the tax

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revenues, the tax revenues that are brought into the state coffers by the employers most affected in the Omaha metro area by this bill. We want to retain those tax revenues that support statewide services. This is indeed about retention of jobs and about preserving our economy the way it is. We...you know, Senator McCoy mentioned a little bit earlier about when we were in Natural Resources Committee and some of the major users from the Omaha area that came in, they talked and they spoke. And yes, they did talk about some of the concerns they had with the rate structures in Omaha, and...but we can't do anything about that in this body. What's before us right now is throwing a small lifeline. It's a small effort for these large users and also for the medium-sized companies that are in business to support some of these large users. But this is a small thing that we're doing that's giving these large employers in our state a nod that's telling them that we care, we want them in our state. And there was one particular employer that I spoke with after that committee meeting, and they're, you know, they're looking at an August time frame for making a decision where to make their next expansion, their next plant expansion. And they have plants around the country, not just in Nebraska. And by voting no on this bill, we're telling them, from the state, you know, it's up to you to figure it out with the city of Omaha, but we're not going to help you; we're not going to throw you a lifeline. We have to help these businesses. We have to help the private-sector employers and the private-sector jobs. I'm not an advocate for this tax rollback. I certainly don't like that method, but we do have to preserve private-sector jobs in our state. And this is one of those, you know, bills that, frankly, I'm going to have to hold my nose and vote on, but I am in favor of protecting jobs and protecting private-sector jobs in this state. And there's a lot of people that are depending on our vote here today. We cannot micromanage Omaha in the way they have their rate structure set up right now that's harming these large businesses, but we can vote green on this particular bill to send a message to these large users that we want them to stay in our state, and that's why I'm in support of this bill. Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Smith. Those still wishing to speak include Pahls, Mello, Heidemann, Howard, and others. Senator Pahls, you're recognized. [LB682]

SENATOR PAHLS: Thank you, Mr. President and members of the body. By now, all of you should have received this legal-size copy of the "Nebraska State and Local Tax Revenue, By County." Now again, this was done in 2005. I mean it was compiled in 2007 but it's for 2005, so this is old data. However, it would give us an indication of what taxes are all about. And what I'm going to ask you to do is pick out one of the counties that you represent. I know some of you represent a number of counties, but just look at one. Take a look at the individual income tax, the state sales tax, and, of course, some you have local sales tax and some you do not, and look at the combination, and then take a look at the property tax and see how they add several of those columns up. And then the very one at the end is the total of all the taxes paid. Now this is where I'm getting to the fairness issue. We do need to be helping each other. There are times you

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can be the big dog on the block but you still need help. It does look like, right now, we are really digging into the pockets of the people in Douglas County. This could be one way to help that particular area. If you look at the comparison of every other county, it does its share. In time, there will be...you will need, in certain parts of the state, you're going to be needing to come back and say, okay, Omaha, we helped you out; now we need some help. I think we're doing that, because I looked at the vote on the water issue. I think you had support on that. I think roads, I don't know if that's settled yet, but we're taking a look at that. I don't have that information in front of me but logic tells me most of the--not most; that's not the correct word to use--a lot of the Highway Trust Fund, that money comes from the areas that have lots of cars, use the gas. Now not all that money should stick around those large areas. We need to take a look at ourselves as a state. And as Senator Nelson said, the water is a state issue--or it will be if certain things don't go our way with the upcoming issue that's going to be brought in front of the court system. Well, it appears right now that Omaha was sort of been blessed from the federal government of saying you need to do something. And perhaps, in a fairness issue, if you could see that, you say, can't do this because of the tax policy, I can see your point of view. But let's be consistent on that, not just on this type of tax policy but on all policies. I have always...and, you know, those of you that have been around awhile with me, you know there's certain things I want us to take a look at. Not to necessarily do away with the...but let's take a look at policies that we have established in the past. Several years ago, when I had the opportunity to be part of a tax commission, I was really surprised at what the tax issues happened to be in the state of Nebraska. And then again, around this table, I noticed everybody was trying to take their piece of the pie and I was trying to hope that we would take a look at it as a fairness issue. Not too many people want to pay taxes. I think we probably all could vote on that and get 100 percent feedback on that. But if we do have taxes, let's see if we can't make those as fair as possible. And this would be a time... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR PAHLS: Thank you...this would be a time to take a look at the city of Omaha and see if there is a need for this. I know the people on the other side say there's not, and I can understand their position. I may not agree with it but I can understand that. Thank you. [LB682]

SENATOR CARLSON: Thank you, Senator Pahls. Senator Heidemann, you're recognized. [LB682]

SENATOR HEIDEMANN: Question. [LB682]

SENATOR CARLSON: The question has been called. Do I see five hands? I do see five hands. The question is, shall debate cease? All those in favor vote aye; all opposed vote nay. Senator Heidemann, for what purpose do you rise? [LB682]

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SENATOR HEIDEMANN: Call of the house. [LB682]

SENATOR CARLSON: There has been a request to place the house under call. The question is, shall the house go under call? All those in favor vote aye; opposed vote nay. Record, Mr. Clerk. [LB682]

ASSISTANT CLERK: 25 ayes, 0 nays to go under call, Mr. President. [LB682]

SENATOR CARLSON: Thank you. The house is under call. Senators, please record your presence. Those unexcused senators outside the Chamber, please return to the Chamber and record your presence. All unauthorized personnel please leave the floor. The house is under call. Senators Cornett, Lathrop, Fischer, Loudon, Utter, Pankonin, Price, Hadley, Adams, Council, Christensen, Lautenbaugh, the house is under call. Senator Lathrop, Senator Lautenbaugh, the house is under call. Senator Heidemann, Senator Lautenbaugh is out of the building. How would you like to proceed? [LB682]

SENATOR HEIDEMANN: I'll take call-ins. [LB682]

SENATOR CARLSON: The question is, shall debate cease? The Clerk is authorized to accept call-in votes. [LB682]

ASSISTANT CLERK: Senator Adams voting yes. Senator Christensen voting yes. Senator Price voting yes. Senator Hadley voting yes. Senator Fischer voting yes. Senator Utter voting yes. Senator Harms voting yes. Senator Gloor voting yes. Senator Cornett voting yes. Senator Coash voting yes. Senator Fulton voting yes. Senator Council changing from yes to no. Senator Nordquist voting no. Senator Fischer voting yes. Senator Langemeier voting yes. Senator Christensen voting yes. [LB682]

SENATOR CARLSON: Have all voted who wish to vote? Record, Mr. Clerk. [LB682]

ASSISTANT CLERK: 23 ayes, 15 nays to cease debate, Mr. President. [LB682]

SENATOR CARLSON: The motion is defeated. We return to debate and raise the call. Those wishing to speak: Senators Howard, Krist, McGill, Haar, Pirsch, Mello, and Burke Harr. Senator Howard, you're recognized. [LB682]

SENATOR HOWARD: Thank you, Mr. President and members of the body. And thank you, Senators Nelson and Pahls, for your remarks earlier. The concern regarding the Republican River is very relevant to this debate. As Senator Nelson told you, the U.S. Supreme Court ruled last week to reopen the lawsuits on the Republican River. If Nebraska loses the reopened case, we stand to lose \$72 million. This money is going to come from the sales and the income tax. And if you look at the sheets that Senator

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Pahls handed out, you can easily see where the larger sales tax base lies, and that is Douglas County which is Omaha. In 2007, and I was here, LB701, regarding the Republican River, passed. This bill pertained to the vegetation removal on the Republican River. And I heard the pleas of how needed this was and how essential this was. We, at that time, paid \$2 million to have this vegetation removed. We also, in this bill, paid out \$3 million to the community of Bostwick for irrigation. We also paid out \$2.7 million to the water users. And do you know what the vote was on that bill? We looked it up because I was wondering, was it only the rural people that would be supporting this? Is this only the people that would be affected, the narrow margin of people that would be affected? No. The vote was 43-0 to support that. So, clearly, not all Republicans, clearly not all rural senators. These were Nebraska senators that supported this. And again, in 2008, I was here. We had LB1094. This is to compensate...this bill was to compensate the irrigators in the Republican River--or by the Republican River, I should say--who would not be able to take the water out. Very critical to them. We gave them \$9 million from the Cash Reserve. And, Senator Christensen, I believe, pointed out that this money is going to be paid back to us. Well, good; that was the understanding. But I have to tell you the rest of the story, and that is that this is now in the hands of the Nebraska Supreme Court, because these people in the Republican River area, the irrigators, they didn't like it a lot that they had a tax imposed on them, and that's where this repayment has come back from. So what they've done is gone to court and say: This isn't fair; we shouldn't have to pay this tax; we shouldn't have to pay this money back. And that case has moved all the way up to the Nebraska Supreme Court. If they rule in favor of the irrigators, there is not going to be any money to pay back. This money will have to be returned to the irrigators. So I just feel it's important for you to have the whole picture here. It's easy to say we've got the money to be paid back, but that's not all that you need to know. Do you know what the vote was to support that bill, that LB1094 again? 46-0. Not all rural senators, not all urban senators, not all Republicans, not all Democrats. The reason I tell you this is to remind you again... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR HOWARD: Thank you...that we represent our districts but we're all Nebraska senators. We all need to pull in the same direction. Thank you. [LB682]

SENATOR CARLSON: Thank you, Senator Howard. Senator Krist, you're recognized. [LB682]

SENATOR KRIST: Thank you, Mr. President. And fortuitous that I follow Senator Howard because my point is that if we were divisive, we probably would never achieve any goal. I am reminded that inside the city limits of Omaha there are senators who represent areas whose sewers have already been separated. Think about that. There are senators inside of the Omaha area, in the Dundee area some of your sewers have

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already been separated. In particular, those parts of town that you would least expect have already been completed. That's not the issue. The issue is that we have to make decisions, as Senator Howard said, combined with Nebraska ideals in mind and Nebraska goals in mind. This is one of those issues that's tough to swallow. I'm sure it was easier to give away a million dollars or loan a million dollars to any river project or anything when there was money. There's no doubt. But lest we forget what we did a few days ago, under Senator Langemeier's leadership and others, particularly Senator Fischer's leadership, we made a commitment long-term to this state, at least I understood that we did. And if you're listening and you heard a few days ago, and if you're listening today, I believe we made that commitment to try to put a water management program in place in the state. That's going to cost money. Now fast-forward to next year when we're sitting here making decisions and spending money to help Scottsbluff or Grand Island or Norfolk or the irrigation along the Republican River or irrigation along the Platte, or the possibility of closing down those 90 individual wells that were set up in haste because we were going to put a moratorium on them in years past, imagine that it will be me from District 10 that has to be with you in your fight to make sure that sanitation, fresh water, irrigation, is a state decision. I ask for your support for my district but I ask for your support in a long-term commitment. This is water. This is sewer water and it is separation of fresh water and sewer water. It's a commitment that we make collectively, as 49, to do what's right for the entire state. I was also reminded that the invention of the sewer system and the fresh water has, by itself, created a healthier culture and a healthier climate. That is also our goal and our objective, and it's our duty to make sure that those EPA mandates are met. I ask you to help in that project for the city of Omaha, for Douglas County, and across the state, because it's the right thing to do. Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Krist. Senator McGill, you're recognized. [LB682]

SENATOR MCGILL: Thank you, Mr. President, members of the body. I rise in support of LB682. I'll be brief, but I just wanted to stand up and say that we know that we have different communities in Nebraska that face a variety of different problems. Nebraska is more diverse than I think we often even realize, and that comes along with the diversity and struggles. I think it's good that the state has a lot of diversity, because, you know, I think it means that we're not a stagnant state. Like I said, unfortunately there are always problems that come along with that sort of diversity. And I know that there are people in the body who question if this mechanism is the right way to go about things, about this particular problem that one part of our state, one diverse part of our state is having. I ask for alternatives if you don't like this particular case, because we need to be cooperating with each other. I know earlier this session there were several instances where Omaha had a need and no one was there to help them, and Lincoln had a need and no one was there to help Lincoln, and I know there are individual communities that have had needs. Last year, we had a bill just about Ogallala and what size of a city they

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are. We all have a need at some point, and I'm not talking about wants. I'm talking about actual needs. We need to learn to work together to address the needs in our different areas so that every part of our state is strong, and not just one part, not just one area or region, but for all of us to be strong. If there are alternatives, now is the time to hear them with this. But this is a true need for the city of Omaha. They're being forced into something. We need to be there to help them find a way to deal with this particular problem, just as we would want other parts of the state to come together and try to help solve their problems so that the whole state can be strong. Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator McGill. Senator Ken Haar, you are recognized. This is your third time. [LB682]

SENATOR HAAR: Mr. President and members of the body, I'd like to give my time to Senator Mello should he want it. [LB682]

SENATOR CARLSON: Senator Mello. And by the time you get there, you have 4 minutes and 40 seconds. [LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature. And thank you, Senator Haar, for yielding me your time. Some conversations with some senators who are either unfamiliar with this project or unfamiliar with this situation faced by the city of Omaha and the city of Plattsmouth, I've appreciated your comments, I've appreciated your feedback. And the best I can do is try to provide you a perspective from someone who's affected by this unfunded federal mandate, and extend, I would say, the hand of cooperation. Because if this was the city of Norfolk, this was the city of Bloomfield, this was the city of West Point or Wayne or Lincoln, and your individual municipality was facing a federal mandate that they chose not on their own, they were working to try to deal with the issue, but because of circumstances, sometimes positive circumstances outside of their control, they were unable to do that. Something I mentioned in the committee hearing on LB682, the city of Omaha just didn't wake up one day and realize they had a problem. The fact is they've seen unprecedented growth since this issue was starting to percolate in the late '70s. So essentially the city of Omaha, for their case, outgrew their sewer infrastructure. They've been working on it. Senator Council mentioned it when she was a member of the Omaha City Council, they had been working on upgrading their sewers for decades. But the simple fact is, is that they grew so fast, and they couldn't control that, that they simply outgrew it and this is where we're at today with the federal mandate, saying that you have to change dramatically your infrastructure, and we're going to tax you to do so, regardless, and not give you an awful lot of options. But my underlying point was that, regardless of your municipality and regardless of where you're at in this state, if your local government is facing a similar situation, you would be on this floor in a committee advocating to the best of your ability the unfairness of the federal government overstepping their bounds,

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overstepping our bounds as a state government, going directly to a local government and dictating that they will do this and they will raise their taxes to do it. All of us would. All 49 of us would advocate that way. It would be my hope and my plea to those colleagues who might not be directly affected by this significant economic development issue, which it is perhaps the biggest economic development issue facing our state, the potential loss of thousands of jobs, potential loss of thousands of Nebraskans either moving out of state or moving out of their homes or losing their jobs because of a federal mandate, that we cannot simply afford on our own. And what LB682 does is that if it happened to not just the city of Omaha, not just the city of Plattsmouth, if this was any municipality, we would be there to help you maintain a vibrant economic development strategy in movement forward, because no city deserves to lose jobs, lose employers, or lose people, losing their homes because a federal mandate says they're going to have to spend and going to have to give significant amounts of tax dollars to finance a project that they did not approve. Colleagues, it's a simple issue but yet with so many complexities. [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR MELLO: The simple issue is that any municipality could be in the situation that the city of Omaha and Plattsmouth are in right now. I'm convinced there will be municipalities in the future who are in those situations. And I believe it's good public policy, it's good state policy, good tax policy, but even close, it's better economic development policy to extend a hand of cooperation and work with local governments to solve problems that they did not always cause on their own; that they are left holding the bag, and our residents, our businesses, our constituents are left holding the tax bill. I encourage you to support the committee amendment and the underlying bill, because the fact is, it provides relief to residents and businesses in what will be the largest tax increase in the history of the state that was essentially mandated by the federal government. We have the ability to provide some relief, some comfort, some compassion, and move a... [LB682]

