

Transcript Prepared By the Clerk of the Legislature
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Revenue Committee
January 26, 2011

[LB119 LB383]

The Committee on Revenue met at 1:30 p.m. on Wednesday, January 26, 2011, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB383 and LB119. Senators present: Abbie Cornett, Chairperson; Dennis Utter, Vice Chairperson; Greg Adams; Deb Fischer; Galen Hadley; LeRoy Loudon; Dave Pankonin; and Pete Pirsch. Senators absent: None. [LB383]

SENATOR CORNETT: All right, we are going to go ahead and begin, and wait for the other senators to arrive. First of all, welcome to the Revenue Committee. My name is Senator Abbie Cornett from Bellevue. To my left is Vice Chair Senator Dennis Utter from Hastings; to his left is Senator Deb Fischer from Valentine; Senator Adams from York is just joining us; on my far right, Senator Pankonin is introducing another bill in a committee and will be here shortly; to his left is Senator Pete Pirsch from Omaha. Senator LeRoy Loudon from Ellsworth will be joining us, as will Senator Hadley from Kearney. Our research analysts are Steve Moore, to my right, and Bill Lock. Committee clerk is Matt Rathje, and our pages are Marilyn Buresh and Amara Meyer. Please, before we begin the hearings, turn your cell phones to either the "off" or "vibrate." The sign-in sheets for testifiers are on the table by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form prior to coming up to testify. When you come up to testify, please hand the testifier's sheet to the committee clerk. There are also clipboards at the back of the room to sign in if you do not wish to testify but would like to indicate either your support or opposition to a bill. These sheets will be included in the record. We will follow the agenda posted at the door. The introducer or representative will present the bill, followed by proponents, opponents, and neutral. Only the introducer will be allowed opportunities for closing remarks. As you begin your testimony, please state your name and spell it for the record. If you have handouts, please bring ten copies, for each of the committee and staff. If you only have the original, we will make copies for you. Please give the handouts to the committee clerk as you come up to testify. With that, we will open the Revenue Committee hearing. Governor, you are recognized to open on LB383, and welcome to the committee. [LB383]

GOVERNOR DAVE HEINEMAN: (Exhibit 1) Thank you. Senator Cornett and members of the Revenue Committee, for the record, I am Governor Dave Heineman, H-e-i-n-e-m-a-n. I want to thank Senator Cornett for introducing LB383, and I want to thank you for her support and your leadership. I'll try to summarize my remarks for you, and then I'll be glad to take your questions. My budget prioritizes education and jobs. In order to do that, we have to make tough, difficult budget decisions, and that's what this budget does. The state of Nebraska has a constitutional obligation to educate our children. There is no constitutional responsibility to provide state aid to city, counties, or NRDs. Like many of you, I've served in local government. City aid, for example, is a

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very small percentage of a city budget. On the other hand, if you look at the entire package of what we're talking about here, all three items together are \$22 million a year. If you only cut it 10 percent a year--that's \$2 million a year--you'll save \$4 million over the budget. If you eliminate it, you save \$44 million. So if you don't eliminate the entire amount, you're going to have a \$40 million gap. The fact of the matter is we have good leadership. In fact, I would argue we have great leadership at the local level, and they are capable of dealing with this loss. And let me just share with you in terms of revenue. I have a chart that some of you have seen before. If you look at state revenue, in FY 2009-2010 it was less than fiscal year 2008. We balanced the budget without raising taxes by reducing expenditures. In the current fiscal year we are going to receive less revenue than we did in fiscal year '08, and we are still balancing the budget without raising taxes. In the first year of the next two-year budget cycle, FY '12, we are going to receive less revenue as projected than FY 2008, and we're still getting the job done. I would contrast that for you--and there's a part of your packet--if you look at city, county and NRD aid, it continues to grow over the last four years. The citizens of Nebraska have taught us how to deal with challenging times with less revenue. When their family income is down, they've reduced their expenditures, and they expect us to do that. I would ask my friends in local government to follow the lead of state government. You, the members of this Legislature, froze the salaries of every single legislative employee. I froze the salary of all top and middle managers. I directed two furlough days for all contract-covered employees in the last four months of the previous year. In the first year of our next two-year budget, our contract-covered employees--state employees--have agreed to a pay freeze. The salaries of all constitutional officers, from Governor to the State Treasurer, will not increase over the next four years. Now, I know this afternoon you're going to hear from people who come up here and say, oh, we support a balanced budget but you just don't have to do this to us. You know what? I've listened to all of you and the citizens of this state who have said it's time to redesign, reinvent, and make a different government. Across-the-board cuts are no longer feasible. We have to make tough, difficult, prioritized spending decisions. I would urge your support of LB383, and I'll be glad to answer your questions. [LB383]

SENATOR CORNETT: Questions from the committee? Senator Louden. [LB383]

SENATOR LOUDEN: Thank you, Senator Cornett. Well, thank you for being here, Governor. But I guess when I looked the bill over, they talk about insurance premium tax. Now, was that part of the aid to the cities--was the insurance premium tax that went to those towns or...was that part of the state aid? [LB383]

GOVERNOR DAVE HEINEMAN: I'm not sure exactly what you're referring to. We send \$22 million of city, county, and NRD aid. [LB383]

SENATOR LOUDEN: Did that money come just from General Funds, or did some of it come from insurance premium tax? [LB383]

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GOVERNOR DAVE HEINEMAN: Well, there are a number of things that go into our revenue source. But basically it comes from sales tax and income tax. [LB383]

SENATOR LOUDEN: Okay. Because I was just curious if it was...if we were...you know, where that insurance premium tax was going to go if it didn't go to the cities and counties, I guess. [LB383]

GOVERNOR DAVE HEINEMAN: Well, some of that insurance premium tax goes to fund the school districts. And, then, of course, we use a significant portion of it every year as part of the cash transfer and to help balance the state budget too. [LB383]

SENATOR LOUDEN: Okay. Thank you. [LB383]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LB383]

GOVERNOR DAVE HEINEMAN: Thank you very much. [LB383]

SENATOR CORNETT: With that we will open the hearing up for proponents. Opponents? Is anyone here to testify in the capacity of an opponent? May I see a show of hands for the people that are here to testify? Okay. I would like everyone to be ready to testify so we can move the hearing along. If you'd like, please come up to the first few rows. Commissioner Boyle. [LB383]

MIKE BOYLE: Thank you, Madam Chairman. Mr. Governor, Madam Chair, members of the committee, my name is Mike Boyle, B-o-y-l-e. I'm a member of the Douglas County Board of Commissioners. My address is 1819 Farnam Street in Omaha. The Governor makes an eloquent case for cutting aid to counties, cities, and NRDs. I'll speak first to, and only to, the county portion. The county government system in the state of Nebraska exists because of you. Counties exist to deliver the services that the state Legislature enacts. When you tell us to license cars and do that every six years with different plates, we follow your instructions. When you tell us to register deeds in a certain way and collect certain taxes for that, we follow your orders. So there has been a very close relationship, a partnership, between state and county government. We are the extension of county government in all of the 93 counties of the state and we represent the same people. You know, it's not us sitting here as elected officials saying: Save us; don't cut our budgets. What I'm here to say is that this cuts the services to your constituents and to fellow Nebraskans across the state. Douglas County certainly has some unique problems. It also has some wonderful benefits. One of its unique problems is the large amount of jail reimbursement that we no longer receive from the state of Nebraska. It's gone. We spend around \$30 million a year operating the Douglas County Correctional Center. And when a person is arrested, they're charged under one or two