SENATOR CARLSON: Time. [LB682]

SENATOR MELLO: ...(inaudible) strategy for it. Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Mello. Senator Pirsch, you're recognized. [LB682]

SENATOR PIRSCH: Members of the Legislature, thank you for the debate and conversation that's been going on here today. I want to put on the record my reason for supporting this, but I'm on the Revenue Committee that voted this bill out to the body. This, in my estimation, does...is tantamount to a tax increase--an involuntary tax increase. And so I think it's altogether appropriate that we have this discussion here

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today, a discussion that deals with a high level of tax policy. We have a decision to make, and I think that this issue brings about a conversation that has been needed and it deals with mandates. Generally, with sales tax, they apply the transactions that people willingly enter into. And with respect to federal mandates, these are transactions...the expenditures here are things that people are not willingly entering into; that they are compelled by law, transactions they are compelled by law to make. And it seems like a little bit like piling on and unfair, substantively unfair, to say you don't want to do this activity unlike all other sales transactions, but you're forced to do it. And since you're forced to do it, why don't we put on we're going to apply this sales tax? And so it is a matter of good tax policy that we should be debating this issue here today. And I've reached the conclusion that I'm not for tax increases. In my mind this is tantamount to that. It is the federal government essentially saying that the benefits...we want you to do this so that the benefits which would accrue, downstream Kansas City, etcetera, etcetera, materialize. And that's fine and well. They have a legal ability to do so. But in so doing, we have to look at how are we going to address then these type of situations with our tax policy. And I just think that it is altogether fair and appropriate for us to say, let's not throw salt on that wound; let's not pile on; let's not pile tax on top of this malady. And so for that reason, I think it's appropriate for us to be looking at eliminating that. Now there is an issue that has arisen, and we want to make sure that these, as we go about implementing this concept of not piling on to involuntarily entered into transactions by adding tax on top of that, tax increases, well, we want to make sure that it's done in a fair and uniform manner. And so I do appreciate the comments of those senators who have risen and spoken to that issue. And so with that in mind, I would yield the balance of my time to Senator Mello should he desire to have it. [LB682]

SENATOR CARLSON: Thank you, Senator Pirsch. I don't see Senator Mello. Senator Mello, you've been yielded 1 minute. [LB682]

SENATOR MELLO: Thank you, Mr. President, members of the Legislature. And thank you, Senator Pirsch, for making the argument--making the argument that not only is this tax policy, but at the end of the day it's a bigger economic development policy; that the hope being that we understand, as Senator Heidemann alluded that we should just put on our boots and march out in the rain and take care of the job. I think that's being done right now with the \$1.7 billion in new taxes and fees that are being paid, at least by the city of Omaha and the hundreds of...the millions of dollars that are being paid by the city of Plattsmouth and their residents and their businesses. That is being done. They put their boots on. They marched out in the rain, and they're walking, trying to solve their problem. The question is, for the sake of economic development purposes for the state, do we want to lose these businesses to Iowa? Do we want to see manufacturing plants move out of our state because we can't provide the sales tax that they're paying right now on an increased fee back to the project to help lower their overall fees? That's what LB682 does. It does the same thing for residential ratepayers, the same thing for commercial ratepayers. If we want to provide them the sale tax... [LB682]

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SENATOR CARLSON: Time. [LB682]

SENATOR MELLO: Thank you, Mr. President. [LB682]

SENATOR CARLSON: Senator Mello, you may continue. You are on your time. [LB682]

SENATOR MELLO: Thank you. Do we want to provide that sales tax back to lower the fees that everyone is paying? That's what it comes down to. Because if not, then we're just asking them to pay more. We're asking them to pay all of the \$1.7 billion out of pocket, with the hope they don't leave, the hope that seniors don't lose their homes, hope that manufacturing plants don't close down. Because the fact is, this has to be done regardless. And the issue of the fee structure and the fee model, that's not decided by us. It was never decided by us. It was decided by the city of Omaha, their local government, their voters, through their municipal charter. But what we can do is that we can take LB682 and make it a key economic development policy for the state and build on it; build on the fact that local governments, municipal governments, need a hand in public infrastructure financing. And this mechanism is a way to do that. They've already agreed that they're going to raise their taxes and fees to pay for this project. So let us provide that olive branch to help them extend what they're already doing, to provide some relief in the sense that we understand and acknowledge you're going to spend \$1.7 billion in new taxes and fees for this project. Let us, as the state, show you that we don't want you to close your business. We don't want you to lay workers off because of high rates. We don't want you to leave your homes and join public assistance because you can't stay in your home. We want to provide the sales tax that you're paying, part of that back to help pay the project and lower the ultimate fee that you will be paying over the lifetime of this project. That is what LB682 does. That is the goal and that is the underlying policy of this bill. It would be foolish for this body, and for the state government, in general, not to acknowledge the severe economic impact that may come for us failing to adopt LB682. The Natural Resources Committee and the Revenue Committee both heard from local governments, but more importantly, also heard from businesses that were affected by this federally unfunded mandated project. Their stories alone should draw the need for us to take action on LB682, because there is no other financing mechanism, colleagues. There is no other assistance. There are no other federal dollars that are lying out there that we just need to go get. That doesn't apply. The city of Plattsmouth, it doesn't apply to them, and it doesn't apply to the city of Omaha. We've got one way to finance it, and it's been financed through the model that's been adopted through using sewer use fees. Our hope is that there are other ways to look out there, and that was an idea that I still will try to look at. But the fact is, that requires additional legislation is what we found out from other states. What we can do is something innovative that's been tried and true and tested. Colleagues that I respect, Senators Heidemann and Utter, disagree with turnback tax-style financing. I respect that. That is a legitimate reason to oppose this legislation. They feel that we should look

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at another way to do it. We should just ask them to come and appropriate money, which I feel is not appropriate, because the city of Omaha and the city of Plattsmouth have stepped up to the plate and have decided to tax the sewer use fees, because that's the only thing they could do. They are willing to do that tax, and they're asking all, in return, provide some of that additional taxes that we have to pay back to us to help pay for the project. If this was any other city across the state, we would be on this floor considering their options as well,... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR MELLO: ...because it's the right policy. Hopefully we'll hear from other members of the Revenue Committee that this is not a choice either between a local option sales tax increase or LB682. It's not an either/or. They are in no way connected and never have been. There's another proposal we'll consider that gives cities the option to raise their own taxes. LB682 addresses the issue of cities that had no choice to raise their taxes. They were raised automatically. They had to. They didn't get to choose. Voters didn't get to approve it. Businesses and residential ratepayers are paying it because the EPA said you will do this. So to draw a connection to another proposal on the floor, I think is irresponsible, because they are not connected. If you want to support one and not the other, that's your choice and I can respect that. But to try to insinuate that they are connected, that's a tough argument to swallow. [LB682]

SENATOR CARLSON: Time. [LB682]

SENATOR MELLO: Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Mello. Senator Burke Harr, you're recognized. [LB682]

SENATOR HARR: Thank you, Mr. President, and thank you, Senator Mello, for taking the lead on this. I think he'll not be surprised when I say I agree with AM626 and LB682; I don't necessarily agree with his arguments for it. This is an argument of bigger proportion. This is where the rubber meets the road, and I chose that phrase specifically, because we as a state have to decide what our priorities are. We have to look, are we going urban versus rural on everything? Is this urban versus rural? Are we looking, what's the best interests for taxpayers on each issue? And when you look at what's a best issue, this is about the economy of the state, and so it's the best for all taxpayers. We will lose businesses. The Governor talks about we need to lower our corporate tax rates because business will leave. If we don't pass this, we may not be lowering our corporate tax rate but we're raising our taxes on those individual businesses and they will leave. I want to keep these businesses here. I don't need to call those businesses out by name because they've been mentioned a couple times before. But we all know; we've read the paper. This is about economic

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development--not for Omaha--for the whole state. The more revenue Omaha brings in, the more revenue is available for the whole state, and that's why it's important that we pass LB682 with the amendment. And with that, I would go ahead and yield the rest of my time to Senator Mello. Thank you. [LB682]

SENATOR CARLSON: Thank you, Senator Harr. Senator Mello, you have 3 minutes. [LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature. And thank you, Senator Harr, for your comments and your point, which hit the nail on the head, to say the least. We talk about wanting to lower taxes in this state. We talk about wanting to make our state more competitive, but, in the same breath, we're okay in turning a blind eye to the largest tax increase in the history of the state on a two-county area that had no choice in the matter. Through those who opposed the bill, they...unfortunately, we haven't heard arguments of why this would be a bad...essentially why this is a bad bill, beyond the simple fact that they don't like the turnback tax-style mechanism. Senator Heidemann alluded to just coming in front of the Appropriations Committee and requesting an amount of money every year, then, because the underlying issue, it doesn't erode the state sales tax base. This is sales tax we had never planned on. This is sales tax we should not plan on. If the EPA, tomorrow, rescinded their consent decree with the city of Omaha, we would be out of this money this budget year. If they did the same thing to Plattsmouth, they would be out...we would be out of the money that Plattsmouth pays. So the question is, this is all based on federal government mandates and decree orders that could be changed at any given day. New ones could be given any day to any municipality in the state if their sewer system was not meeting clean water standards, not meeting water quality standards. But the underlying issue that Senator Harr has mentioned and Senator Pirsch mentioned is the economic development implications, the economic impact implications of this. Those who are interested in supporting a local option sales tax for municipalities will continue to support that. That's a separate policy issue. That gives cities the ability to choose to raise their own taxes. If they want to raise taxes,... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR MELLO: ...then that's that policy. LB682 is nowhere near that same tax policy. Voters were never given a choice. Whether you live in Elkhorn, whether you live in west Omaha, south Omaha, north Omaha, Bellevue, Papillion, Gretna, you had no choice. This was dictated to you. This was a decision made by the federal government saying that you will pay this amount of money over this period of time. Our tax policy debate is whether or not we want to fully accept all of the state sales tax that they're paying, because the bill which is in the committee amendment keeps the state and cities flat in regards to the amount of sales tax they're receiving at this point in time. So the state of Nebraska is receiving roughly \$2.5 million in sales tax from the city of

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Omaha and Plattsmouth. That will remain consistent over the life of their projects. Their local governments... [LB682]

SENATOR CARLSON: Time. [LB682]

SENATOR MELLO: Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Mello. Those still wishing to speak: Conrad, Council, and Cook. Senator Conrad, you're recognized. [LB682]

SENATOR CONRAD: Thank you, Mr. President. I would be happy to yield my time to Senator Mello. [LB682]

SENATOR CARLSON: Thank you, Senator Conrad. Senator Mello, 4 minutes and 50 seconds. [LB682]

SENATOR MELLO: Thank you, Mr. President and members of the Legislature. And thank you, Senator Conrad, for yielding me your time so I could continue this very logic-driven argument, which is the tax policy states that the state and local governments remain consistent in what they are receiving right now from these federally mandated projects, but the bill and the committee amendment says any new increases and any sales tax that are derived from those new increases over the life of the project go back to pay for the project. So the state, over the course of the life of this project, will receive a minimum--a minimum--of anywhere between \$75 million to \$90 million that can be used for the Republican River Valley if we so choose to. There it is, Senator Christensen: \$90 million in additional sale taxes that are being paid by the city of Omaha and Plattsmouth that can be used by this body and by our state government to fund our priorities. The question is, do we really need all of the money on top of that? Do we need the additional money over the life of these projects, or can we use that to go back and pay for the projects? That's what LB682 tries to rectify. The state does not lose money, in my mind. The state receives the same amount of money that we are receiving this biennial budget, essentially, minus the \$11,000 that the city of Plattsmouth would qualify for over the next two years. But a key component of the Revenue Committee amendment, which I think is very critical, and this was debated last year and this was debated in the committee hearing on this legislation, is local governments have to provide the match. If the city of Omaha and the city of Plattsmouth are receiving a windfall in sales tax under this project that they did not account for and that they did not want to tax and fund, their money also has to go to fund this project. They do not see a benefit of \$2 million to \$3 million, like the state would see, in regards to this project. Their money gets turned back to finance a project to lower the cost of the project and lower the cost of the fees that businesses and residential ratepayers are paying. That is a critical component of this legislation, colleagues, that there is a local option tie-in; that we're not simply just giving state dollars back to fund the project. We're requiring the

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local dollars that go back and finance this project. That's not the case with these other projects that Senator Heidemann alluded to. Other municipalities that have this similar financing, they don't get to...they get to use those sales tax dollars at the local level to finance whatever they so choose to: fire department, city clerk, parks, pools, you name it. But for the city of Omaha and Plattsmouth, they do not get that benefit, because we tie in...their money goes back to pay the projects, because it is that critical. It is that critical to pay down these large, exorbitant fees and taxes over the lifetime of these projects, that they don't see the benefit. They just shoulder less of the burden. Colleagues, I implore you to consider, over the lunch hour and as we move on to this debate, more than likely maybe later today or tomorrow, to consider if your municipality was in the same situation, what would you do? Conservative fiscal budgeting would urge you to do the same thing that the municipalities are going to do under AM626. They will not receive additional taxes because they didn't want to tax their residents in the first place. But they had to. And instead of taking that additional tax revenue... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR MELLO: ...they're putting it back into the project so that they can lower the burden on their constituents and their businesses that reside in their community. That is what we are seeing with this amendment. No matter where you live, no matter what county, no matter what city, your city would be looking to do the same thing. And I think it's in the best interest of this state, after the session that we have endured so far of eliminating aid to local governments, limiting occupation tax authority--at least in the city of Omaha and other municipalities, limiting their occupation tax authority when it comes to commuter fees and the extraterritorial jurisdiction--we have an obligation to extend, I think, a hand of cooperation. We've removed 30 years of policy changes, in the last 60 days, that affect local governments. This issue that faces us today is by far the largest issue facing... [LB682]

SENATOR CARLSON: Time. [LB682]

SENATOR MELLO: Thank you, Mr. President. [LB682]

SENATOR CARLSON: Thank you, Senator Mello. Senator Council, you're recognized. [LB682]

SENATOR COUNCIL: Thank you, Mr. President. You know, I again rise in support of LB682 and AM626, and want to focus my colleagues' attention on the impact that the CSO project in Omaha has for the residents of Omaha and Plattsmouth, and particularly, the low-income residents in those communities who, without the assistance that would be provided by LB682, are going to be experiencing significant increases in their costs of living to correct a problem that goes to the health and safety and welfare

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of those residents; that we don't consider the long-term implications of ignoring our responsibility here, I believe, to assist these communities in reducing the impact of this unfunded mandate on the residents of those communities. I hear us talking about the sales and income tax revenue that's generated. I have looked at the chart. And, you know, it goes without saying that the overwhelming amount of sales and income tax generated in this state are generated from the greater Omaha metropolitan area. And when we talk about what the state would be losing if it did not turn back the sales tax associated with the increase in the sewer fees, my question to you is, have we taken into consideration what the state would be losing if the corporations, the companies who have made it perfectly clear that the impact of a significantly increased sewer fee will have on their decision to maintain their operations in the metropolitan Omaha area? If those companies elect to move because we, as a state Legislature, cannot provide some relief to them through the sales taxes that they are paying, then what impact will that have on state income tax revenue? What impact will that have on state sales tax revenue? If those employers are forced to move, and those employees leave our community to follow those jobs or are found without employment, then what impact does that have on the long-term viability of our state's tax policy, when so much of our state taxes come from those areas? But we can talk about that, but again, focus in on the human element here. You know, we're talking about individuals who are struggling day to day to make ends meet. And when we look at where they would have to turn to if they're unable to meet this increased obligation on sewer fees, again consider the impact on the state's utility assistance program, consider the impact upon the state's Medicaid program that could result from the fact that people are unable to pay for their own medical care as a result of their need to cover these sewer fees. We're talking about basic fundamental services--gas and water--and how many people would be at risk of losing gas and water services because they can't pay this additional--and I think we need to focus on that--additional \$50 a month. We have people who can't meet their current... [LB682]

SENATOR CARLSON: One minute. [LB682]

SENATOR COUNCIL: ...gas and water obligations. Compound that with an additional \$50 a month. I think we have a responsibility, if we can, without unduly burdening the state and the state's revenue, to provide assistance. And in this case, colleagues, we are not. The state of Nebraska will continue to receive sales tax income from the sewer fees but not that portion of the sewer fees that are associated directly with the CSO project, and the money would go back to fund the CSO project. And other communities down the line could find themselves in this position and be in need of this kind of assistance. We can no longer afford to engage in this us against them mentality. We are all in this together. [LB682]

SENATOR CARLSON: Time. [LB682]

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SENATOR COUNCIL: Thank you. [LB682]

SENATOR CARLSON: Thank you, Senator Council. Mr. Clerk, items for the record. [LB682]

ASSISTANT CLERK: Thank you, Mr. President. Your Committee on Business and Labor reports LB386 to General File with committee amendments. (Read LB684A by title for the first time.) An amendment to be printed from Senator Larson to LB306. New resolution, LR154 by Senator Fulton; that will be laid over. (Legislative Journal pages 1066-1068.) [LB386 LB684A LB306 LR154]

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

SENATOR CARLSON: Members, you have heard the motion. All in favor say aye. Opposed, nay. Motion carried. We are at recess until 1:30 p.m.