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or perhaps both charges: either a state charge that's issued by the county sheriff, or it is a city charge issued by an Omaha police officer. And either one of those charges will generate a payment as a prisoner in our county. We have no county ordinances. We don't enforce a drunken driving ordinance, because we have none; the city has one and the state of Nebraska has one. So we are your hotel, if you would, and we're no longer getting paid by the people you're sending us, and it has created a hardship. The last time I looked, the state of Nebraska had not paid over \$10 million in housing at the correctional facility. So my pitch today is not that you're hurting me personally or the other commissioners or the elected officials, but you are hurting the taxpayers of Douglas County and across the state, because what happens when you cut this sort of aid, the only resource we have is property taxes. We have nowhere else to go. And we raised our mill levy 2 cents this last budget year--over my objection--but it was raised 2 cents on our mill levy because the housing valuations in Douglas County and commercial property had dropped so dramatically that the values of our property was not high enough to sustain the kind of income we were receiving. So in closing I'd like to say, please don't totally destroy this partnership that we have with the state of Nebraska. The county is part of the state, and we deliver services that you tell us to deliver, so we would hope that instead of destroying and shutting down this relationship, that instead it would grow and we would find ways to operate more efficiently and earn your trust once again. I'll answer any questions if you have any. [LB383]

SENATOR CORNETT: Senator Adams. [LB383]

SENATOR ADAMS: Thank you. Commissioner, two questions. What percentage of your total revenue stream is this aid? [LB383]

MIKE BOYLE: It would be a very small percentage. It would probably be certainly less than...probably about a half of a percentage point--very small. [LB383]

SENATOR ADAMS: Okay. And I think this might have been brought up at a hearing the other day, but where is Douglas County right now on their levy, the county levy? [LB383]

MIKE BOYLE: Our county levy is 26.459. Last year it was 24.519. [LB383]

SENATOR ADAMS: Thank you. [LB383]

SENATOR CORNETT: Senator Fischer. [LB383]

SENATOR FISCHER: Thank you, Chairman Cornett. Thank you, Commissioner, for coming today. It's always a pleasure to see you down here at the Legislature. I appreciate your comments. Can you tell me dollarwise what that half-percentage is that you'd be losing? [LB383]

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MIKE BOYLE: Well, I believe it would only be...I mean it's a small amount; it's really the relationship I'm here more about. But it would probably be around \$4 million. [LB383]

SENATOR FISCHER: Okay. But it is just a half a percentage, is that correct? [LB383]

MIKE BOYLE: Probably very close to that. [LB383]

SENATOR FISCHER: And I certainly appreciate the relationships our counties have with the state. All of us here answer to our constituents, which include county boards. I happen to represent 13 of those boards. Come out and see me. [LB383]

MIKE BOYLE: I will. (Laugh) [LB383]

SENATOR FISCHER: The Governor mentioned the pay freeze that the Legislature has done for our employees. Have you instituted any pay freezes of county employees in Douglas County? [LB383]

MIKE BOYLE: Just like the Governor, we haven't been able to do that with our unionized employees. We've... [LB383]

SENATOR FISCHER: Do you have employees that aren't unionized? [LB383]

MIKE BOYLE: We do and I was going to get to them. [LB383]

SENATOR FISCHER: Oh, I'm sorry. [LB383]

MIKE BOYLE: We have...we did give raises to the directors, of 1 percent. We did give raises of 2 percent to the chief deputies of the elected officials; there are about eight of them. So we have given raises that were...we have given raises, yes. And, of course, we had to under union contracts according to the CIR. [LB383]

SENATOR FISCHER: Have you created any new positions? [LB383]

MIKE BOYLE: We have not. Douglas County has 2,185 employees as of June 30, 2010, and it has been a stagnant figure, static for the last four years. [LB383]

SENATOR FISCHER: So you basically have a hiring freeze in effect to fill any vacancies, then? [LB383]

MIKE BOYLE: Well, it's...we really can't call it a hiring freeze, but we have slowed down. We're only replacing deputy sheriffs and correction employees, and we're forcing cuts, with the cooperation of the elected officials inside their offices: the clerk's office and so

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forth. [LB383]

SENATOR FISCHER: And I'm certainly not here trying to micromanage your county on this. I'm just trying to gain some information. [LB383]

MIKE BOYLE: Absolutely. [LB383]

SENATOR FISCHER: But I hope you appreciate the situation we're in too. [LB383]

MIKE BOYLE: I do. I absolutely do. And one of the points that I wanted to make today is in response to...I hope this responds to your question. Some of the counties across the state are really in very big trouble, unlike, frankly, Douglas County would be. Deuel, Rock, Cheyenne, Garden County--they are unable to replace this money; I don't know what they'll do. And you'll hear more about that from some of the folks at the county officials. But it's really a dire situation if you spread this out across the state. But I do appreciate...if there's no other questions, I appreciate the opportunity to testify to the committee. [LB383]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you, Commissioner. [LB383]

MIKE BOYLE: Thank you, Senators. [LB383]

SENATOR CORNETT: Next opponent. [LB383]

DEB SCHORR: (Exhibit 2) Good afternoon, Revenue Committee members. My name is Deb Schorr and I'm the chair of the Lancaster County Board of Commissioners. Lancaster County is testifying in opposition to LB383. This bill will reduce revenues in our general fund by approximately \$1.4 million, which is approximately 2 percent of our annual revenue. LB383 will not only reduce our revenue in the next fiscal year but remove the state aid calculation from state statutes. Lancaster County understands the effect the economy has had on state and the political subdivisions and has been working with our own issues over the past several years. Lancaster County lived with the 5 percent reduction in state aid for this current fiscal year and has lived with the state prisoner reimbursement portion of the state aid not reimbursing Lancaster County approximately \$6 million since July of 2002. Lancaster County has been willing to partner with the state throughout these tough times, but if LB383 passes, Lancaster County will be at the point where a property tax increase discussion will have to take place. To lose a revenue source completely at this point in time causes Lancaster County severe concerns. Lancaster County has made some tough decisions over the last couple years, including the sale of the county-owned nursing home: Lancaster County was concerned with Medicaid projections and the use of county property taxes to fund operations. It was not an easy or popular decision at the time, but the county

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board was concerned about funding future operating costs and the impact it could have on resident care. Lancaster County Board has taken the stand to keep property tax levy the same over the past three years to help out local taxpayers as we wait for the economy to improve. The average valuation increase over the past three years has been .83 percent, which has forced county departments to make cuts. Elected officials, chief deputies, department head salaries did not increase this year, and a 5 percent increase in health insurance premiums was forced down to our employees. Furloughs have also been a topic of discussion. Every Lancaster County department could be here to discuss cuts they have dealt with along with the possibility of future cuts. I have attached a letter from the Lancaster County Community Health Center to document their concerns as an example. Lancaster County would ask the committee not to support LB383 due to the effect it could have on property taxes at the local level this coming fiscal year as well in future fiscal years. [LB383]

SENATOR CORNETT: Questions from the committee? Senator Adams. [LB383]

SENATOR ADAMS: Thank you, Senator Cornett. I need to ask you the same question. The \$1.4 million that you talk about, what percent of your revenue stream is that? [LB383]

DEB SCHORR: Two percent. [LB383]

SENATOR ADAMS: How much? [LB383]

DEB SCHORR: Two. Two percent. [LB383]

SENATOR ADAMS: Two percent. Okay. I have to confess to you and every other testifier that may come up, I'll probably ask that same question. Calculating in federal dollars, I'm cutting K-12 education in double digits. And I'm wondering about a half a percent and 2 percent. It doesn't mean that it doesn't impact you. I get that. But I'm also talking about sharing the pain here. Thank you. [LB383]

SENATOR CORNETT: Further questions? Senator Pirsch. [LB383]

SENATOR PIRSCH: Just to be...to ask the same questions and be fair: With respect to hiring freezes or hiring, how has that changed? [LB383]

DEB SCHORR: Much like Douglas County. The only employees we are replacing are the ones in our 24/7 operations: the jail and law enforcement. There have been several budget cuts made that have been effected. Our employees...for example, in our own office we cut our receptionist this past year. [LB383]

SENATOR PIRSCH: I think Douglas County testified they were at 26.5 cents. About

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where are you at? [LB383]

DEB SCHORR: With me here today is our budget and fiscal director, Dennis Meyer--and 26.83. [LB383]

SENATOR PIRSCH: Thank you. [LB383]

SENATOR CORNETT: Further questions? Senator Louden. [LB383]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. Well, first of all, I must state that I don't have any compassion for these counties that have a 26-cent mill levy, because the counties I represent and live in are...a lot of them are 48 and 49 and 47 and that sort of thing. But I do want to know, when you receive this check from the state, now, does that come out...is it noted where that money comes from? Is that General Funds or do they have some earmarked funds that that county aid came from? As we state in the bill, see, we're doing away with counties receiving insurance premium tax. So I'm wondering if that's ever noted by you where that money is coming from. [LB383]

DEB SCHORR: I think I'll speak generally. It would be both. There would be some that would be funded directly to certain departments and a certain percentage would go into the general fund. [LB383]

SENATOR LOUDEN: Okay. Thank you. [LB383]

SENATOR CORNETT: I'm sorry. I'm trying to get clarification on something. Further questions from the committee? Seeing none, thank you. [LB383]

DEB SCHORR: Thank you. [LB383]

SENATOR CORNETT: Next opponent. Thank you for joining us today. [LB383]

TOPHER HANSEN: (Exhibit 3) Thank you, Senator Cornett and members of the committee. My name is Topher Hansen and I am the executive director of CenterPointe, and that is a behavioral health organization in Lincoln providing treatment, rehabilitation, and housing for persons with mental illness and addiction. I am also a member of the executive committee of the Nebraska Association of Behavioral Health Organizations, known as NABHO. I appear today on behalf of NABHO and CenterPointe. I'm here to oppose the elimination of aid to counties and cities in particular. Reduction of aid to counties and cities represents another blow to those people in our state that are indigent and need assistance. Counties are the last resort for the indigent. As you know, the counties are responsible for the indigent citizens living in their jurisdiction and must meet the ever-increasing demands for shelter, food, services, and medication. Counties often partner with private behavioral health providers, like CenterPointe and others, to

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serve indigent residents with behavioral health needs to help reduce expenses to general assistance, keep them from jail, and give them that ounce of prevention that will help them get reconnected to independent living, working, and paying taxes. Eliminating the aid will reduce or eliminate the efforts at the county level, in our experience, to intervene with services that reduce emergency expenses and help reduce general assistance expenses. In many cases, the elimination of these funds will mean that fewer or no services will be delivered to Nebraskans who have untreated mental illness, who are victims of abuse, who are refugees invited to our community to resettle, who are addicted and working hard to beat that powerful compulsion of addiction. Which struggling person do we say no to? Let us not set a course to emerge from this deficit situation on the backs of those Nebraskans who need our help the most. Coupled with proposed cuts to Medicaid and behavioral health funds, this will be yet another blow to the service delivery system which we need in this state and each of us count on. Who wants a healthcare system that can't treat the person with flu or meningitis? Who wants a healthcare system where a person with untreated mental illness and addiction is on the streets for six months because the services don't exist or the lines are too long? I receive calls each month from families that many of you may know the names of who are struggling with loved ones and need assistance. They're desperate to find care for their loved one. We all know someone struggling with addiction or mental illness or both. They need help so they can be productive once more and relieve the stress on local services. The counties are important partners in piecing together a system that begins to meet the needs of our fellow citizens. It takes that supplemental amount that we receive and that many others in Lancaster County receive to make the whole thing work. Cutting aid to counties and cities is the unfunded mandate we have all heard complaints about receiving from the federal level. It does not solve the underlying problem. It just shifts costs to the next level down, where there is less capacity to respond. This is...oops, mine didn't copy on the back side. If I can get the original--and I'll tell you what the rest of the things I had to say were. Thank you. This is not the resolution that meets the test of a decision in the interests of the greater good. Rather than eliminate the so-called property tax credit, which has no real stimulus to our state economy but adds up to \$230 million over the biennium, we choose to cut aid to our poorest citizens. If I handed out cash to our consumers in a deficit budget year, it would be the last thing I'd do as executive director at CenterPointe. Our board wouldn't understand it and it would not make sense. Likewise, this move does not make sense for the state of Nebraska. At CenterPointe we always look at what we can do to leverage funds to make them work harder. It follows a quote I once read from Warren Buffett, which said that half the job is to make the money and the other half is to work the money. By the same token, we should not be making cuts that are reasonably calculated to increase costs in other parts of our system or state. Eliminating services that force people into jails, crisis centers, hospitals, and county aid programs is not a responsible cut for the greater good of Nebraska. We encourage you to look at the reductions that make sense, not those that shift expenses or are unfunded mandates or that reduce the collective capacity of Nebraskans to help our most needy neighbor.

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Thank you. [LB383]

SENATOR CORNETT: Senator Utter. [LB383]

SENATOR UTTER: Thank you, Mr. Hansen, for coming today, and you did mention in your testimony that we should take a look at making the reductions that make sense. Can you help me with that? Have you got suggestions? [LB383]

TOPHER HANSEN: Well, I offered the one that I think the...our so-called property tax reduction is one that does not show a direct relation to stimulus in the economy but would be an important piece to this deficit reduction. [LB383]

SENATOR UTTER: The property tax reduction occurs to every citizen in this state, that... [LB383]

TOPHER HANSEN: Pays property taxes. [LB383]

SENATOR UTTER: ...that pays property tax. So doing away with the property tax reduction, in my mind, is an increase in taxes. [LB383]

TOPHER HANSEN: Well, that's assuming that it actually goes to property tax, because it isn't a direct reduction to property tax; it's a check in the mail, basically, or credit that allows that reduction. So what I'm saying is let's try and balance the impacts and look at the greater good. So if I have a choice of getting \$120 in my pocket or continuing services that are going to keep somebody out of a hospital or a crisis center or a jail or other kinds of services, I think that's going to serve us in the long run by not taking up those high-end services which cost everybody a fortune. It's dramatic. [LB383]

SENATOR UTTER: Thank you. [LB383]

SENATOR CORNETT: Senator Adams. [LB383]

SENATOR ADAMS: Thank you. What percent of the county budget do you derive? Do you know? [LB383]