RECESS

SENATOR LANGEMEIER PRESIDING

SENATOR LANGEMEIER: Good afternoon, ladies and gentlemen. Welcome to the George W. Norris Legislative Chamber. The afternoon session is about to reconvene. Senators, please return to the Chamber and record your presence. Mr. Clerk, please record.

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

SENATOR LANGEMEIER: Thank you, Mr. Clerk. Do you have any items for the record?

CLERK: I do, Mr. President. Enrollment and Review reports LB279, LB600, LB648 to Select File, some having Enrollment and Review amendments. Senator Harr would like to print amendments to LB297, Mr. President. That's all that I have. (Legislative Journal pages 1069-1073.) [LB279 LB600 LB648 LB297]

SENATOR LANGEMEIER: Thank you, Mr. Clerk. We'll now proceed to the first item on this afternoon's agenda, starting with the agenda at 1:30, General File, committee priority bills, LB235. [LB235]

CLERK: Mr. President, LB235, a bill originally introduced by Senator Adams. (Read title.) The bill was introduced on January 11 of this year, referred to the Education Committee, advanced to General File. There are Education Committee amendments

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pending, Mr. President. (AM952, Legislative Journal page 974.) [LB235]

SENATOR LANGEMEIER: Thank you, Mr. Clerk. Senator Adams, you are recognized to open on LB235. [LB235]

SENATOR ADAMS: Thank you, Mr. President. Members of the body, I would tell you at the outset that the committee amendment that follows does become the bill, so I will begin my introduction now and will continue it as we proceed along. Shortly after we recessed last year, I think every one of us in here became very aware of the fact that our revenue picture was not good. And from my office, what I understood and the committee understood was that if we're going to build a budget during this next biennium and we were going to be short of revenues, state aid to schools was going to have to be part of the fix. And I would tell you right at the outset, and I'm going to speak for my committee but I'm speaking as much for them for me, we didn't like what we had to do. I would hope that you don't like it either, but it's reality. We started in May putting together proposals to shrink the amount of aid that would go out in the next biennium and we worked on it and we modeled it and we worked on it some more and we modeled it some more. The Fiscal Office staff helped us, State Aid Review Committee brought into play, and we worked it. And then there was an October forecast that didn't look good and we worked it some more. What I'm about to describe for you in LB235 and the committee amendment are the mechanisms that we as a committee found to bring state aid to a level that I'm hoping this body will find will work for the biennium. Let me tell you about our process for just a moment. Anybody in here, and I hear it all the time, can shout state aid is too complicated. Well, we can do that bout any day. But I'll tell you this, when you're going to reduce state aid by the amount that we're doing here, you can't nibble around the edges. There are only a few mechanisms that you go to, to get those numbers down. Now you may find that of help to you today because we don't need to dance around on a lot of percentages and we're going to do a little of this and a little of that. We're going to do four or five things that's going to take aid in the first year at \$822 million and in the second year to \$880 million. Now as the committee worked on this, and I want you folks to be aware of it, as the committee worked on this bill our objectives were this. First of all, we knew we had to make a reduction. Secondly, we wanted the reduction to be as fair as possible. Folks, you know it, there are 251 different school districts out there, different in every way, shape and form. We needed for this to be fair. We also at the same time, with whatever mechanisms we used to reduce and to reduce fairly, wanted to build some sustainability in the formula, not only for the second year of this biennium but, if revenues don't improve or don't improve very much, for the next biennium. Sustainability, fairness, and reduction. You've all been blasted with spreadsheets since Thursday of last week. You've got spreadsheets on the cuts to your school district. You've got a needs spreadsheet. You've got a calculated resource spreadsheet. Now today you have an EduJobs spreadsheet. You also have a calculated list spreadsheet. And you're saying, why did you do that to us, Adams? Well, I want you to be as informed as possible as we walk through this, but there's another point I want

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to make. In committee and all through the interim with staff, as we worked on this proposal, we never once looked at an individual school district to say what's going to happen. You all know that the minute we do that the gloves come off, fairness goes away. We looked instead at broad policy and we ran models, not of individual school districts but categories of size school districts, to see what the impact would be, and we believe that at \$822 million and \$880 million, as LB235 currently models out at with the committee amendment, we have struck a delicate balance, a delicate balance of fairness--though every one of us has probably had an e-mail or a phone call from one of our school districts saying, well, we understand fairness but it wasn't fair to us--and getting the number where it needed to be. Now what's the bill contain? State Aid 101: If we're going to reduce state aid, folks, the first thing we have to do is, by law, shrink the needs of schools. We in here determine what the needs of school districts are. We can decide what they are or what they are not; how much they will be or how little they will be. If we're going to shrink state aid, we must first shrink the needs. How does this bill do that? We, first of all, attack school spending. We are saying in this bill to all sizes of schools, schools that are shrinking in size, schools that are growing, you've got to slow down your spending because what you spend translates over to the state in General Fund operating expenditures that become our base for building state aid, and if we're going to shrink our outlay in state aid then, schools, you are going to have to reduce your expenditures. So one of the things we're doing in this bill, we are shrinking down the spending authority of school districts. We have a method outlined for school districts who typically outspend their needs, we have a method built in here for schools who typically don't outspend their needs, and we have a method in here for budget authority for schools that are experiencing growth. We've got them and we now have to be able to accommodate that. But we also have to say to them, you have got to slow down your spending. Another mechanism in this bill--unused budget authority. Currently in the state of Nebraska, if we take all 251 school districts, we have \$700 million in unused budget authority sitting out there. Do I think schools are going to go after all of that? No, they're not going to have enough aid to spend. But what we are asking in this bill and the committee amendment is that we say to schools that have unused budget authority and they want to go get it, okay, you can go get it, but you can only get 2 percent of what your prior year expenditures were; that you can go get. We've got to slow down school spending if we're going to slow down the needs, so that translates into less TEEOSA for the state. The other thing we're going to have to do, we take schools' General Fund operating expenditures, we subtract the allowances out, and then we take that two-year-old data and we inflate it. We bring it forward two years with what we call the Cosgrove. It's an inflation factor. In a normal year it's 6 percent. We have to shrink that inflation factor down, that Cosgrove factor down, so we're not going to be taking... [LB235]

SPEAKER FLOOD PRESIDING

SPEAKER FLOOD: One minute. [LB235]

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SENATOR ADAMS: ...those expenditures and inflating them as much, which means the state's obligation also slows down, not only next year but the year after and out into the next biennium. And by the way, all of this is painful to all kinds of school districts. Equalized, nonequalized schools, this is painful. They're not going to be able to spend as much. Needs stabilization and averaging adjustment, there's a lot of money in both of those features. Needs stabilization came about three years ago when we had small schools that were losing students. They were losing needs because they were losing students. And what we did, we stabilized them at 100 percent. So three years ago... [LB235]

SPEAKER FLOOD: Time, Senator. Thank you, Senator Adams. (Visitors introduced.) Continuing with discussion, Mr. Clerk, we now move to the committee amendment, AM952. Senator Adams, you're recognized to open on the same. [LB235]

SENATOR ADAMS: Thank you, Mr. Speaker. Members, I'll continue. One of the other mechanisms we're going to use in this bill to reduce the amount of aid and to slow down the growth of state aid is needs stabilization and the averaging adjustment. Needs stabilization came about three years ago. For schools losing needs we were going to say to them, look, even though you've lost them, we're going to hold you at 100 percent of your needs; we're going to allow you to spend there. And the averaging adjustment, the 30 largest schools in the state take advantage of the averaging adjustment. It brings their per student spending, if it's below the state average, up to the state average. There is a real distinction between the two. When I started this process of developing a proposal, I said from day one averaging adjustment and needs stabilization go together percentagewise. I said from day one, when I started in October talking with superintendents, I started in Scottsbluff and came clear across this state talking to groups of superintendents about what we were proposing to do, I said those two things ride together as a percentage. If we're going to reduce needs stabilization over here, which impacts smaller schools but it does have an impact on larger ones, we knew that, then we're going to do the same thing over here on the averaging adjustment, which is the 30 largest schools in the state, not dollar for dollar. We're not going to say let's reduce \$1 of the averaging adjustment and then reduce \$1 on needs stabilization. You don't have the same groups of people coughing up that money. And I told every school district that in the averaging adjustment there's money and that was one of the places we were going to have to focus but that those two would ride together. So what we propose to do is to take whatever the state average is, take it down 5 percent. Needs stabilization, if you were a school and you were spending at \$1 million and that's your needs, we're going to take that \$1 million down 5 percent. It saves money and it is, in my opinion, a fairness issue. Allocated income tax, let's go to the resource side of the formula now, allocated income tax coming out of each one of those school districts and some of it is returned back to those school districts. Some of it goes into net option funding. We have been reducing it in the last two years by \$20 million. This year we will

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reduce it in this bill by \$21 million, the allocated income tax. Local effort rate, now remember we're on the resource side of the formula now, what we're doing with the local effort rate, we're saying to school up to now we have held you responsible for your own valuation up to \$1. You levy where you want, but from the state's standpoint, whatever your valuation is worth at \$1 we're going to hold you responsible for that. In this bill, we take the local effort rate from \$1 to \$1.395. That's saying to every school district in the state, we are going to hold you more responsible for your tax valuation and it takes the state off the hook. And for the smaller school districts all over the state that have experienced dramatic increases in valuation, the LER impacts but it also impacts Lincoln, it also impacts OPS, it impacts everybody else. Finally in this bill there are some features that have nothing to do with reducing aid. They have to do with responding to the things that we hear all during the interim from schools and superintendents about the formula. One of the things that we'd like to do is to change our comparison arrays: currently five schools up, five schools down; we'd like to go to ten and ten. It smooths it out a little bit, that range, and that was brought to us by groups of superintendents to do that. The other thing this bill does is to try to respond to some school districts that have come to us and said, hey, we've had TERC decisions and, as a result of those TERC decisions, we've lost value, value that the state said you've got so we're not going to give you as much state aid. What I'm suggesting and the committee is suggesting in this bill is that we give credit back to some of those schools for that lost valuation that comes about as a result of those TERC decisions. We're going to take LB148 and roll it into this bill. That's the bill that Senator Avery brought on lobbying and I'm sure that he will speak to that a little bit more. But basically what we are doing, we are saying this: Whatever the lobbying group or the lobbyist reports to Accountability and Disclosure, that amount will not be calculated in GFOE for that school district. It exempts it out. They won't be credited for it. It's really that simple. Converted contracts, we have a situation, Senator Dubas may want to talk about it, with Grand Island, Grand Island Northwest, where students transfer, and the essence of this is what we would be doing is students that transfer and become Grand Island Northwest students, in effect, would become in the option count one year quicker and Grand Island would give them up one year sooner, and it fills a gap that they're having right there. And finally, one other change is a clarification in the law and that is should kindergarten-eligible students be counted into the summer school allowance, and we have had schools going both ways on this. The committee chose to clarify it by saying, yes, kindergarten-eligible students would be counted in the summer school allowance. There's a lot here, Mr. Speaker, but that concludes my introduction on both the bill and the committee amendment. [LB235 LB148]

SPEAKER FLOOD: Thank you, Senator Adams. We now turn to discussion on AM952 to LB235. We begin with Senator Fulton, followed by Senators Sullivan, Conrad, Coash, Price, McGill, Senator Ken Haar, Avery, Loudon, and Dubas. Senator Fulton, you are recognized. [LB235]

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SENATOR FULTON: Thank you, Mr. President. Good afternoon, members. I want to start by saying...offering thanks to Senator Adams and to the committee. This is not easy what they have put forward here. This is not easy within the context of our entire budget either and so at the end of today my colleagues and I on Appropriations are going to go back into our little room and try to figure out how we can make all of this work, including that which is being expressed here in LB235. So recognizing the immense amount of work and the great deal of care that's required, I offer thanks to the committee and my own pledge that I'll work collaboratively with you to get this done. That being said, there are some things that have to be, I think, put into the record and communicated. We in the past...in the last budget there was a lot of money coming from the federal government, coming from us through the federal government, and this was the ARRA money that we're talking about, and it was communicated, I believe universally, at least in Nebraska, that the money was one-time money. Now we said it in here over and over and over, the Governor has said it, it has been communicated and I think it has been understood that way. I watched with interest how our school board in Lincoln has planned for this day. And while I do criticize what goes on sometimes within our board, board of education here in Lincoln, I believe they have done an excellent job. They have been prudent and responsible. They've set aside a cash reserve and they have planned for this day. That being said, when the numbers became known with respect to LB235, I was surprised, and probably more accurately the Lincoln Public Schools were surprised, because it appeared that we are getting less than what we had expected to be receiving under the formula. So it feels...I'm not saying that this is the case but from my vantage and I think probably from the vantage of a lot of citizens in Lincoln, it feels as if our prudence and I'd say responsibility in planning for the time when this one-time funding would go away has resulted in a penalty. Now hopefully Senator Adams will be able to, I expect that he will, be able to explain this with some detail, but that is the perception, that is the feeling, that we've planned and yet we got hit harder than some other districts. I do recognize that in past years Lincoln has fared better under the formula, but I submit we also have our challenges with respect to growing populations within our schools. But it needs to be communicated anyway that we believe that we've planned and it feels as if we're being penalized here. Something else that is worth...and I'm going to add one more thing to that. That being the case, I still anyway recognize that we have to work within the confines of a set...we can't continue spending money we don't have and so we, therefore, have to plan and we do that in the budgetary process. And I understand that TEEOSA affects everybody. I recognize that. And so for my part anyway I recognize that, while feeling is feeling, feeling is not fact always. Now on to TEEOSA,... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR FULTON: I wrote this statement down so that I could communicate it as clearly as possible. My own view is that TEEOSA needs to be simplified so as to be understood by those who fund it. That's us, the taxpayers. I will guarantee you,