TOPHER HANSEN: What percent of their budget do I derive? [LB383]

SENATOR ADAMS: Yeah. Is there...do you look at that as a percent? [LB383]

TOPHER HANSEN: I don't look at it as a percent of their budget. As a percent of my budget it's in the neighborhood of 5 percent. [LB383]

SENATOR ADAMS: How many...and I know there's ebb and flow, but how many clients

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do you deal with on a daily basis, for instance? [LB383]

TOPHER HANSEN: At any given time we'll serve in the neighborhood of 400 clients on our current lists. And over the course of a year, about 1,000. And the county aid that we get serves a whole different variety of programming, from youth to adults. And everybody we see is indigent; we don't do otherwise. [LB383]

SENATOR ADAMS: Thank you. [LB383]

SENATOR CORNETT: Senator Pirsch. [LB383]

SENATOR PIRSCH: Thank you. I just have a question with respect to certain assumptions. This bill as proposed would, according to Lancaster County, take about 2 percent or \$1.4 million from their budget. Now your...I guess your assumption in that there's going to be a blow to the service delivery system would be that that would be passed on to the service delivery system? Would that have to occur, or would there be some discretion in the...with the Lancaster County commissioners as to how to fashion, you know, where the money would go to? [LB383]

TOPHER HANSEN: There's always discretion for them that they would decide how they're going to prioritize their dollars. And the first thing is going to be, what are the mandated activities and what are the nonmandated activities. And I would assume that they'll have that discussion. One of the things that they do is partner with a number of human services, and--all the way from City Mission to Matt Talbot Kitchen to CenterPointe to CEDARS children services, the battered women's shelter, all manner of services of that nature. And what that does is help reduce the higher-end costs. But if there...it's an option. If it's a choice between doing your mandated and doing discretionary funds, then I think we all know that they're going to have to do the mandated and limit the amount of discretionary. And what I'm saying is that if they get put in that position of eliminating discretionary activity or raise property taxes, while they may not be the highest property tax in the state, I think we all know what the property tax...we know what the tax discussion is. Nobody wants to raise taxes. And property taxes are one of the hottest issues in Nebraska. So I think that's going to be a measure of last resort, if I read politics right. [LB383]

SENATOR PIRSCH: Yeah. Do you know, with respect to Lancaster County, how much of their budget is mandated, then? Is it... [LB383]

TOPHER HANSEN: No, I couldn't tell you. [LB383]

SENATOR PIRSCH: Okay. [LB383]

TOPHER HANSEN: The fiscal officer is nearby. [LB383]

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SENATOR PIRSCH: Okay. [LB383]

TOPHER HANSEN: (Laugh) I have no clue. [LB383]

SENATOR PIRSCH: I'm trying to get a sense of how much is discretionary--as you say, Matt Talbot, CEDARS--and how much are (inaudible). [LB383]

TOPHER HANSEN: And I can tell you that of the...there's an entity in Lincoln and Lancaster County called the Joint Budget Committee, and that Joint Budget Committee is the city and the county coming together to provide funds for what they see as needed services to help the whole thing go. That is all the agencies I listed out and many more. All told, it's in the neighborhood of a little over \$2 million. And those, in large part, if not entirely, are discretionary activities. What I can tell you, though, is that those places and services are what help keep the hospitals from having people that drop in there for routine medical care, help women in crisis, help children in crisis, help those that are mentally ill and addicted. They are programs that go to all those needy services that aren't otherwise addressed. [LB383]

SENATOR PIRSCH: Well, thank you. And perhaps there will be another testifier here along who can give me an idea when...you know, using Lancaster just an example, how much of their budget is mandated and how much is discretionary. So thank you. [LB383]

SENATOR CORNETT: Senator Louden. [LB383]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. Well, as I read this, Mr. Hansen, you're the executive director of CenterPointe. Now, I'm not that familiar with Lancaster County, but I presume this is just one agency that works with these people? [LB383]

TOPHER HANSEN: Right. [LB383]

SENATOR LOUDEN: There's other agencies that work with children and that. Now did I understand, when you said \$2 million, is that the total budget that Lancaster County sets aside for all of these agencies that do this, or what is your budget? [LB383]

TOPHER HANSEN: The city and county money totaled together for the agencies I referred to equals about a little over \$2 million. And then our...we have a portion of that fund, along with the others. [LB383]

SENATOR LOUDEN: And then you share that. [LB383]

TOPHER HANSEN: Yes. [LB383]

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SENATOR LOUDEN: Yeah. Now, do you know what the valuation of Lancaster County is? [LB383]

TOPHER HANSEN: No, I don't. [LB383]

SENATOR LOUDEN: Okay. I think it's...it runs in my mind, somewhere around \$16 billion or something like that. But I mean that...and they are somewhere around 25-26 cents mill levy. Is that correct, somewhere in there? [LB383]

TOPHER HANSEN: That's what I've heard somebody else say. [LB383]

SENATOR LOUDEN: But, I mean, there is some wiggle room in your county mill levy to pick up this \$2 million. Would that... [LB383]

TOPHER HANSEN: I couldn't testify to that, Senator. That would be something that the Lancaster County Board or their fiscal officer would have to talk to you about. What I can tell you is my experience, and I'm in Lancaster County and that's why I use that as an example; but when I look at the city of Norfolk or I look at Richardson County, and when they've had a serious legal matter, it swamps their whole county. And so I worry about 80 or 85 of the counties that are close to the line or at the line and their struggle in having continued reductions and the services they meet. Because we end up serving people from around the state who come to our program for kind of a specialized care, a co-occurring treatment, and so we know that they don't have services and that they struggle within their counties, and the counties really struggle to meet those service needs. And so I speak from a Lancaster County perspective, but I also hear the message from other people who are saying: This is difficult already; how are we going to do this now? [LB383]

SENATOR LOUDEN: Okay. Now seeing as you went down that little trail, let me ask you this. I suppose you're familiar with how the TEEOSA funding is, and, as we call it, the rich districts don't receive TEEOSA funding. Should there be something in what we're doing here so that these counties that have, say, oh, less than a 30-cent mill levy wouldn't receive this state aid but they would be more of it go to these counties at 30 cents above or 40 cents above? In other words, when you talk about those counties that are struggling, perhaps this money should be diverted towards those counties, and the rich counties, as I call them, these that are down here in 26 cents or so, and with, you know, the 16 or, like, I think Douglas County, \$36 billion average...in fact, there's about 25 counties in Nebraska that have over a \$1 billion valuation. Now, should that be set around on some kind of a factor like that so we can take care of those counties that are struggling? [LB383]

TOPHER HANSEN: Well, it sounds like that's a matter for discussion, and, you know, in a court of law they'd ask for somebody who was an expert on that matter to talk about it,

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and I certainly would not qualify as that expert. I just don't know enough about the details of it that I would be able to give you an opinion that would be worth anything. So I would say if that's an issue worth discussing so counties can continue to provide activities to help people who are really desperately in need, then we should have that discussion. I don't know the conclusion to that question, though. [LB383]

SENATOR LOUDEN: Okay. Thank you. [LB383]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LB383]

TOPHER HANSEN: Thank you. [LB383]

SENATOR CORNETT: Next opponent. [LB383]