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taxpayers do not grasp and comprehend our formula. TEEOSA needs to be simplified so as to be understood by those who are funded by it. If the folks in Lincoln who put a lot of resources into the study of this formula miscalculated, it could well be because it is not an easily understood formula. I do not have the solution and so I stop short of going crazy on TEEOSA because I don't have a solution. But I think it is safe to say that it needs to be simplified because so few understand it. I'll stop there. Thank you, Mr. President. [LB235]

SPEAKER FLOOD: Thank you, Senator Fulton. Senator Sullivan, you are recognized. [LB235]

SENATOR SULLIVAN: Thank you, Mr. President. As a member of the Education Committee, I stand in strong support of AM952 and LB235. It's the work of the Education Committee and I think we've done our work that we were charged to do; some would say not. I would remind you, first of all, that what you have before you is actually an 18 percent reduction from current law, because if we fully funded the state aid formula as it now stands in law, it would amount to approximately \$1.1 billion. On the other hand, some would say not, because LB235 actually represents an \$11 million increase from last year's \$810 million of General Fund dollars that were in the state aid formula, minus the ARRA funds. But I will tell you that the committee worked very diligently and, as Senator Adams so eloquently said, to be fair and, like it or not, to spread the pain, and we worked in the context of the existing state aid formula and the tough revenue picture. And I will say, and we've all heard it, that school districts were warned time and time again over the last two years about the cliff effect coming in the out year, and here it is. So is it perfect? Far from it, and the committee is fully aware of that. Is it fair? Well, you've heard me several times on this floor before, raising my two daughters, when they would come to me and say, Mom, it's not fair, and I would say, well, life is not fair. Do I like this formula? (Laugh) Well, no. Does it do a lot for my district? My 18 school districts in District 41, all but 2 of them are experiencing major hits under this bill. One of them in fact said, we're taking a 94 percent cut in our state aid. Do you think that they feel their senator is doing a lot for them? I think the underlying message from them was not. But I still stand before you in support of this legislation. And you know, there are some things going on with our current environment in our whole state that really make it difficult and works against fairness. Look what's happening in property values. In the urban areas, property values are soft or even in some cases still declining. But what we've got going in the rural areas, land values are skyrocketing in what I believe are unsustainable increases. And because of those increased land values, that's placed an unrealistic pressure on valuations and, of course, property taxes at the local level. The farm where I grew up experienced a 45 percent increase in the taxes that they pay on that parcel of ground. It's a balancing act to be sure. We're hearing from our school districts and our school boards that are concerned about putting together a budget for their school districts, not all of which, I would remind you, has to do with educating students. We're hearing from taxpayers,

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and particularly in rural Nebraska we're seeing an increasing burden on a decreasing few ag land property owners. And then of course, lest we forget what we're really all about, and that's the educational needs of the students, and how well are we doing well? And I would venture to guess, as in so many cases, just because you throw money at something doesn't mean you're going to see improvements. You know, you've all looked at the printouts and I would caution you, as Senator Adams said, you know, don't look at just one printout. You've got several of them, all the way from the general state aid equalization aid to all the allowances to the EduJobs money, because it is a complicated picture to get to the true aid that school districts are receiving. And of course, I would be remiss if I didn't say one of my biggest concerns has to do with the growing number of nonequalized school districts, and by that I mean... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR SULLIVAN: ...when you are a nonequalized school district you receive no state aid, no equalization aid. Of the 251 school districts, there are 95 nonequalized districts and 7 of those reside in my district, in District 41. And predominantly of those 95 school districts, they are small districts, mostly rural and experiencing those high and, I might add, likely unsustainable property values that I mentioned. So before I run out of time, I know, as I said, this is not a perfect situation and it begs the question, as Senator Fulton said, do we need a simpler formula? How do we really want to fund K through 12 education? How do we want to meet our constitutional obligation? I think those are questions for another day. I ask you to look carefully at what we've done with LB235 but I also stand here committed to work on those larger questions because I do think they need to be addressed. [LB235]

SPEAKER FLOOD: Time, Senator. [LB235]

SENATOR SULLIVAN: Thank you. [LB235]

SPEAKER FLOOD: Thank you, Senator Sullivan. Senator Conrad, you are recognized. [LB235]

SENATOR CONRAD: Thank you, Mr. President. Good afternoon, colleagues. I will add my voice to the chorus of congratulations and gratitude directed to Senator Adams and members of the committee, including their fantastic staff and others who have worked diligently on these issues. I think there's no question that every single member of this body cares deeply about children, education, and the future. And so I'm excited that we have an opportunity to really focus in on an issue that impacts each and every one of our districts and so many of our families. We can all appreciate the complexity and emotional aspects involved in this legislative proposal and in school funding as a whole. Of course, there's no question that these already emotional and sometimes complex topics become even much more complex, emotional, and difficult during a period of

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great economic uncertainty like we are experiencing now. There's absolutely no question about that. I think every school district, every community, and each citizen of the state wants to ensure that we do indeed meet our obligations to have a balanced budget and we also provide the resources and flexibility necessary to ensure that teachers, students, and schools can carry out their important obligations as well. And the best way to meet those significant and serious obligations is by ensuring equity and fairness as we move through this process. I think that there's a lot of questions posed by LB235 and the presented amendments that are still being digested locally and across this great state. And I've had a chance to visit with Senator Adams and others about this privately, but I did want to make sure that indicate on the record that as we move forward it's important that we remain open to additional ideas and proposals if they are identified and do become apparent that we'll have the ability to ensure we can meet our goals of a balanced budget and equity and fairness in terms of the educational resources we provide to all districts as we move forward. I'd also be remiss if I didn't add my deepest gratitude and strongest congratulations to our local leadership in terms of Lincoln Public Schools and the fantastic team we have who are partners with us in this effort, not only on the school board but from an administrative perspective as well and the teachers, families, students, and staff who are all committed to ensuring that we can indeed have a strong, quality, public education that benefits all of our students and, of course, our future. And they really did take to heart the serious warnings about the aftereffects of the stimulus funding and the potential cliffs that that would create, and I think have indeed been very responsible about their preparations in that regard. And so we need to ensure, as we examine impacts and as this proposal moves forward, that we are not in any way punishing or diminishing that sound planning. And again, I think that this is a great place to start this dialogue and I'm hopeful that people will be very mindful, as they talk to their school districts, their school representatives and the families and children impacted by this proposal... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR CONRAD: ...in their districts, not only about this issue in the present sense but they'll keep an eye and mind to the future. We've had a great deal of time in this body during this session already talking about proposals that are out there in regards to roads funding, in regards to budgetary issues, and what our estimated projected growth in revenue is going to look like in the state of Nebraska. Make no mistake, colleagues, it's been well-established that these are significant reductions to education now. They're in 5.6 percent growth. As we move forward, we're going to see less revenue growth so these decisions are serious and real. And if you think these cuts are difficult to manage, imagine what lies beyond the horizon. So I urge folks to be responsible about this issue and to keep these issues in mind in a larger and broader context. Thank you, Mr. President. [LB235]

SPEAKER FLOOD: Thank you, Senator Conrad. Senator Coash, you are recognized.

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[LB235]

SENATOR COASH: Thank you, Mr. President. Good afternoon, members. Well, Senator Adams, I did something that I think you warned me not to do in my first year here, which is when you start to see spreadsheets that affect...that are broken out by school districts don't go right to your school district and say...and make your presumption based on that because this is statewide policy. But I did it anyway and I looked at Lincoln. And I'm not going to stand up here and say poor Lincoln. I think we've had enough of that on a lot of different bills. But I do want to ask about some specific provisions in the bill and I'm just going to ask a question, then give you the remainder of my time to have you respond. In your opening, you talked about needs stabilization and averaging adjustment marching down the track as a pair and that as one came down the other would as well. However, the way I look at it, we've seen a increase in the needs stabilization and another decrease in the averaging adjustment. So I'm trying to wrestle how you came to that...how the committee came to that and how that reconciles with what you stated at the beginning. Thank you. [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Coash? [LB235]

SENATOR ADAMS: Yes, I will. Senator, thank you for that question because it continues to be brought up. As I pointed out in the introduction, from the git-go needs stabilization has, in and of itself, a counter effect. Here we are trying to bring needs down, and need stabilization is pushing this way. So we knew, if we were going to make this reduction, we were going to have to bring needs stabilization down. Also inherent in that thinking was needs stabilization is something that's very, very important to small school districts, very important. So hypothetically, we could go out today and say, well, let's do away with needs stabilization. It wouldn't get us anywhere near where we needed to be in terms of dollar reduction because there isn't that much there relative to its partner, the averaging adjustment. The averaging adjustment is where there's a lot of money, and the 30 biggest schools in the state access that. And the thought pattern was if we have to bring needs stabilization down because it does have a countering effect, then we're going to be primarily, not exclusively, and we knew that, primarily impacting smaller districts. Then let's go over here to the averaging adjustment, which impacts the larger districts, and, as I pointed out at every superintendents group I spoke to, that is where the money is at. So to summarize and not eat up the rest of your time, it was never intended to be let's knock \$1 off of here and \$1 off of here or if this ones comes down \$20 million let's make sure the other one comes down \$20 million. There isn't that much over here on needs stabilization relative to averaging adjustment. But we wanted them partnering with one another because they do impact different categories of schools and there's money there. [LB235]

SENATOR COASH: Thank you, Senator Adams. [LB235]

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SPEAKER FLOOD: Thank you, gentlemen. Senator Price, you are recognized. [LB235]

SENATOR PRICE: Thank you, Mr. Speaker, members of the body. I rise in support of the amendment and the underlying bill. I believe what Senator Adams and the committee have had to do is basically yeoman's work. It's a very tough thing to look at all the...at the spectrum of what they're trying to accomplish. Not every district looks like the larger metropolitan or the small ones, we all know that, and so, you know, we would say...in another career of mine we would say when you had so many presentations you had your PowerPoint ranger tab. I think now we could all get our Excel spreadsheet tab now too. So there's been a lot of that but, you know, it was a tough job and I appreciate that because of the complexity, both inherent to the job and the artificial ones that were injected by the economy, by the ARRA monies. And I'm not trying to cast any type of dispersions. I'm just saying the facts are, the absolute value is what was already a tough job was made tougher. You know, my district that I represent, I'm blest. I have not quite the number of districts Senator Sullivan has but I do have large districts, I have small districts, rural districts, urban districts, and I have not, while I've heard from all of my districts, none of them have told me this is untenable, this is unbearable. They're all going to just go with it, going to make it work. They understand how difficult it was and you can't believe how humbling it is to sit and listen to the sacrifices from school districts that Senator Sullivan talks about or Senator Schilz or any of our counterparts in rural Nebraska and their sacrifices in this whole ordeal. So I stand in strong support of what Senator Adams and the committee have done. I applaud them for doing what we've constitutionally mandated but made really tough to do. And with that, I would yield the balance of my time to Senator Schilz, if he should like to use it. [LB235]

SPEAKER FLOOD: Senator Schilz, 2 minutes 38 seconds. [LB235]

SENATOR SCHILZ: Thank you, Mr. President. Thank you, Senator Price. Well, good afternoon, everyone, and appreciate the words that Senator Price said and where he's coming from. This is my first year to serve on the Education Committee and, you know, once again, the complexity is there. The issues don't get any easier. (Laugh) The money doesn't seem to be any easier to come by and districts across the state are feeling the pinch now. We all understand it. You know, a lot of the folks in my district were quipping, you know, well, you know, quite honestly at least now, this time, everyone gets to feel the pain. So in that sense, Senator Adams, there is some equity there in that portion that I think people are starting to understand. One of the things that somebody told me, one of the superintendents from my district, is, you know, when you don't have the money, you don't have the money and you have to figure out how to do it. I'm going to have districts that are going to get 50 percent of what they got last year in state aid. I've got districts that have single-digit valuation increases. There's going to be a gap there that they're going to have to figure out. Now when you talk about true pain, that's where it is. We all know that the formula works with the county valuations and the

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county property tax to make that work. When you get into the situation like we're on now it becomes extremely difficult to make those two things come together. The last thing I want to talk about is the formula itself... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR SCHILZ: ...and where we're at with that. Unfortunately, what I have seen since I've been here is a formula that doesn't work, has never been sustainable, and needs to be addressed to be changed so that it's looking at reality. We have to make changes. We have to quite promising people, students, school districts, everyone that there may be money there. And then we also need to find a way to make that more reliable for their budgeting process. People are stressed out every year because they never know what that number is going to be. Once a school district loses all their state aid, life becomes much easier for them because it's much easier to calculate where they're going to be for their budget. Is that what the state of Nebraska, in providing equal... [LB235]

SPEAKER FLOOD: Time, Senator. [LB235]

SENATOR SCHILZ: Thank you. [LB235]

SPEAKER FLOOD: Thank you, Senator Schilz. Senator McGill, you are recognized. [LB235]

SENATOR MCGILL: Thank you, Mr. President, members of the body. I rise mainly to just speak in support of my own school district, Lincoln Public Schools, not so much for or against this bill, just because I think they've done such an incredible job over the last couple of years generally in preparing for this. And it's funny because a few weeks ago, right before the numbers came out, I was sitting with a school board member at a luncheon and she was telling people around the table how Lincoln isn't really going to be squawking very much about the cuts because they were expecting them and they were planning ahead and they were saving, until the actual numbers came out and they were even worse than what the school board had anticipated, because they were thinking ahead, they were planning, just as Senator Fulton had said and Senator Conrad did a good job of talking about the good job our school district has done. And again, I'm not, per se, arguing against the bill but just that I want to make it clear that LPS isn't just complaining for the sake of complaining because it's a cut. That's not what they're doing, because they've worked so hard to make the appropriate cuts. When we brought in a new superintendent, he's actually getting paid less than the last superintendent did...got paid. They put a lot of money away in the rainy day fund. You know, our levy limit is pretty high up there in comparison to most school districts. Lincoln has grown by 3,000 students in the last four years, 900 students a year the last couple, and they haven't added proportionate numbers of staff to make up for that. They've got

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an executive committee position that's been left open after someone retired and those duties were divvied up amongst other members, with no pay increases. They're sharing textbooks and supplies and computers between school districts in ways that they never did before. They've been doing a really great job. I don't want people to think that they're just complaining because it's a cut that they weren't expecting. They were expecting a cut. This is just more so than even they could foresee. And again, I rise in support of my school district and the great job that I feel they've done. Thank you, Mr. President.
[LB235]

SPEAKER FLOOD: Thank you, Senator McGill. Senator Ken Haar, you are recognized.
[LB235]

SENATOR HAAR: Mr. President, members of the body, I am a member of the Education Committee and I rise in full support of LB235 and AM952. I also want to thank Senator Adams and, of course, all the staff from the Education Committee and all the other Education Committee members. My first priority is K through 12, and I've said that over and over and over again, and I believe that. I believe that what LB235, with AM952, has done shows that priority. Now this or that school may have a complaint and hopefully we can answer those questions. But going back to what Senator Sullivan said, it's a tough dollar picture and we use the TEEOSA formula, and what Senator Adams, his goals again, fairness, sustainability, and we had to reduce it. And we didn't reduce it as far as the Governor has suggested or as far as the Appropriations Committee suggested, so I think we have given it a very high priority. I would like to talk for just a minute about the word "cuts," and certainly the NSEA are my friends and they kind of hedged their statement in their bulletin they put out but they said LB235 changes the current state aid to education needs formula, resulting in \$130 million cut from the \$950 million schools will receive this year. Well, it depends on how you look at that. Last...in this year's school allocation, there's a lot of federal money. So, yes, if you look at the total package that was given before the cliff, there's a cut. But if you look at general...spending from the General Fund, we're going from \$810 million to \$822 million, so actually that's an increase in spending, whereas many agencies in state government, many programs are experiencing a definite cut in state aid. So one of the things that everybody has to understand about TEEOSA, and I think they do but they don't use it when they talk, is that TEEOSA is not an autopilot kind of formula. It has to be adjusted, otherwise the autopilot would take us to outer space. A number of people have said, and I agree with this, we have to be open to what happens in this discussion. Nobody on the Education Committee thought that we would just have Senator Adams get up and talk about this and then we'd all vote with a green light. We know there's going to be discussion. We know there are questions. I think everybody on the committee and in this body is open to that discussion. We'll listen. I'm not sure if there will be some changes but I suspect that there won't be a lot. And again, I think we have shown that we place a high priority in education. I do have a question for Senator Adams, if he would... [LB235]

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SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Haar?
[LB235]

SENATOR ADAMS: Yes, I will. [LB235]

SENATOR HAAR: Thank you very much. Of course we're getting a lot of feedback from various school districts and we're all going to see this so I'll just see if there's an easy answer to this one, that needs stabilization increased from \$26 million to \$35 million whereas averaging adjustment decreases from \$82 million to \$43 million. Is it possible to isolate those numbers so that we can say 26 to 35, 82 to 43, or is that within our...?
[LB235]

SENATOR ADAMS: I guess I'm not sure what you're asking, Senator. [LB235]

SENATOR HAAR: Okay. Can we isolate...actually isolate those numbers within the...
[LB235]

SPEAKER FLOOD: Forty seconds. [LB235]

SENATOR HAAR: ...TEEOSA formula? [LB235]

SENATOR ADAMS: Well, yes. I mean they're identified in the formula how much we expended in aggregate as well as per school district for each one of those mechanisms.
[LB235]

SENATOR HAAR: Okay. Okay. And I'll talk to you a little off-mike to clarify my question, because it will probably come up and I just think it's good we get it out there and discuss it. Again, thanks so much, Senator Adams, for all your work. [LB235]

SPEAKER FLOOD: Thank you, Senator Ken Haar. Senator Avery, you are recognized.
[LB235]

SENATOR AVERY: Thank you, Mr. President. I am entering my fifth year as a member of the Education Committee, and in all of those months and years that I've been on the committee I don't remember every working harder on a TEEOSA bill in all that time. We worked very hard over several weeks and, in the case of Senator Adams and the committee staff, I would say several months. We had marathon Executive Sessions where we talked about various changes to the formula and what effect it might have. And in the end, we came up with a bill that I would not call a good bill, and I'll tell you why I won't call it a good bill, because it causes pain and pain is not good. It's a fair bill and I think that if you look carefully at it you can agree with me that it's not perfect. It is probably not possible to craft a perfect school funding bill. Not all the districts are

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treated equally. Some are affected in different ways; some are affected more than others. But I would submit to you that everybody is treated fairly and that's important. We never once looked at the impact on any district until we had decided what we were going to do with the formula. We didn't run the numbers on the districts until a week after we voted to advance LB235 to the floor. So I didn't know what the impact would be on my own district and when I got the printout and I went down to the left and then found Lincoln Public Schools and I worked my way over, and then I started looking at how we compared with others, I noticed that we were losing \$13.7 million and there was nobody else in that category; OPS over \$11 million, but in absolute dollars lost, Lincoln was taking the biggest hit. So I could have gotten upset but I didn't because I know how the process worked and I know that the formula is as fair as we can make it because it doesn't count for needs and needs vary from district to district. Then I looked at the third from the right column and I saw that the amount of change in Lincoln Public Schools' state aid as a percentage of the formula need calculation was 4.58 percent, and that didn't seem too bad. Then I looked here at the...on the last page of the spreadsheet and I saw that the average for all 252 districts was 4.69. So Lincoln is slightly under the average. So then when I got called out into the lobby to be hit hard by the people advocating for tweaking the formula for a Lincoln exception, I just could not be persuaded. It's fair, folks. It is fair. And of course it has one of my pet projects in it, LB148. How much time do I have, Mr. President. [LB235 LB148]

SPEAKER FLOOD: One minute eighteen seconds and counting. [LB235]

SENATOR AVERY: Not enough. Let me say that LB148 is a bill I have been trying to get passed for two years. What it does is it will take lobbying fees out of the needs calculation so that school districts can no longer factor in their lobbying expenses and then have the state pay additional state aid in order for them to finance that. I contended two years ago and again now that there is no better lobbyist for a school district than the superintendent. The superintendent understands the district, understands education, knows the nuances of the district, the district's specific needs better than anybody else. If not, then they should not be in that position. It's no secret that school district superintendents are well compensated. That's been in the news lately. I would submit that they're certainly compensated enough to take on these duties. If you look at the data, the... [LB235 LB148]

SPEAKER FLOOD: Time, Senator. [LB235]

SENATOR AVERY: Was that, sir? [LB235]

SPEAKER FLOOD: Time, Senator. [LB235]

SENATOR AVERY: Thank you. [LB235]

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SPEAKER FLOOD: Thank you, Senator Avery. Senator Louden, you are recognized.
[LB235]

SENATOR LOUDEN: Thank you, Mr. Speaker and members of the body. As we've had this discussion this afternoon on needs and fairness, I guess as I look at some of it, I have a problem somewhat with the fairness. Now Senator Avery just pointed out what he thought was a fairness, but as I look here, like the Lincoln Public Schools, yeah, they have over \$13 million less state aid and they have a GFOE of somewhere around \$245 million and some change, which I guess, from going to a livestock auction, I guess you would calculate that out about a little over 2 percent of their GFOE is what they're going to be losing. Omaha fared a little bit better. They got a \$319 million GFOE and they're going to lose about \$11.5 million, which with that would figure out at about 1.50 percent. But when I go back over here to Gordon-Rushville, one of the schools in my district, I think they're losing \$1.1 million less state aid they're going to get this year and they have a little over \$5 million budget. That's about 20 percent. So I have a problem with seeing how, when we talk about state aid, where the fairness is in there. The fairness comes in I think is when you're changing it from probably \$1 up to \$1.04, just under \$1.04, that \$1.03. I think that pushes a bunch of it back on to the property tax. Now I don't know if that's fairness or not but I do have a problem with that. And here a few years ago what did give some aid to some of your rural schools was your very sparse and sparse allocations from state aid, and those were done away with evidently because it wasn't something that was needed in Lincoln or Omaha. Now as we get into the needs category, and I've always had a problem with these needs, and I think Senator Avery kind of has started down that road but I don't think he's went far enough or I don't think he's cut a wide enough swath as he's just talking about the lobbyists not being part of their needs. At the present time, I think your needs are your administration, your instruction and maintenance is all part of your needs, and then there's some other language proficiency and a few other handful of different things that are in there. But would Senator Adams yield for a question? [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Louden?
[LB235]

SENATOR ADAMS: Yes, I would. [LB235]

SENATOR LOUDEN: Yeah. Now in the administration, those costs are all figured in as part of the needs of a district. Are they not? [LB235]

SENATOR ADAMS: Just like teacher salaries, yes, sir. [LB235]

SENATOR LOUDEN: Yes. And now how about superintendent salaries, assistant salaries and all those? Those are all part of your needs adjustment, too, aren't they?
[LB235]

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SENATOR ADAMS: Part of the GFOE of a school district, you're right. [LB235]

SENATOR LOUDEN: Okay. Now whenever a school district is already at that \$1.04, wherever the maximum is where they are eligible for the state aid, if they decide to pay a superintendent or anything they want to do more than what they had been paying or something, that extra money doesn't come out of their local district anymore, it comes out of state aid, because that increases their needs. Is that correct? [LB235]

SENATOR ADAMS: It increases their needs, but that's also going to depend on what's happened to a lot of other things, like student numbers, valuation growth. [LB235]

SENATOR LOUDEN: Well, yeah, but like what your problem seems to be, like your...some of your larger school districts, you don't have that valuation growth because that's the reason... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR LOUDEN: ...their needs have risen or that's the reason their state aid increases. But that's all part of their needs. So I think somewhere along the line with cost of administration and some of those issues have to have some kind of a cap or there has to be some addressing of that problem with how...and have a description of what needs have to be, and this is where I think we need to worry or we need to concentrate on our state aid formula, is no one has ever looked at the 800-pound gorilla in the room, and that's what the needs are from the costs of administration. Thank you, Mr. President. [LB235]

SPEAKER FLOOD: Thank you, Senator Louden. Senator Dubas, you're recognized. [LB235]

SENATOR DUBAS: Thank you very much, Mr. Speaker. I'd like to start out by just giving a little bit of a shout out to all of the school districts in my district. I've had multiple conversations with them over the last two years talking about where we're going, what they need to do, the warnings from the Department of Education as well as from the Education Committee. And I think my school districts heeded those warnings very well and have done the work that they needed to do, hopefully to help them weather this storm, but it's still not easy. There are still very difficult decisions for them to have to make. And some of my districts did take a harder hit than they were even prepared for and that makes it even a little bit more difficult. But would Senator Adams yield to some questions, please? [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a few questions from Senator Dubas? [LB235]

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SENATOR ADAMS: Yes. [LB235]

SENATOR DUBAS: Thank you, Senator Adams. And please know that my questions are not a reflection on the work that you and your staff and your committee have done, because I'm very appreciative of the approach that you took in trying to be fair and the amount of time that you put into it. But, I mean, the questions need to be asked. We need to be having this dialogue, because we're not just talking about it for today or for this budget cycle but on down the road too. That's where my questions come from. When we're talking about the 1.0395, and I understand why that was put in there, but as I looked at not just the numbers in my district but the whole spreadsheet, does it appear to you that this number may be more adversely impacting the rural districts because of the valuation increases that we're seeing in the rural areas of the state? [LB235]

SENATOR ADAMS: Well, the one thing about that is that when we move the LER, what we are in effect saying, we're holding all districts more responsible for their property valuation. Now in partial response to your question you might say that, given that rural valuations have gone up as much as they have, then you could say, certainly, yes. But to me it's one of those elements where we put blinders on because it goes across all districts. [LB235]

SENATOR DUBAS: Thank you, Senator Adams. For so long we have really pushed and encouraged school districts to hold their levy down, to hold their spending down, and I think many of our school districts have done that. Many of them are, you know, under the \$1. But now it seems like we're actually encouraging them to bump their levies up to that maximum amount. Does that not seem counter to what we've been asking them to do, and again understanding their resource is property taxes and that's the tax we hear the most about from our constituents? [LB235]

SENATOR ADAMS: May I respond to that? [LB235]

SENATOR DUBAS: Yes, please. [LB235]

SENATOR ADAMS: Here's...do school districts that are under the \$1.05 have room to move? Yes, they do. They've always had that with or without LB235. However, what I would tell you also is this; that even though a school district that's under the \$1.05 could move, the spending restrictions we're putting on them isn't going to give them a whole lot of reason to elevate that levy. I would also add in those districts that have seen substantial valuation growth, they may hold their levy right where it's at, never have to change it, and see more revenue. And I would be remiss to say we also have a large number of districts that we're taking state aid away from that are at \$1.05. They have no place to go. [LB235]

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SENATOR DUBAS: Thank you, Senator Adams. And I think Senator Sullivan alluded to this as maybe some others have, again, talking about those extreme increases in valuation that we're seeing out in the rural areas of the state with ag land. We are seeing a move towards more nonequalized districts. Are we preparing ourselves for that through the discussion that we're having with state aid right now as we move to more nonequalized districts? And what happens when this bubble bursts? And that...we know those valuations aren't going to be maintained. Where are we going to be at when that happens? [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR ADAMS: You know, that is a valuable question and I think we don't have much time to talk about it, but one of things that could happen is if the bubble did burst and land values drop, you could see the state aid bucket tip more to the west. Is it going to do a complete flip-flop? No, because the student numbers aren't there. But it would compensate for that. [LB235]

SENATOR DUBAS: Thank you. And then finally, when we're talking about holding the line on spending, I think for all districts, no matter what the size they are, it's those fixed costs that they have no controls over. And I don't know how we address that through the state aid formula but, you know, I think when we're talking salaries and again those fixed costs, how are we...how can we tell them to hold the line on things they have no control over? [LB235]

SENATOR ADAMS: Well, in part, those fixed costs are going to be reflected in their GFOEs as they come in, and we also in the arrays have some control over that because we're going to take schools of like size. And presumably, let's take we have two... [LB235]

SPEAKER FLOOD: Time, Senators. Thank you very much. Senator Council, you are recognized. [LB235]

SENATOR COUNCIL: Thank you, Mr. President. I, like Senator Schilz, rise as one of the two newest members to the Education Committee and I was excited about being on the Education Committee because education is one of my passions and I share Senator Haar's statement that that should be this state's number one priority, is providing K through 12 education. And when I joined the committee, I joined the committee with the hope and intent of preserving the level of funding for K through 12 education that these institutions have benefited from over the last few years. So when I tell you that I support LB235 as amended by AM952, I say that knowing that, I can't recall who...which one of my colleagues stated it, not being happy because of the reduction in the amount of state aid to K through 12 education that's reflected in LB235 as amended. But I can assure you that the process that the committee, I want to add my thanks to Chairman Adams

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and the Education Committee staff and all the colleagues who put a lot of work into coming up with LB235, who put a lot of time in trying to ensure that it was as fair a result as possible, taking into account the need to provide a sustainable mechanism for funding K through 12 education in the state. And I hesitate to say it, but I feel compelled to say it because of the innuendo about the beneficiaries under LB235, my colleagues have stated and I will affirm that during the course of this committee's deliberations on what bill would be advanced and in what form for state aid, I don't recall any of my Education Committee colleagues saying what's in it for me, meaning how does my particular school district fare. While there were comments about how to equalize school districts fair compared to nonequalized school districts, it wasn't I'm in it for me and my district. And I think we need to put this in context, colleagues, because a lot talk about a reduction in state aid from \$950 million to the \$820-plus million that would be required under LB235. That comparison is to the money the school districts are receiving this school year compared to what's projected for them to receive under LB235 the next two school years. I need to remind you that had the committee done nothing to the TEEOSA formula, next year, under the formula, without the adjustments that are reflected in AM952, we would have had a General Fund obligation of \$1,010,000,000, \$1,010,000,000... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR COUNCIL: ...if we had not made the adjustments that are reflected in AM952. And I'm also concerned when I hear people saying, well, that their districts expected to get a cut but they didn't expect the cut that they received, I want to know what data they were operating under. Because until we advanced LB235 as amended, I couldn't tell you what the state aid formula was going to generate in terms of actual General Fund appropriations to my school district. LB235, as originally introduced, would have required about \$845 million in state aid. So if the districts made their budgetary decisions on the basis of that, well, I'm sorry, because we were responding to first a priority... [LB235]

SPEAKER FLOOD: Time, Senator. [LB235]

SENATOR COUNCIL: Thank you. [LB235]

SPEAKER FLOOD: Thank you, Senator Council. Senator Schilz, you're recognized. [LB235]

SENATOR SCHILZ: Thank you, Mr. President. I got cut off a little bit the last time. I don't have a whole lot to say otherwise. But I think that we need to really take a step back here and understand what we're dealing with. When you have a shortfall like we do, when you look across and you try to be equitable all the way across the board, you get something like this. You get something like LB235. Is it perfect? Absolutely not.