TERRY KEEBLER: Hi. My name is Terry Keebler. I'm a Johnson County commissioner. That last name is K-e-e-b-l-e-r. And thank you, Senator Cornett and the committee. I'm here in opposition to LB383 that removes all state aid to the counties not only for the coming years but, since it strikes it completely out, would remove it in the future also. This year we have in our budget to receive about \$65,000 of state aid between the state aid to counties and the property tax relief programs. This was, to answer Senator Adams' question, a little over 2 percent of our total budget. If we lose that, it's going to be over a 3 percent reduction in our road budget, because that's our discretionary funds, as it were. Most of our other county officials' budgets are personnel costs, and that is the elected official and a deputy. Our sheriff has their deputies they need, but we don't have a lot of clerks in our various offices. We're one of your smaller counties, Senator Louden, so. If we would need to make this up through a property tax increase, it would be about 1.43 cents on the levy. We've worked hard to provide services we need for our residents in the past without increasing the levy to the maximum. We could do that if we had to, but we've worked with our county officials to keep their budgets down, just to the salaries. We haven't been increasing for other expenses. And like I said, those costs are about 85 percent or more of each of those budgets, so personnel eats up a lot of our valuation and tax dollars. And I guess that's the reason I mentioned that it would be a big cut to our road budget, because that is our big budget. It's where we have the ability to cut. And while it can be reduced occasionally and temporarily, I think you all know what that does to the road services and to the roads, and it costs a lot more to fix them in the future if we don't maintain them now. So as a county official, I definitely understand the need to balance the budget; we have to balance ours also. I would just ask that you not do it by cutting state aid that has been used to help keep down property taxes, which are the taxes that we hear about. Thank you. [LB383]

SENATOR CORNETT: Questions from the committee? Senator Utter. [LB383]

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SENATOR UTTER: Thank you, Mr. Keebler, for testifying today. Johnson County is largely a rural county? [LB383]

TERRY KEEBLER: Yes. [LB383]

SENATOR UTTER: Land valuations in Johnson County, I assume, have escalated. Agricultural land values have escalated rapidly there, as they have other areas of the state? [LB383]

TERRY KEEBLER: They have been. Yes. [LB383]

SENATOR UTTER: What's happened to your mill levy during this period of escalation of the values of these properties? [LB383]

TERRY KEEBLER: We've been keeping it steady or lowering it slightly. [LB383]

SENATOR UTTER: So that's accounted for a substantial increase in the funds that the county has raised, keeping the mill levy steady. Give me just an idea of what that money went for, how was it used. What did you do with those funds? [LB383]

TERRY KEEBLER: Most of that money went to help our road department. Five or six years ago we had a lot of financial problems. We actually were going out and doing registered warrants because we couldn't meet our cash flow. And so we were cutting our road budget at that point, trying to keep our budget balanced. The increases that we've seen over the last few years from valuation increases have mainly gone to do delayed funding for our roads. [LB383]

SENATOR UTTER: Thank you. [LB383]

SENATOR CORNETT: Further questions? Seeing none, thank you. Next opponent. May I see a show of hands--I have noticed a number of people have come in--of how many testifiers are left in opposition. Okay, please move towards the front. [LB383]

LYNN REX: (Exhibit 4) Senator Cornett, members of the committee, my name is Lynn Rex, R-e-x, representing the League of Nebraska Municipalities. And first of all, I'd like to start by saying that we certainly appreciate and respect the hard work that the Governor and the Legislature has done over a period of years in trying to keep your budget, the state budget, addressed and balanced, and you've done a great job in doing that. But we know that's been difficult; you've made very difficult choices. They're making difficult choices on the local level as well. There are several mayors here today to testify and others that might point out to you the things that they've been doing on the local level. And I just think it would be important to just give you a brief overview of where we are today. In your packet, one of the things...the first thing that you're going to

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have is a court case. And if you'd be kind enough to open up the packet, I'd like to just tell you a little bit about how we got to where we are today. In 1967, the Legislature passed a bill that exempted households and intangibles. The Legislature put forth a Governmental Subdivision Fund and created that fund to partially reimburse local governments for the property tax base lost. That fund, in 1967, had \$12.6 million in it, which was woefully inadequate to really finance all of the losses at that time. Notwithstanding, that's not to say that those were not legitimate exemptions, and we're not here today to say that those were not legitimate exemptions. We are saying, though, that local governments were promised that they would have that on a dollar-for-dollar reimbursement. In 1972, the Legislature passed LB1241 that gave a one-eighth exemption over a period of five years for livestock, farm equipment, and business inventory. And then in 1977 the Legislature passed LB518, which gave the other three-eighths over a period of years. Those three exemptions alone, just those three exemptions alone, when the Legislature created the Personal Property Tax Relief Fund, would have resulted and did result in a loss of actual dollars to local governments of over \$250 million. That's not the valuation; those are actual dollars lost that have been shifted down to local governments. I happened to be a law clerk in 1977 at the League of Nebraska Municipalities, and I was invited to a meeting with Senator John DeCamp, Loran Schmit--I was there to take notes, I wasn't there to participate--and basically all the proponents of these exemptions, from the farm communities, the ranching communities, the new car dealers, and everything. And all of these folks were saying: Don't worry, we're not going to have a shift-down in property taxes; we will give you a dollar-for-dollar reimbursement for the property tax base lost, because we're not going to try to shift this down. Then Governor Exon said we can't afford \$250 million--some, so we're going to cap it at \$70 million; that's what we're going to do. And they called that the Personal Property Tax Relief Fund. In 19...after that was challenged, because the Legislature at that time did not keep any indicator, so that no one could track where the valuation was, the Nebraska Supreme Court said that was basically unconstitutional; the formula was unconstitutional. It was a frozen class; you can't just simply try to guess or hold somebody to what the valuation was on a date certain. So in 1980 the Legislature passed LB882, and that bill put forward basically the following things. It eliminated the Personal Property Tax Relief Fund; it eliminated the Governmental Subdivision Fund. It called it the Local Government Fund and came up with a yet new strategy to try to address the constitutional issues. The Nebraska Supreme Court, which you have before you, is the court case where the Nebraska Supreme Court said, in 1980, the Legislature did not meet that test either. This is a frozen class; it is unconstitutional. You need to go back to the drawing board and do something different. So in 1982 the Legislature passed LB816, and that is when this morphed into what is now called state aid. So state aid has never been a gift from the state of Nebraska to local governments to subsidize local governments. It has been a part of a commitment, which was woefully inadequate, but at least part of the commitment to reimburse local governments for property tax base lost due to exemptions granted by past Legislatures. And again, those exemptions were very valid exemptions and I've just highlighted a few