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Does it answer anyone's needs really? I don't know. You could argue the fact. Some will tell you that they're taking a much broader hit than they should be, others would tell you they expected that, and still others you just won't hear from at all. But I do think that as you look at it and if you ask yourself the question about the formula itself and how that works and how it functions and whether it's doing the job that it was supposed to do when it was created, I think you have to be critical about it. The formula was never...has never been fully funded. Is that responsible legislation when you put something out there that you do not have the means and/or the will to move forward with it and to give it the funding that it needs? We have to be pragmatic as legislators. We have to look at the situation and look at reality and say, do we have the ability to take the bill, the formula, whatever it is, and have it operate in reality. And if it doesn't, if it does not work, then we need to go back to the drawing table and learn from that. We need to understand what works within it and what doesn't work, and then we need to take that and move forward together as a state of Nebraska to represent everyone equally so that everyone gets a fair shake in what we have to do in the constitution and as a state. Thank you very much. [LB235]

SPEAKER FLOOD: Thank you, Senator Schilz. Senator Pahls, you are recognized. [LB235]

SENATOR PAHLS: Thank you, Mr. President and members of the body. What I'm going to ask again this morning, remember, and I handed out this long sheet, some time peruse again that when we're talking about property taxes, etcetera, etcetera. And I can see probably why some people would say, gee, we're throwing some dollars out here and we're not getting state aid, but at least (inaudible) some sort of foundation to work on. I've heard numbers being tossed out by Senator Council, Senator Haar, so I need a little bit of clarification, so if I could have Senator Adams...a question or two. [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Pahls? [LB235]

SENATOR ADAMS: Yes, I will. [LB235]

SENATOR PAHLS: This is where I'm at. Okay, the budget that you're proposing this year is in amount of... [LB235]

SENATOR ADAMS: This proposal right here, LB235, as amended with the committee amendment, currently models out at \$822 million in the first year, \$880 million in the second year of the biennium. [LB235]

SENATOR PAHLS: Okay. Now I want you to go back. What was it like? Include all the federal dollars because the schools did spend that. What was that budget then? [LB235]

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SENATOR ADAMS: The school year that we're in right now, the aid went out at an aggregate of \$950 million, \$140 million of which was federal stimulus money. [LB235]

SENATOR PAHLS: Okay. So there has been a decrease but, as Senator Haar said, actually state dollars, there will be an increase. [LB235]

SENATOR ADAMS: That's correct. [LB235]

SENATOR PAHLS: Okay. Now are we going to be able to sustain that in the coming years? [LB235]

SENATOR ADAMS: You know, I'm very comfortable that we'll be able to sustain this that you see right here over this biennium. And what we have also tried to do, as I tried to point out in the introduction, I didn't spend much time on it though, is to work with some mechanisms here that will slow down the growth not just so we can get through this biennium but to deal with potentially slower revenues out into the next biennium as well. [LB235]

SENATOR PAHLS: So you're, by that statement, you are anticipating that the revenues will be less, not more. [LB235]

SENATOR ADAMS: I'm anticipating that they're going to improve over what we've experienced, but the reality is they may not improve that much. [LB235]

SENATOR PAHLS: Okay. So then in a couple years, if we do go ahead with the roads bill, that will add some...another dimension to looking at education. [LB235]

SENATOR ADAMS: State aid and all of our priorities, yes, always add a dimension. [LB235]

SENATOR PAHLS: Okay. Yeah, I'm just trying to get my hands around that. The one part I...it's a minimal part of the bill, I shouldn't say minimal but it's an amendment, dealt with the early childhood summer school. [LB235]

SENATOR ADAMS: Uh-huh. [LB235]

SENATOR PAHLS: Now that will continue. [LB235]

SENATOR ADAMS: Yes. [LB235]

SENATOR PAHLS: Okay, because I'm concerned that that's the last thing that we should drop is early childhood, because you know if we can...you and I both know if you can get everything met at an early age, life is better. And I'm just having a little fun with

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this. Senator Loudon, I know you have an issue with the administrators being included. Well, let's just imagine this body without the Speaker sitting up there and Patrick, because they are actually the administrators. They're keeping is in tow here. So the administrators are, to me, an important part. Now here's one thing that I'm a little bit concerned about. We keep talking about needs. Where is the accountability? I am a superintendent and I come say, these are my needs for the school. How do we...where's the accountability? Because if this...if money is going to be harder to come by, where's the accountability? That's what I'm trying to figure out, Senator Adams. [LB235]

SPEAKER FLOOD: One minute. Senator Adams, will you yield to a question from Senator Pahls? [LB235]

SENATOR ADAMS: I will. I will. And you're asking for accountability. As far as I'm concerned, we have a lot of reporting that schools have to do, and they report in to the department when they make requests for these various allowances and adjustments in daily membership and average yearly membership. But I think there also is another level of accountability and that's down there with the school board and the voters right there in that school district. [LB235]

SENATOR PAHLS: And I agree with that accountability, but I'm talking about the accountability of students obtaining their high school diploma, etcetera, etcetera. I'm...the testing. I mean are we ever thinking about making a tie-in with the academic achievement of students? Has that ever been a factor? [LB235]

SENATOR ADAMS: It gets discussed a lot. I struggle with it. [LB235]

SENATOR PAHLS: Possibly that's a need that we need to have in place... [LB235]

SPEAKER FLOOD: Time, Senators. [LB235]

SENATOR PAHLS: Thank you. [LB235]

SPEAKER FLOOD: Thank you, gentlemen. Senator Carlson, you are recognized. [LB235]

SENATOR CARLSON: Thank you, Mr. President and members of the Legislature. What I'm going to say certainly isn't meant to impart any criticism of Senator Adams and the Education Committee because I appreciate their work, their many hours, many headaches, a whole lot of criticism. I looked in the constitution and our constitution says, "The Legislature shall provide for free instruction in the common schools of this state of all persons between the ages of five and twenty-one." I listened to Senator Fulton talk about the formula for state aid, that it should be understandable, I think by most adults

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in Nebraska and certainly by everyone in the Legislature. I believe that I'm numbers oriented, but I don't begin to understand the state aid formula. I wish I did. Now we fund education in Nebraska by sales tax, by income tax, by school lands, by federal taxes, and by property taxes. There's a lot of consternation and frustration about property taxes because they definitely affect state aid. Now every adult resident and every property owner in Nebraska has an obligation to help pay for a free education for students between ages 5 and 21. If there is to be fairness in taxation for providing for free education, why is there such a discrepancy in property tax levies for education? I studied the General Fund levies of the 251 districts, and I don't understand the figures I see. Let me read some of the tax levies for property tax for education in the various districts: 43 cents, 54 cents, 65 cents, 68 cents, 72 cents, 75 cents, 76 cents, 78 cents, 79 cents, 85 cents. That's 13 districts or 5 percent of the 251 that pay between 43 cents and 85 cents. Now let's go to the other end: \$1.18, \$1.17, \$1.16, \$1.12, \$1.11, \$1.08, \$1.06, \$1.05. There's some repeats there, but you add all those together it's 39 school districts that are \$1.05 or above. That's 16 percent of the total districts. Now if every person and property owner in the state has a responsibility for education, why these extreme differences in property tax levies? Everybody in the state pays the same sales tax rate for education. Everyone pays the same income tax rate for education. Almost everyone pays different property tax rates for education. Why? Is that fair? Now I've spoken with some school board members who are thankful for the increases in property valuations, particularly farmland. Grain prices are good, livestock prices are good, farmland property taxes due are higher, good for the schools. And I've heard it said, well, they're having good years; they can afford it. Prices are cyclical. Profits are cyclical. [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR CARLSON: Prices will go down; profits will disappear. When that happens, will property taxes go down? I think that we should study, determine what statewide property tax levy would be required to fund 34 percent of the K-12 education costs, common statewide education levy. Let sales and income taxes fund 66 percent of the costs. I think that would be more fair. I believe that would require cost containment. Thank you, Mr. President. Thank you for listening to... [LB235]

SPEAKER FLOOD: Thank you, Senator Carlson. Senator Campbell, you are recognized. [LB235]

SENATOR CAMPBELL: Thank you, Mr. President. Good afternoon, colleagues. A number of years ago I had a very dear friend who served on the Lincoln Public School Board. And I noted to her, I said, well, you sure get a lot of phone calls and questions. And she said to me, you know what, Kathy? Every parent is an expert on their child's school. And I feel sort of like that when I, too, like Senator Coash, I'm sort of like the parent. I want to know what's happening to my "children" and the school districts. And I

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was thinking about we all feel in this room that we're an expert and very often Senator Adams and I talk about, well, all right, let's duke it out. It's education versus Medicaid. And I feel lucky because everybody is an expert on education. But, boy, when I start talking about Medicaid so I think maybe Senator Adams has the...certainly has the advantage there. My thoughts today really have to do with just some general observations that I've looked at. And I certainly add my compliments to Senator Adams and the committee and everyone and to my own school district. I think that all of our districts tried diligently to know that the budget would require an adjustment in money, no matter of anyone in the state. We're not oblivious to the budget problems that we have. But what we need to look at in the future is finding some sense of stability and what is expected for us. One of those items is we've heard a lot, boy, my school district planned. They planned ahead. They put this away. They set aside funds and they were very transparent to the community. But it becomes harder and harder for them to set aside those plans or some predictability. We knew there would have to be adaptations to TEEOSA because of the budget. But every time we change that and tweak it, it makes it harder to have that predictability. Having been an elected official and waiting for the Legislature to hand down what aid there would be is very difficult when you're waiting and waiting and waiting to know what that budget is. One of the items that I think we should look at in the future is how do we responsibly report out what superintendents and administrators make. And I'll give a shout out to my own district who listened to the people in this community and said, we have to be much more clear about what that superintendent is paid and what that total package is. We, the state, pay a percentage of that. We deserve to know a greater sense of that. I worry in a second observation, not necessarily about this year because I do think many school districts planned for it, but what's going to happen next year and the years after that? I don't want to send the Education Committee back to work, but just somehow I think we all need to support LB235 and AM952 and ask the Education Committee to begin their thought process on what adaptations it will take to TEEOSA for the schools to deal with next year and the years beyond. And the last observation takes up where Senator Carlson was. Folks, if we worry about what that tax levy is, what we all need to worry about as much or more is how the valuation of our property in the state is done. It was very hard in Lancaster County... [LB235]

SPEAKER FLOOD: Forty seconds. [LB235]

SENATOR CAMPBELL: ...for us to keep pace with what our valuations should be, knowing that other parts of the state were not doing that. Valuation of property affects the levy. And the Revenue Committee has been doing some great work in looking at how we put into place some principles for the valuation of property. When those bills come, I hope we will give extra attention to them. Thank you, Mr. President. [LB235]

SPEAKER FLOOD: Thank you, Senator Campbell. Senator Harms, you are recognized. [LB235]

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SENATOR HARMS: Thank you, Mr. President and colleagues. I rise in support of AM952 and the underlying bill, LB235. I know that Senator Adams and the Education Committee had a lot of pressure put on them to force this amount down from \$820 million lower. And I was really pleased that they stood their ground because I believe that their concerns were that we would have a major impact on the quality of education and so I appreciate that. I know that it was frustrating for them. Once we complete this, it will be easier for us in Appropriations Committee now to finish up our budget. But I listened to the discussion today and we talk a lot about fairness. It's really how you define the term fairness. What's fair to Senator Schumacher may not be fair to me. Or what's fair to Senator Haar/Harr may not be fair to me so it's really how you define fairness. But I do believe that this budget that they're proposing is appropriate. It's appropriate because of the environment we find ourselves in. It's appropriate because of the funding and the lack of funding and the revenue that's coming into this great state. I will tell you that this summer when Senator Adams came out to western Nebraska we had one conversation with our superintendents and we talked about what our concerns were going to be with this budget and the next year budget. And we didn't pull any punches. Senator Adams was very direct. After he left, about a month later or two I had another invitation to speak to the superintendents. And so it's no surprise to our superintendents that we told them very clearly that if you have any positions that are now available, if you can get by without filling them, don't fill them. If you can stop your purchasing, stop your purchasing. If you can stop your trips, stop your trips. This is the time for you to bring this together and cut off your spending, slow your spending down so you can begin to balance up, it might catch up with your revenue flow that you're going to have. I think most of the people did this. But in my discussion with them, not only in my district but other districts, I think a lot of schools prepared themselves for where we are today, where they'll be starting out with their budget next year. It's the second year that they were really concerned about. They cannot take the cuts that we were originally proposing. And I'm glad to see at least we've been able to raise that to \$880 million. I think it's going to ease that a little bit. But it is an issue that I think a lot of our public school people were concerned about. I will also tell you that I have been in education almost my entire life, and I know that Senator Adams doesn't always agree with this position, but I'll tell you what. That formula to me is very complex. There's so many moving parts to that formula, and I understand why it's put together because there are so many different components here that it's important to measure these. But somehow I don't know if Senator Adams, and I don't have any solutions to this, I would just say that I hope we can find a way that at least the average citizen would understand how this is determined and maybe as a senator who's not very bright could understand it, such as myself. But I do think there's a lot of moving parts to this formula. You know, the crisis that we're dealing with today I will tell you in the future will make this look like a toy. In the long-range planning that we did on the education side of it, we went back and looked at the birth rates from the year of 2000, excuse me, up to 1980 to the 2000.