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of them for you today. So if you look at the next handout, what you'll see is what the cuts have been to municipalities over the period of years. We started with \$17.9 million in 1982, and every year you will see the cuts. For example, in 2002-03, a total of cuts from the Aid to Municipalities, the Municipal Infrastructure Redevelopment Fund, and the Municipal Equalization Fund, which accounted for 25 percent. In 2003-04, 34 percent cut in aid to Aid to Municipalities, MIRF, and the MEF rollover fund. In 2004-05, a 32.5 percent cut. Going on to 2002-03, you're going to see how these cuts were outlined. We outlined specifically the bill numbers and when they occurred. So we have over, a little bit, right now, over \$11 million in this fund. And we have consistently come forward and said to the Legislature over the years...because there have been a series of budget crises; this is not the first one--I think it's the worst one, but it's certainly not the first one where the Legislature has had to have budget-cutting sessions. And the League of Nebraska Municipalities has always taken the position that we are prepared to do our part. And our board took a position and voted on Monday and said, you know, we understand we need to do our part, too, and anything up to a 10 percent cut we think is something that might be manageable on a local level, but we certainly would want to have an offset. And you'll note that we do have a copy of LB537 for you that Senator Karpisek was kind enough to introduce to allow an offset for the levy in particular. And this is why this is important: Of the 532 cities and villages in the state of Nebraska, over 240 of them are already at their maximum levy. Many of those, of the 240, cannot even go to the lid that you've allowed them to go to, which is 2.5 percent plus 1 of restricted funds over the prior year--restricted funds basically being everything: sales tax, property tax, and so forth. So we've got a number of these small cities and villages that can't...they can't even raise the money to spend the 2.5 percent plus 1. And that seems to be more systemic in the smaller municipalities, but the larger communities are also suffering. They've made cuts and they've done things. And with respect to the issue of comparability, I would just underscore this: We certainly appreciate all the hard work that Senator Utter and many others have put forth on this issue in trying to reform the Commission of Industrial Relations, and that certainly needs to be done; but please let me just share with you, very briefly, how this impacts this issue. If you are a municipality like Kearney, Senator Hadley, that was paying above comparability--they've paid a little bit above comparability--they could freeze salaries, and they did. Other communities, though, were not in that position. They couldn't freeze salaries. They had the choice of layoffs--and you have to pay what it is, because under comparability, Chapter 48, Article 8, you are limited and required to pay comparability "for same or similar work of workers exhibiting like or similar skills in like or similar working conditions." What does that mean? That means you either have the choice...it's not a question of what your ability to pay is; it's a question of you have to pay comparability. And if you can't do that, then you lay people off. That's the choice. So again, there were some municipalities that were above comparability. They did freeze. We do have layoffs; we do have furloughs; we do have all those sorts of things on the local level. But we certainly are not in any way underestimating the pain that the state of Nebraska itself has gone through and the leadership of the Governor and the Legislature in addressing your budget issues. So

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that being said, we would certainly appreciate the willingness of this committee to hold these bills until the Economic Forecasting Board has met at least a couple more times so we know exactly where we are and you will know and have a better idea of where you are in terms of what the extent of the cuts need to be. And we certainly stand forth and are ready to do our fair share, which we think is perhaps up to 10 percent. But if so, at least have some flexibility here to go outside the levy for just the amount that is necessary, and that's what Senator Karpisek's bill would do. I do have others that will follow me that will give specifics. In your package you also have some letters from municipalities across the state. There are many others just coming in, and these were just some of them that came in today. I'd be happy to respond to any questions that you have, and we certainly appreciate the hard work you have ahead of you and look forward to working with you. [LB383]

SENATOR CORNETT: Questions? Seeing none, thank you, Ms. Rex. [LB383]

LYNN REX: Thank you very much. [LB383]

SENATOR CORNETT: Next opponent. [LB383]

DON HERZ: (Exhibit 5) Good afternoon, Senator Cornett and members of the Revenue Committee. My name is Don Herz. The last name is spelled H-e-r-z. I'm the finance director for the city of Lincoln. I'd like to thank you for the opportunity to testify. I'm here today to speak in opposition to LB383. LB383 equates to a \$1.8 million cut in the general fund operations for the city of Lincoln. It has been suggested that because state aid makes up a relatively small portion of the city's overall budget, eliminating the program will have little effect on the communities of our state. It has also been suggested that by merely tightening our belts a bit, cities will be able to absorb this cut with little effect on their budgets. I assure you that that is not the case. Here in Lincoln, we know how to tighten our belts. We've been doing it for at least the last four years. We have reprioritized, reorganized, and we have cut both programs and people. In the past four years, we've eliminated 116 jobs. That equates to an 8.1 percent cut of our non-public-safety work force during a period when the size and population of the city has grown by 6.2 percent. So that's a fairly significant reduction when you take into account growth. And we have had to cut important services, such as providing police officers in middle schools, bus routes that helped people get to work, and a number of youth sports programs. In the past four years, we've had to make \$2 million in cuts in our aging program alone, resulting in program eliminations and reductions that impacted hundreds of senior citizens. It has also been suggested that we can do more to find savings--and we agree. We can and should continue to look for efficiencies. As stewards of the public tax dollars, we have an obligation to do so and will. But I am confident that we will not be able to simply reorganize our way to \$1.8 million in savings. Some have also suggested that because more than 70 percent--in Lincoln anyway--of our budget is personnel costs, we simply need to freeze the salaries of employees. And

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yes, 70 percent of our budget is personnel, but, unfortunately, unilaterally freezing salaries is not an option. With the current Court of Industrial Relations structure, we do not have that luxury, because the vast majority, actually, in excess of 95 percent of our work force is represented by organized labor. State law demands that we pay comparable wages or risk an expensive, unpredictable trip to the CIR. That means we cannot unilaterally choose to freeze salaries. Again, it's simply not an option. Given these circumstances and our four years of belt tightening, I assure you that a \$1.8 million reduction in state aid will not be easily absorbed. It means eliminating jobs and cutting important city services and/or relying on other sources of revenue. And then there are several other bills in this session that indicate our sources of revenue available to the cities may also be at significant risk. Just briefly, there's a telecommunication occupation tax potential reduction, which could, in our case, equate to \$7.8 million. There's a constitutional amendment proposing a reduction in the Environmental Trust, and our parks department has benefitted significantly from that. It appears at least a portion of our storm water grant dollars may also be at risk this session. So these are a few of the bills affecting the revenue streams and tools available to cities. We recognize that these are tough economic times. We have been living with these challenging budget cycles for at least the past four years. We know how critical it is to seek efficiencies through consolidations and private-sector partnerships, and we've been doing that for the past four years and probably the last twelve years that I've been finance director in the city. We know how difficult it is to cut people and programs that affect people's lives--we've had to do so, again, for these past four years. And this next budget year will not be any easier. Now more than ever we cannot afford the total elimination of state aid to cities. We need the state's assistance. Just as the state was aided by the federal government's stimulus package in balancing its budget last year, we ask that you consider assisting the cities and other political subdivisions as we struggle with continuing financial pressures. We need these dollars and need to preserve our local revenue tools. And with that, I would be happy to try to answer any questions that you may have. [LB383]

SENATOR CORNETT: Senator Pirsch [LB383]

SENATOR PIRSCH: Just a question. You said \$1.8 million, I think--a hit to your budget. Is that what you said, if it were... [LB383]

DON HERZ: Correct. [LB383]

SENATOR PIRSCH: What is your budget in terms of (inaudible)? [LB383]

DON HERZ: That represents about a 1.5 to 1.7 percent of approximately a \$135 million budget... [LB383]

SENATOR PIRSCH: \$135 million [LB383]

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DON HERZ: ...general fund operating budget. [LB383]

SENATOR PIRSCH: And you said approximately 95 percent of your work force you are covered by the CIR. Is that pretty much what all the cities are facing, or is Lincoln in a unique situation with respect to...? [LB383]

DON HERZ: I think that applies to most of the communities. We're...you know, our comparables are maybe different, though. We're having to compare our wages to, you know, the communities of our size in the Midwest. So we're comparing our wages to cities like Minneapolis and Des Moines and Omaha and those kinds of cities. I'm sure other sized cities have different comparables. [LB383]

SENATOR PIRSCH: That's all the questions I have. [LB383]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LB383]

DON HERZ: Thank you. [LB383]

SENATOR CORNETT: Next opponent. [LB383]

LARRY DIX: Good afternoon, Senator Cornett and members of the committee. For the record, my name is Larry Dix. I'm executive director of the Nebraska Association of County Officials, appearing today in opposition to LB383. Some of the comments...and I certainly appreciate the comments that Lynn Rex made. It laid out the history rather well on the tax...the loss of revenue to the counties, and...but I want to make a couple general comments that maybe are a little bit different. Senator Adams, I think you had mentioned you're probably going to ask about everybody what percent of the budget that represents. And I think, from previous testifiers from county government, it's probably going to be in the 2 percent range. And I think that's pretty fair. And when I looked at this bill and I look at what does it do, if it was just a raw tax increase to make up the loss in state aid, I would tell you that it's probably about a penny or a penny and a half across pretty much all counties. But when you get into certain counties, the penny and penny-and-a-half option isn't there. Cheyenne County, they're at their levy limit; they're there. Rock County, at their levy limit; they're there. So those options, it becomes a little bit more difficult. It becomes then a matter of simply a reduction in services, a reduction in the quality of roads, a reduction in what we provide to our citizens in this state. But, Senator Adams, what I'm not...I would also echo this with the Revenue Committee, so that once we move forward and talk...go out to the floor and talk about a number of other bills, from the county's perspective we aren't just talking about LB383. There's a bill that's being heard in Judiciary Committee--so as soon as I get out of here I'm going to run over there--that has a significant fiscal impact to

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counties. In fact, I think we identified that it had a fiscal impact of \$175,000 to Douglas County and \$70,000 to Lancaster County. So I would urge the committee to, once we have the debate on the floor, is take a look at not only LB383 but the fact that there are many other bills that are introduced in the Legislature this year that have a fiscal impact to counties. And as many of you and I have talked, we have said, you know, if anybody brings a bill with a fiscal note to the Legislature this year, it's pretty much DOA. And so we would ask for that consideration of the Revenue Committee once we get to the floor, that there are bills that have a fiscal impact to counties also. And those added together with this loss of state aid, now we're starting to talk about more than 1.5--1, 1.5 cents. The big picture, once you add the 1.5 cent for counties and you do the same thing for the cities and the ESUs and the NRDs--now you start to look at a taxpayer's statement--and then you add on the schools, what, Senator Adams probably has a double-digit decrease, you can imagine what the burden, the big-picture burden, that we're having an impact on property tax. And it's easy to have the individual discussions of, well, what's it going to do to counties, what's it going to do to Douglas County, to that piece. But I think as a legislative body we've got to look at the big picture. We've got to understand there are some significant, significant increases. Earlier there were some comments about salaries: what have counties done, what have we done. I know of some county boards that, similar to the Legislature, have not increased their salary for many, many years. I know of a couple counties who have made the decision for no increase in their elected official salaries, just like the Governor had made mention to the constitutional officers. We have some counties that have said, for the next four years, no increases. And so counties are stepping up to the plate. You know, let it be made...also keep in mind that those counties that are having the zero increase, it's also interesting that you need to look into the past--what have they done in the past. Some of those counties in the previous four years may have only had a 1 percent increase, and now they're coming back with a zero percent, so I would ask you to keep that in mind. What do we do; where do we go from here; how can you help? I know the Governor and I have had discussions about, well, give me some solutions. And I certainly appreciate that, and this time it's tough for solutions. But there are unfunded mandates that are placed on counties. I think Senator Loudon, who has been with the Revenue Committee for a number of years, has sort of been a champion for watching out for unfunded mandates to counties. And I know Senator Cornett has been an advocate for many years working to try to find additional revenue sources and find formulas that work for counties. And, Senator Fischer, I applaud you for what you've done on the roads. But we've got to look at the big picture like that before we start to make decisions. So I would ask that, you know, as the committee looks at LB383, that you hold it, take a look at other bills that are coming forward, take a look at where we're at from a revenue perspective down the road, and then make your decisions on LB383. With that, I'd be happy to answer any questions that you would have. [LB383]

SENATOR CORNETT: Senator Hadley. [LB383]

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SENATOR HADLEY: Senator Cornett, thank you. Mr. Dix, we had heard earlier about the city of Lincoln and the problems with collective bargaining and the CIR. At the county level, are most counties' employees covered by collective bargaining, or is it... [LB383]

LARRY DIX: We have pretty much the exact same issue that the cities go through in regards to that. We face the same challenges when we go to CIR with some of our officials. We have a number of counties who have unionized road departments and the law enforcement areas. So we face the exact same challenges. [LB383]

SENATOR HADLEY: Thank you. [LB383]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you, Mr. Dix. Next opponent. [LB383]

JAY VAVRICEK: Well, good afternoon, and a pleasure to be here. My name is Jay Vavricek, and that's spelled J-a-y V-a-v-r-i-c-e-k, and I'm here representing the people of Grand Island as mayor; I'm also a business owner. And it's a pleasure to address the leadership here and to also remark about the leadership of Governor Heineman as he makes tough decisions that you weigh in. And I guess I'm here for a number of reasons, because if I didn't want increased taxes I probably wouldn't be here, if I couldn't envision the 44,000 people behind me in Grand Island but also 6,000-7,000 other people in our county but also our neighboring counties that depend on Grand Island for vital services, medical support, foundation for education, public safety, but municipal services. So I think it's important for you to know what Grand Island has embraced the last several years, because it probably--like second...you know, second song, second verse, much of the same thing you've heard from Lincoln and maybe other cities. In the...here's what's happening. Expenses obviously are rising faster than what we have revenue. Revenue, in our case, in Grand Island, sales tax revenue has been basically flat. Property tax valuation has been basically flat. When you look at other different occupational taxes, we've sought some of those and thought to what degree that makes sense. But when you look at the general fund budget, I think you can appreciate that Grand Island has tried to hold the line on property taxes and be efficient and effective in this way, in that the general fund budget that really provides the core services of police and fire and parks and on and on and on, our budget this year, the general fund budget, is about \$35.8 million. Now when you look back in 2008, that budget was \$36.1 million. So today the general fund budget is less than it was in 2008. The increase from 2007 shows about a 4.8 percent annual increase--or not annual--4.8 percent increase throughout that time as well, which when you break it down over four years, about \$433,000 a year. The state aid during that same period is about \$375,000. So if you looked at the increase and the average over the last four years, it's basically similar to what Grand Island has received in state aid. The reason I point that out, we've budgeted \$350,000 in this year's budget. And at this time our community is on guard, that we're