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SPEAKER FLOOD: One minute. [LB235]

SENATOR HARMS: And when we looked at that, the number of children coming into the marketplace of our public schools there were only three counties that were going to show any growth. And that is going to be Douglas, Lancaster, and Sarpy. After that, there's a sharp decline down. And the discussion we're having today is going to be much more difficult in the future, and that is how are we going to deal with providing education, quality education to many of these rural communities that are declining rapidly? Now that issue is going to have to somehow be reflected in our funding formula. We're going to have to look at this issue very carefully because, quite frankly, it's going to drive what happens in our state. It's going to drive our economics, economic development in our state. It's going to drive what happens to higher education in the community colleges, the state colleges and the university. And so the issue that we're going to have is much broader and in greater depth is... [LB235]

SPEAKER FLOOD: Time, Senator. [LB235]

SENATOR HARMS: Thank you, Mr. President. [LB235]

SPEAKER FLOOD: Thank you, Senator Harms. Senator Ken Haar, you're recognized. [LB235]

SENATOR HAAR: Mr. President, members of the committee (sic), Senator Harms, you said that your definition and Senator Haar's/Harr's of fairness might be different. Actually, there are three opinions. There are two Senator Haar's/Harr's. We don't agree on everything. I want to address a couple of issues that have come up. One is the whole thing of sustainability and predictability. And again, one of the things that's taken me a while to understand is that TEEOSA is not an autopilot. There is two ways actually you could do it. If you said, okay, whatever TEEOSA predicts, that's what we're going to spend and that would mean automatically an increase in taxes year after year I'm quite sure. Or we can say within reason here's how much we can spend and let's try and adjust TEEOSA to fit that. So again, TEEOSA is not an autopilot, and if you look at it that way, you're always going to see cuts happening. If you take this sheet that has all our school districts on it and all our schools, I think it's important to understand that the second column that says '10-11 state aid before EduJobs, that includes the stimulus money. That includes stimulus money. And then if you subtract LB235, you get the difference. So it's kind of tricky here because the second column is General Fund and federal money and then the third column is only General Fund money. So I'd like to make that point again that even though there is a decrease in funding for education according to the TEEOSA formula, the amount of General Funding money being spent on education is greater. And the reason that that's not segregated out is when the stimulus money came out we had to distribute that according to the school formula. It

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would have been kind of nice if we could have just put that in a separate little formula and distributed that, but it had to go out according to TEEOSA, according to whatever formula the state uses. Predictability is always going to be very difficult in this situation. There are so many moving variables. Tax valuations, as we just heard, are going up and down. The economy is going up and down. The number of students coming into schools is going up and down. So this absolute predictability a year or two from now in advance is never going to happen. It's just not going to happen. And then it was brought up at one point and I think it's an interesting idea that there be a statewide levy for schools--Senator Carlson talked about that--but I think it's also important to recognize that when TEEOSA came...was created so many years ago, some districts had huge valuations like \$2.50. So TEEOSA is not perfect and I would not defend it that way, but it has taken care of...it has leveled out those things somewhat. And finally, I'd like to say I think there's a lot of criticism potential for TEEOSA. It keeps being worked on. But I would like to see it more in a form where maybe with the high-speed computers at the university we could do more modeling beforehand. Right now it takes a long time. Program changes have to be made and so on. That's something I will work on to see if we can't come up with a speedier... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR HAAR: ...modeling sort for TEEOSA. But again, I think that we need to recognize that LB235 is not perfect, but it represents an increase in General Fund spending. Thank you. [LB235]

SPEAKER FLOOD: Thank you, Senator Haar. Senator Louden, you're recognized. [LB235]

SENATOR LOUDEN: Thank you, Mr. President and members. Would Senator Adams yield for questions? [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Louden? [LB235]

SENATOR ADAMS: Yes. [LB235]

SENATOR LOUDEN: Well, and, Senator Adams, I certainly want to thank you for your work on this. That's for sure. You spent most summer and I remember when you were about 6 foot 1 or 2 and I see now you're down considerably shorter, and I presume that's what's happened is the work on the Education Committee. When you figure these formulas and some of this, is there any consideration given to the amount of money each district spends for administration compared to other ones in their groups or individually or how is that figured? [LB235]

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SENATOR ADAMS: Thank you for the question, Senator, and very quickly, thank you for recognizing that I did used to be way taller and my pants fit tighter too. When we put schools into the arrays, we're not isolating teacher costs or superintendent costs. We're looking at General Funds. Now the advantage to that is we can take an Arthur County and put it in the same array with a like-size school so that the presumption is they're going to have like spending patterns. Now do we isolate administrative costs? No, we don't. [LB235]

SENATOR LOUDEN: Okay. And that's what I'm wondering because there's quite a difference across the state of Nebraska and across different schools, even in your array and even from one size schools to the other where you're running some of the schools in the area that I represent running 65 percent or more that they spend for instruction. And you get different school districts and some of that administration is considerably higher. And that's what I'm wondering if the state of Nebraska is going to foot the bill on some of this, should that be part of the formula? I mean we took out very sparse and sparse because they felt like the state couldn't afford that anymore. Can we afford to let some of these school districts not tried to have a more efficient school system, I guess is where I would say? [LB235]

SENATOR ADAMS: Can I try to answer that? [LB235]

SENATOR LOUDEN: Yes. [LB235]

SENATOR ADAMS: The best thing I can say, and you already know what the answer is, every time we delve a little deeper, then the kickback is local control issue. We know what we have to spend to get a superintendent. We know what kind of a superintendent we want, and this school district different from that school district what they spend. Now and you're absolutely right about the variance across the state depending on what the workload of that superintendent may be. And you know full well out in your country and we don't have to go clear out there--we can find superintendents that are substituting school, driving the bus, and climbing up on the roof to see why it's leaking and being superintendent. [LB235]

SENATOR LOUDEN: Exactly. And what I'm wondering is, you know, where...whenever the state of Nebraska is footing the bill, should we have more say? I mean if you were running a business, whoever has got the gold gets to make the rules usually. And should that apply a little bit more so than what it has over the last few years in our state funding? It's been pretty wide open on the state funding on they usually show what their needs are and we pay up the...put up the money. This is my concern and I'm wondering as we go forward, I mean this year it's...you work this out and this is probably the way it should be. And like I say, I'm glad that Senator Avery's bill, I think LB148 or whatever the number is, is in there to do away with lobbyists as part of their needs. I mean that was something that should have been done years ago. It should have been done before

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we ever started. [LB235 LB148]

SPEAKER FLOOD: One minute. [LB235]

SENATOR LOUDEN: And I'm wondering if this is a work in progress if we need to address that problem. I'll give you the rest of my time, Senator Adams. [LB235]

SPEAKER FLOOD: Forty-nine seconds. [LB235]

SENATOR ADAMS: Senator Louden, I would simply repeat we are constantly looking at the needs and just like with Senator Avery's bill, LB148, we were looking at needs. But we're always doing that, but as you well know, I think you served on a school board, we dance on a balancing point of when is the state too involved in running the school, money or no, versus letting that school board take control. [LB235 LB148]

SENATOR LOUDEN: Well, very, very true. And again, it's...I guess you go by the golden rule. If we're going to foot the bill, then we should have some say on what we do. Yeah, I was on a school board for 30 years, but we never had a concern about what the state was telling us to do. We was always having a concern... [LB235]

SPEAKER FLOOD: Time, Senators. [LB235]

SENATOR LOUDEN: ...about funding our school. Thank you, Mr. President. [LB235]

SPEAKER FLOOD: Thank you, Senator Louden. Senator Gloor, you're recognized. [LB235]

SENATOR GLOOR: Good afternoon, Mr. Speaker, members. I also want to add my thanks to Senator Adams and members of the Education Committee for their hard work. I volunteered for some special duty having to do with the Legislature's long-range planning process and was here a week after we adjourned, two weeks after we adjourned last year the first week of May, and the first person I saw was Senator Adams. And it seemed like any time I was down here last year between sessions I saw Senator Adams. In the meantime, I know he was traveling, as Senator Harms said, across the state from east to west talking about this, trying to get buy-in. I don't think the general public, let alone this body, understand how much time and energy members of the Education Committee, but especially Senator Adams, has put in trying to come to some solution. And because of that, I would be very much in support of AM952, LB235 because I know that there's been a lot of hard work in it and we understand life isn't fair. I wonder if Senator Adams would yield to a question, Mr. Speaker. Would Senator Adams yield for a question? [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Gloor?

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[LB235]

SENATOR ADAMS: I will. [LB235]

SENATOR GLOOR: Senator Adams, you talked a little bit about needs stabilization in the formula, and I note that there is about a 35 percent increase in that specific category budget to budget. Could you help me again understand what needs stabilization means in the formula as we calculate it? [LB235]

SENATOR ADAMS: I will. Thank you, Senator, and I appreciate your kind words as a lead-in. Needs stabilization--the simplest way for me to describe it, it's like a safety net. So as your needs are declining, what that element within the formula does it only allows your needs to decline so far. So let's say that your needs calculate out at a million dollars and we have 100 percent needs stabilization. Then the next year, possibly because of a loss of students or whatever it may be, your needs only calculate out at \$950,000. If we are at 100 percent needs stabilization, we would hold you at a million dollars worth of needs on the needs side of the calculation for state aid. It's like a safety net which applies to all schools, but it applies predominantly to the smaller ones. But I would tell you, if you don't mind me taking just a moment here on your time... [LB235]

SENATOR GLOOR: Please. [LB235]

SENATOR ADAMS: ...that as we reduce the averaging adjustment for schools in this bill and as we reduce the averaging adjustment, some of those schools, larger ones believe it or not, fell into needs stabilization because we were reducing needs. So all of a sudden now they take on some protection. [LB235]

SENATOR GLOOR: Thank you, Senator Adams. I would like to speak in favor of the formula since not a lot of people are doing that. This is the time of year and needs stabilization to me is sort of an exclamation point on why I feel that way. This is the time of year that I used to get involved in doing budgets for my institution. I still have cold sweats and flashbacks to this time of year because it was a difficult, difficult, complicated process for a large hospital. And that's sort of the nature of the way life has evolved. I did it off and on for almost three decades. And I'll tell you it didn't get any more fair. It didn't get any easier. It got more complicated. But it was still done and I think done in good manner. Life is complicated. And I think the TEEOSA formula is an effort towards fairness. But I don't think you can have fairness and have things get easier or less complicated. And it would be wonderful from the standpoint of transparency in government if... [LB235]

SENATOR LANGEMEIER PRESIDING

SENATOR LANGEMEIER: One minute. [LB235]

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SENATOR GLOOR: ...thank you...if we could boil this down to something that was extremely understandable to all constituents. But I don't think we'd find fairness being part of the dialogue if we did that. I think a lack of fairness goes along with or a perception of fairness goes along with a level of increased complication. We want simplicity in everything we do. We just talked about long-term care industry taxing itself so that it could get a higher level of reimbursement. That's not simple. That's very complicated. On the other hand, they would say the reimbursement they're getting is a little more fair. I think the two don't go hand in hand, and I'm sure TEEOSA can be tweaked. I'm sure TEEOSA can be made better in some ways, but I do not think we can come up with a simple measure that will hit as many points of fairness on the head... [LB235]

SENATOR LANGEMEIER: Time. [LB235]

SENATOR GLOOR: ...as what we have. Thank you. [LB235]

SENATOR LANGEMEIER: Thank you, Senator Gloor. Senator Wallman, you're recognized. [LB235]

SENATOR WALLMAN: Thank you, Mr. President, members of the body. I, too, want to thank Senator Adams and his staff and the committee. Whenever I've had questions, and I've been the treasurer for a long time on a school board, and the TEEOSA formula, I didn't always like it--sometimes I did, sometimes I didn't. That's the way life is. And you have to be disappointed in the school board and the constituents when you have your budget meetings, nobody shows up. But when you have property tax valuations show up, then they come to the school board meetings and say, wow, I got to pay a lot of taxes this year. And that's already formulated in if you're on the board like Senator Campbell says. And Lancaster County and Gage County are a little different valuations. And the assessor in this county and myself don't always agree on things. But he does what he has to do. So I would hope that we could find a different way to encourage districts that actually save money because now we reward districts that spend money. You know, the pyramid is upsidedown. So if you're a businessman or a farmer or whatever, you reward yourself when you save some money. The school districts or any government entity as far as that goes you empty the account to get your budget authority for next year. And I also disagree a little bit, but Senator Adams and his staff have worked on this thing with nonequalized school districts. I don't think that's fair. I still have a little trouble with it. I don't think districts will shoot their...bypass the lid limit or whatever. It's complicated business, like Senator Gloor says, and life is complicated. When you deal with government funds, private funds, and the public institutions, it takes money. And I was very disillusioned every year we made out a budget it was higher. And one was insurance cost and it very seldom was it much labor...it was always a little labor cost, administrative cost. And as Senator Loudon and I always try to keep track of

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that administrative cost to keep it as low as we could in our array, we was usually at the bottom. And I took pride in that, maybe not my administrators, but I thought teachers was the most important. If you're going to have a good school, you got to have teachers look at your kids in the face, teach them what they're supposed to know, and it makes the administrators look good. Thank you, Mr. President. [LB235]

SPEAKER FLOOD PRESIDING

SPEAKER FLOOD: Thank you. Senator Hadley, you're recognized. [LB235]

SENATOR HADLEY: Mr. President, members of the body, again I want to echo what people have said. I think it's a very difficult task that Senator Adams and members of the Education Committee have undertaken, and I think they've done the best job possible. I do have a couple of questions. I wondered if Senator Adams would yield. [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Hadley? [LB235]

SENATOR ADAMS: Yes, I will. [LB235]

SENATOR HADLEY: Senator Adams, I had nothing better to do at 4:00 this morning when I was awake. I was doing some reading on funding of schools across the 50 states, and the latest report I read said it was the first one in ten years and they made an interesting study. And they said that 40 states use a foundation approach to school funding and 5 used a foundation plus tiered approach. And they listed Nebraska in the foundation plus tiered approach. Have you ever heard of that type of designation? [LB235]

SENATOR ADAMS: Well, it depends on how you want to define foundation, but, you know, I have my definition of foundation. [LB235]

SENATOR HADLEY: And what would that...what would your definition of foundation be? [LB235]

SENATOR ADAMS: In its simplest form we would take whatever the amount of state aid is going to be and divide the total number of students into it and there it is. [LB235]

SENATOR HADLEY: Okay. From what I was reading, a lot of states use just a dollar amount and then use some kind of formula up and down from there. I should know the model better but I don't so I need to ask you a couple, two or three questions. And I'll start out by saying my district is like some of the other districts here. I'm caught in that storm because I have an equalized school district that's quite large and then I have a

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county that has three nonequalized school districts so I see both sides of the issue. The net option funding and the income tax rebate and the retirement aid seem to go to all the districts. What was the reasoning behind those three particular items going to all three districts or all districts? [LB235]

SENATOR ADAMS: Let me start in reverse and begin with the retirement aid. We made a decision two years ago when we first saw declining revenues and we knew that we also had an issue on the school retirement to front load money in order to anticipate a turnaround in the market and we'd be in position for that. And what we did was to, in effect, the state said to teachers and the school districts, there's going to be an increase in your contribution, but there's also going to be a state contribution. But we did that for all schools, not just equalized schools. [LB235]

SENATOR HADLEY: Okay. Okay. [LB235]

SENATOR ADAMS: What was the other one? I... [LB235]

SENATOR HADLEY: The other one was the income tax rebate. [LB235]

SENATOR ADAMS: Income tax rebate, those are income taxes...as you recall, when you fill out your state income tax form there's a place there where you put your school district number on. And so there is some money coming back in. Now if you're an equalized school district, it shows up on the resource side which diminishes your equalization aid. If you're nonequalized, it's money in the bank so to speak. [LB235]

SENATOR HADLEY: Money...and the last one, Senator Adams, was net option funding. [LB235]

SENATOR ADAMS: Right. Net option funding, what we're doing, we have school district A, school district B, student decides to leave school district A, go to school district B. Okay? [LB235]

SENATOR HADLEY: Okay. [LB235]

SENATOR ADAMS: And what we're going to do, we are in effect going to take from school district A some of their allocated income tax to make up that difference. [LB235]

SENATOR HADLEY: Okay. Well, that certainly does answer because looking at the districts it seemed like all districts, if they had funds in those three categories they got those. So thank you, Senator Adams. I appreciate your help. [LB235]

SPEAKER FLOOD: Thank you, gentlemen. Senator Schumacher, you are recognized. [LB235]

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SENATOR SCHUMACHER: Thank you, Mr. Speaker. I rise to...with an answer perhaps to some of Senator Carlson's things that he pointed out. He pointed out the wide range in property tax levies, and the one at the bottom of the range happens to be in my district. And I can answer why that number is so low. That's the Humphrey School District. In the Humphrey School District you have Lindsay Holy Family and Humphrey St. Francis, two parochial schools which a large percentage of the kids go to. And the parents at those schools, along with the parents at all the parochial schools in the state, are the unsung heroes today. Imagine what these numbers would look like if it weren't for them. We would be in a far greater world of hurt. So that's why that number in that district is so low. I also want to share briefly an observation. I think this formula is an extremely poetic formula. It seems to address just about every possible variable, and it seems to make a pretty good effort at doing that. However, I think there's one thing that we are missing when we get into the mysticism of formulas. And that is this is all based on the fact that we have chosen as a state to use property taxes as the base for funding our schools. If we were to wake up tomorrow morning and say, look at, this really is not a way to do things. Let's allow schools to levy a sales tax on the sales in their district, then the base resource of a district would look entirely different than it does because of this arbitrary decision to use property taxes. And in fact, the way the money would flow under this exact same formula would be in many different directions. School districts which now appear rich could very well appear poor because they have very low sales in their districts. So that's a discussion perhaps for another day, but I hope at least I've answered one of Senator Carlson's questions. And if Senator Adams would like the balance of my time, he's sure welcome to it. [LB235]

SPEAKER FLOOD: Thank you, Senator Schumacher. Senator Adams, you have 2 minutes 35 seconds. Senator Adams waives his opportunity. Senator Fischer, you are recognized. [LB235]

SENATOR FISCHER: Thank you, Mr. Speaker, members. I'd like to thank Senator Schumacher for his comments on the levies and the valuation. I wanted to address that also. I have 21 school districts in my legislative district. Over half of them now are nonequalized districts. And if you look at the valuations on most of them, or I'm sorry, if you look at the levies on them, most of them have low levies. But you need to realize that ag values over the last ten years or so have increased double digits in many areas of the state, including mine. They've increased double digits every year. So you don't need to increase the levy but you are still able to access more tax dollars. So it's not always easy just to go down the printout and look at what levies are. I like to say that levies in many cases have no bearings when we discuss state aid to schools. What I'd like to do is address the formula itself. Again, I agree with all of my colleagues in thanking Senator Adams and the Education Committee. This is a thankless job. It's a very stressful job that they go through every year. And basically they don't please anybody. I'm across the hall from Senator Adams so I see the superintendents and the

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lobbyists in his office every day. And poor Senator Adams. When he came in here four years ago he was a much taller man. (Laughter) When we look at the formula itself, I think when I look at it and when I look at these printouts what I'm seeing is a growing divide between districts in this state. We have nonequalized districts and we have equalized districts. The number of nonequalized districts, those numbers are growing. I would propose to you that right now we have...we definitely have two classes of school districts in this state and they are governed by two different state aid formulas. Senator Adams tried to address some of that in this bill, in LB235, and he upset a number of my school districts and yours that are nonequalized because he is not allowing for that unused budget authority growth. He and I can disagree on that philosophically, but I understand why he's trying to do it. I think equalization is really hard to define. And when I served on the School Finance Review Committee for six years, I don't think we ever agreed on a definition of equalization, but I happen to think mine is the best. And how I define equalization is it's 25 votes. It's 25 votes in here. As Senator Louden alluded to, sparsity. That used to be a component in the state aid formula. That was part of equalization and it was sacred because it was part of equalization and we don't question equalization in here, but 25 votes changed that. Twenty-five votes tweaks this formula all the time. And I think we all need to remember that when we talk about state aid to schools, when we talk about equalization. And as Senator Gloor, I appreciated his comments on fairness, and I agree with his comments. This state aid to schools formula is never going to be fair I don't think because we all have our own definition of fairness too. It's like when we talk to our children. They'll say to us, well, it's not fair. You know, you're treating... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR FISCHER: ...Adam better than you are me. My comment was, I love Adam more, but that's not the case here. It's just the definition of fairness and where we believe the need is in the state. But I would ask if Senator Adams would yield to a short question, Mr. Speaker. [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to Senator Fischer? [LB235]

SENATOR ADAMS: Yes, I will. [LB235]

SENATOR FISCHER: Thank you, Mr. Speaker. Thank you, Senator Adams. Senator Adams, you and I have talked off the mike and I've encouraged you and you told me you would look into it, but are you going to work on a state aid formula and try to revamp that and look for input and maybe try to reach what we can agree is maybe a little fairer formula? Will you be doing that this summer? [LB235]

SENATOR ADAMS: I don't know that we'll do it to the level that you might be thinking this summer, but we will be meeting this summer with the State Aid Review Committee

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and... [LB235]

SPEAKER FLOOD: Time, Senators. [LB235]

SENATOR FISCHER: Thank you, Mr. President and thank you,...(microphone malfunction). [LB235]

SPEAKER FLOOD: Thank you. Senator Nelson, you're recognized. [LB235]

SENATOR NELSON: Thank you, Mr. President and members of the body. I will be happy to give Senator Adams half a minute or a minute to respond to the question from Senator Fischer to finish his remarks. [LB235]

SPEAKER FLOOD: Senator Adams, 4 minutes 45 seconds. [LB235]

SENATOR ADAMS: Thank you. And thank you, Senator. To finish the answer to Senator Fischer's question, we spend...in the time that I've been Chair, I can't remember a summer we haven't spent most of the interim looking at state aid. What I have said, particularly this year, is that in the last three years we've had to make so many adjustments to this formula that there are some good things here. But we're always going to have to take a look and we're really going to have to sit down and take a look at sustainability issues and what we've got in this formula. Thank you, Senator. [LB235]

SPEAKER FLOOD: Senator Nelson, 4 minutes 2 seconds. [LB235]

SENATOR NELSON: Thank you, Mr. Speaker. I have some questions of my own for Senator Adams, if he will yield. [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to some questions from Senator Nelson? [LB235]

SENATOR ADAMS: Yes. [LB235]

SENATOR NELSON: Thank you very much, Senator. I want to be part of a long parade of people here, members on the floor congratulating you and commending you on the work of your committee in doing this and the long hours and much time that you've put in. And I just want you to know that you stand tall... [LB235]

SENATOR ADAMS: (Laugh). [LB235]

SENATOR NELSON: ...in the estimation of all of your fellow members here. I'm going to approach this not from an element of fairness but from budget concerns. As a member

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of the Appropriations Committee, we're working now to try and come up with our final recommendations. I think my recollection is on our temporary budget we...temporary is not necessarily the word but our preliminary budget, we came up with about \$812 million for education for the first year. And you are at \$822 million for the first year, \$880 million then for the out year. How did you arrive at that figure if you can tell me briefly? Is that where you wound up after doing all of your models or were you looking for something lower than that? [LB235]

SENATOR ADAMS: Senator, to respond to your question, we started out back in October. This formula was modeling out at \$838 million. Then it started modeling out in January at \$850 million. We knew we had to bring it down. And we worked in committee with different mechanisms and modeled those mechanisms, try some more things to bring it down, to bring it down. And quite frankly in my opinion when we hit that \$822 million/\$880 million point, we are at a delicate point where if we want more suddenly we being to even more disproportionately take money away from different class sizes of schools. [LB235]

SENATOR NELSON: All right. If in our efforts here we find out that we need education to give up another \$10 million so that we can balance our budget in the end, is it possible to do that? [LB235]

SENATOR ADAMS: I don't know how accommodating I will be, but it will be possible. [LB235]

SENATOR NELSON: It would be possible. All right. I did just some elementary calculations here, but if we got down...if we came up with another \$10 million, that would be about \$40,000 per district on average out of 251. Now that would have to be allocated between the larger and the smaller because the smaller ones probably couldn't come close to \$40,000. But having that figure in mind, is that a workable figure? Could that be done without a lot of pain? Forty thousand dollars times 251 is \$10 million. [LB235]

SENATOR ADAMS: Well, if you're a... [LB235]

SPEAKER FLOOD: One minute. [LB235]

SENATOR ADAMS: ...school district that's nonequalized, you could probably sit back and say, go ahead, let them have it. [LB235]

SENATOR NELSON: All right. [LB235]

SENATOR ADAMS: But if you're a school district that we've heard about LPS today, the Millards, my district in York and all across, I think we are at a point where we go any

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more and it's going to be serious already, but any deeper it gets real tough. [LB235]

SENATOR NELSON: All right. Thank you. Thank you, Senator Adams, for your answers. Thank you, Mr. President. [LB235]

SPEAKER FLOOD: Thank you, Senator Nelson. Senator Ken Haar, you are recognized. And this is your third and last time. [LB235]

SENATOR HAAR: Thank you. Mr. President, members of the body, this is not in defense of TEEOSA, but in trying to achieve fairness, I find a quote from Albert Einstein where he said, "Everything should be made as simple as possible, but not simpler." And I think if we try to equalize we're always going to have a complex situation to deal with. To talk just for a minute to Senator Nelson's comments because we talked about this a great deal in Education Committee, and we felt that going any deeper than \$822 million would definitely do harm to children. And I think it's going to take a lot of soul searching if we're asked to reduce that amount. And I will continue to say it's my number one priority, and I think this is about as low as we can go. Thank you. [LB235]

SPEAKER FLOOD: Thank you, Senator Haar. Senator Ashford, you're recognized. [LB235]

SENATOR ASHFORD: Thank you, Mr. Speaker. And I don't have much to add other than to second and third and so forth the comments regarding the Education Committee, a committee that I served on for four years. It's...they do exceptionally difficult work. Senator Adams made a point that I'm sure we all heard, but I think it maybe takes a little bit more discussion by Senator Adams to talk about what happens when you make a dollar reduction in a formula, if you in this case go below \$822 million in the first year and \$880 million in the second year, how that impacts school districts differently and disproportionately. And that is such a key point because what Senator Adams and the committee have done is striven to come up with a formula considering all the financial exigencies that treats all of the districts, including the nonequalized districts, as fairly as possible in the distribution of state aid. I'm going to ask Senator Adams, if he would answer a question. [LB235]

SPEAKER FLOOD: Senator Adams, will you yield to a question from Senator Ashford? [LB235]

SENATOR ADAMS: I will. [LB235]

SENATOR ASHFORD: Senator Adams, would you just explain a little bit more fully your answer to Senator Nelson's question regarding the difficulty in making an adjustment, a dollar adjustment on the state aid formula, what impact that has across the board. [LB235]

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SENATOR ADAMS: Thank you. I'll try, if I understand both of your questions. When...if we wanted to take more money out of this, the question was could we do that. Of course we could. Of course we could. Can we do it without pain? Absolutely not. And can we go to 251 school districts and say, you know, would you give us ten bucks and would you give us ten bucks? It's not how the formula works. We have to take into account a lot of different things. And as we try to go deeper--and Senator Haar is right--in committee we looked at it. But to get there the reality is we've got to go to a handful of school districts and ask for that money. We're not going to go to 251 necessarily and ask for the money. We're already going to have a third of our school districts nonequalized after this. They don't have anything to give. So we're going to have to go to the others. And it won't be a dollar for dollar there either. We're not going to say to OPS, we need a dollar from you and LPS a dollar from you. It will be based on their enrollment. It will be based on their valuation, a lot of different things. So it's not an easy thing to do, and that's why I said earlier that when we begin to go below the \$822 million mark in year one and \$880 million in year two, things become a lot more disproportionate because there's only so many buckets of money left. Thank you, Senator. [LB235]

SPEAKER FLOOD: Thank you, gentlemen. Senator Heidemann, you're recognized. [LB235]

SENATOR HEIDEMANN: Thank you, Mr. President, fellow members of the body. This is going to be very short. We've had a lot of budgetary items in my years of tenure as Appropriations Chair. I've spent more time during the interim than I would probably like, but the one thing that I've noticed, especially over this last summer, for every day that I was in the building I think Senator Adams was in here twice as much. So all I'm rising to do is say thank you, Senator Adams, to you and to your staff. This hasn't been easy. This isn't an easy year for all of us. I think everybody understands what we have to do. We might not like it, but we understand it. And in the end, I hope that everybody reluctantly pushes that green light for LB235. Thank you. [LB235]

SPEAKER FLOOD: Thank you, Senator Heidemann. There are no lights on. Senator Adams, you're recognized to close on AM952. [LB235]

SENATOR ADAMS: Thank you, Mr. Speaker. I'll make the closing on the amendment very short. It is the bill. The components are this: We will reduce the spending opportunities that schools have over the next two years. We are going to reduce their access to unused budget authority. We are going to reduce the allowable growth rate, the inflation factor that tries to bring those two-year-old data more current. We're going to have to reduce that. We're going to have to reduce rather than 100 percent needs stabilization we'll take it to 95; and rather than bringing averaging adjustment schools up to the average, we're going to pull that average down by 5 percent. In addition, allocated

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income tax--we will reduce that by \$21 million that goes out to schools. We're going to change the comparison groups. We're going to go to ten up and ten down. We're going to try to credit back to schools that have lost value as a result of the TERC decision. We're going to incorporate Senator Avery's bill, LB148, in here which means any reportable lobbying fees will be withheld from GFOE calculations for those schools that have made those expenditures. We're going to try to deal with the Grand Island/Grand Island Northwest problem with their converted contracts. And finally, we already have an early childhood allowance. We need to clarify the language as to whether or not a kindergarten-eligible student can be counted into that allowance and this will say they can be. That in effect is the amendment. It is the bill. Thank you, Mr. Speaker. [LB235 LB148]

SPEAKER FLOOD: Thank you, Senator Adams. Members, you've heard the closing on AM952. The question before the body is, shall AM952 be adopted? All those in favor vote aye; all those opposed vote nay. Have all those voted who care to? Mr. Clerk, please record. [LB235]

CLERK: 41 ayes, 0 nays, Mr. President, on adoption of committee amendments. [LB235]

SPEAKER FLOOD: Committee amendments are adopted. We return now to discussion on LB235. Senator Pahls, you are recognized. Senator Pahls waives his opportunity. There are no other lights on. Senator Adams, you're recognized to close on LB235. [LB235]

SENATOR ADAMS: Thank you, Mr. Speaker. Let me make this very brief. I want to first of all thank those of you that have taken the time, either off the mike or on, to congratulate the committee and its work. And they have worked hard on this and the staff that's been involved and from all the various offices to get where we're at. We appreciate that. But you know what? Let me throw this in. At the same time that all of you have been so generous with praise to the committee, I think we better take just a moment and also say to the school districts that are going to have to make this work when the rubber hits the road, thank you for trying to make this work. It's not going to be easy. It was not easy for the committee. It's not going to be easy for them. The statement was brought up earlier about the planning that Lincoln Public School has done. I don't doubt that for a moment, not for a moment. We've been in discussions with them long before LB235 ever came out. But I would tell you that I would say that most of the 251 school districts have been planning, but you can only plan so much. You have costs, some of them, that are out of your control, staffing decisions to have to make. There's a lot of things that go into the plan. Us getting this bill up at this point in the session is going to help. It's not going to be fun for schools, but it's going to help. At least they have a number that they can work with and make that April 15 deadline and do all of those kinds of things. So with that, I don't know that anything more needs to be

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said. Mr. Speaker, I will conclude with that. [LB235]

SPEAKER FLOOD: Thank you, Senator Adams. Members, you've heard the closing on LB235. The question is, shall LB235 advance to E&R Initial? All those in favor vote aye; all those opposed vote nay. Have all those voted who care to? Mr. Clerk, please record. [LB235]

CLERK: 41 ayes, 0 nays, Mr. President, on the advancement of LB235. [LB235]

SPEAKER FLOOD: LB235 advances to E&R Initial. While the Legislature is in session and capable of transacting business, I proposed to sign and do hereby sign LR142, LR143, and LR144. Mr. Clerk, items for the record. [LB235 LR142 LR143 LR144]

CLERK: Mr. President, Senator Howard would like to print an amendment to LB177. I have a hearing notice from the Business and Labor Committee. It's signed by Senator Lathrop, as Chair of the committee. Name add: Senator Larson would like to add his name to LB152. (Legislative Journal pages 1074-1075.) [LB177 LB152]

And, Mr. President, a priority motion: Senator Pirsch would move to adjourn the body until Thursday morning, April 7, at 9:00 a.m.

SPEAKER FLOOD: Members, you've heard the motion. All those in favor say aye. Those opposed say nay. We are adjourned. (Gavel)