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going to go ahead and craft a budget assuming that annual income is not there, and I think all the 44,000 people behind me will do their share. And I wouldn't be here if this was probably the only matter that might affect our budget. And I think our people would step up and say, hey, we'll invest another \$10 each to make it work and to also demonstrate living within our means and be effective. But the reason I bring that up, this is just one of several different cards that we don't know how is going to be played. And I can go into the federal mandates, which are beyond the control of anyone here, but when you look at the fact of this, that I can't run the city of Grand Island as a business because 71 percent of the labor force, the work force within our city of 500 employees or more, is mandated by state law and the Commission of Industrial Relations and comparability. And it's kind of scary looking at some of the former mayors here, let alone the leadership that I've worked here, because you all can relate to managing a municipal budget. But let me just give you a glimpse of what has occurred last year under leadership of Mayor Hornady but also City Administrator Pederson and our city council. They cut the budget \$1.7 million. We laid off...the city laid off 27 full-time employees. Right now, no department director has seen an increase in salary. All nonunion employees, no salary increase. All 63 members of our fire department agreed to serve, no increase in salary. So when you look at accommodating tough times, we know the tough times. We're dealing with them. And once again, know you're making tough decisions just like we do on a municipal level, but I think you should also realize that if we didn't want to raise property taxes, I probably wouldn't be here. But the property tax rate in Grand Island for the city's share, which is about 12 percent of that pie, has only increased about 1.5 percent a year over the last five years. So I just would point out that we're living within our means from the property tax standpoint. Let me also just elaborate. Right now I have three city department heads that are vacant. Rather than hire an interim, rather than go out to a search firm and spend \$30,000 or \$40,000, we're covering those costs internally, saving roughly about \$30,000 a month. So when I look at the equivalent of the reduction of state aid, I can say, well, that's a number of different things that we'll deal with, but that might mean three department directors for a year. It could mean, like last night at city council meeting I just didn't feel it was the right thing to do and the right times with the discussions that are going on here to invest \$300,000 to \$500,000 in a fire truck, so we took it off the board. That's the equivalent for, you know, two years' worth of police cars. That's \$350,000, about half of what we invest in the LB840 program for economic development. The only reason I bring those up is that it's dollars; we'll deal with it. But in terms of this I would just close, in that we had a city council retreat Saturday, nine hours long. We're trying to say where we're going in the big picture, looking down the road. And when you think about the fact that we came up with one suggested goal, and it's 15 words, and the 15 words are this: financial sustainability of city policies and services to best serve the people of Grand Island. And that's the importance. If this is just one piece that we would consider, we can step up to the plate. But it's the unknowns and all the different contributing factors and many issues that will be potentially discussed in the coming months. And once again, just applaud you for your leadership. Good to see you and make comments in

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front of Governor Heineman. [LB383]

SENATOR CORNETT: Senator Fischer. [LB383]

SENATOR FISCHER: Thank you, Senator Cornett. Thank you, Mayor, for being here. [LB383]

JAY VAVRICEK: My pleasure. [LB383]

SENATOR FISCHER: I certainly appreciate that you are trying to hold the line on property taxes. I hear that from my constituents all the time. But with the state helping you hold the line on property taxes through aid to cities, through aid to counties, through aid to school districts, with the city and county's share of the gas tax that you also receive--it's a state tax...so there are a number of ways that the state is helping individual communities hold that line on property tax. And I think all of us here take those seriously. My question to you is, in order for the state to help you hold the line on property tax and for us to meet our responsibility to have a balanced budget, are you proposing that we increase our sales and income tax so that we can get more revenue in order to help you hold that line on property tax? [LB383]

JAY VAVRICEK: Not at all. [LB383]

SENATOR FISCHER: How do you propose we do this, then? [LB383]

JAY VAVRICEK: Great question. [LB383]

SENATOR FISCHER: Thank you. [LB383]

JAY VAVRICEK: When you look at 71 percent of our work force mandated in such a way that is beyond much of the control of the municipality, I think when you look at ways that that could be economized or more flexibility, then would go ahead and negate additional revenue in such a way that you're managing your expenses wiser. But also I know there's new needs that come up within a community. And for example, federal mandate that we just discussed here recently shows that the investment may be needed for \$3 million in our water department to address a uranium EPA mandate. And essentially it said if I drink two quarts of water for the next 70 years, I may go ahead and develop cancer. So we're going to be over that limit--and I'll make a long story short. We'll be considering making a \$3 million investment. If that's just a one-time investment, no problem. But every year we would have to maybe invest about 25 percent of our revenue in that fund, of a million dollars a year, on and on and on, so it's just all the things. [LB383]

SENATOR FISCHER: Right. You know, and we can't help you with that one. [LB383]

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JAY VAVRICEK: No, you sure can't. [LB383]

SENATOR FISCHER: But, you know, as I travel my district I always ask my county officials--and I try to attend a county commissioner meeting every year in my 13 counties--and ask them what we can do to change. I have a bill this year to try...it's a state mandate, and we're going to try and get rid of it, so, hopefully, it'll help counties. It's not that big a deal, but it all adds up. I'm wondering if you have suggestions that you've presented to Senator Gloor or Senator Aguilar that you have to deal with on the state side--not federal. We all have our opinions on those darn federal mandates, don't we? [LB383]

JAY VAVRICEK: Doggone it. So you bet. [LB383]

SENATOR FISCHER: But you know, we'd like to...at least I would like to eliminate a lot of the state mandates that I don't think make sense. So I'm wondering if you have looked at any of those and presented them to your senator, or I would certainly be happy to meet with you and listen and try and get rid of them. Do you--you don't have to tell me any--but do you have ideas on what we can do there to streamline government and help you with your expenses? [LB383]

JAY VAVRICEK: Absolutely look forward to that opportunity. [LB383]

SENATOR FISCHER: Great. Good. Thank you. [LB383]

SENATOR CORNETT: Mayor, you testified that over the past four years you've cut \$1.7 million out of your budget? [LB383]

JAY VAVRICEK: Last year the reductions saw \$1.7 million from the previous 2008 budget. [LB383]

SENATOR CORNETT: Just last year? What percentage of that was of your budget? [LB383]

JAY VAVRICEK: What percentage? Right now...general fund budget this year is \$35.8 million. The previous general fund budget was \$37.4 million. The '08 general fund budget was \$36.1 million; '07 general fund budget, \$34 million. [LB383]

SENATOR CORNETT: So over the past...with the downturn in the economy that we've all seen and with...as the state has went along and cut the budget, you have also done your due diligence by cutting your budget by that much. Correct? And that's a pretty significant proportion of your budget. And you're already budgeting for these losses this year, correct? [LB383]

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JAY VAVRICEK: There's no sense to include those in until such time that I know if they're going to be there. I just think that's wise and prudent. [LB383]

SENATOR CORNETT: Well, I commend you for your actions. [LB383]

JAY VAVRICEK: Um-hum. Yep. [LB383]

SENATOR CORNETT: Senator Hadley. [LB383]

SENATOR HADLEY: Thank you, Senator Cornett. Mayor, thank you for being here. I know that's...you're not sitting in an easy position. What is the...you said 71 percent of your work force were basically covered under collective bargaining, which would involve CIR. [LB383]

JAY VAVRICEK: That's our work force. Yes, sir. [LB383]

SENATOR HADLEY: What has been your salary increases the last couple of years for those covered employees? [LB383]

JAY VAVRICEK: Well, this year we have seven union contracts from four unions all up. So I can give you somewhat of a layman's glimpse the last several years because, once again, I didn't serve in office. [LB383]

SENATOR HADLEY: Sure. [LB383]

JAY VAVRICEK: Generally, 2.5 to 3.5 percent, I think, are those union agreements. And I wish Brenda Sutherland, our finance director, was here or...to elaborate fully. But, yeah, 2.5 to 3 percent probably for unionized wage increases, notwithstanding benefits, pensions, so forth. Um-hum. [LB383]

SENATOR HADLEY: I guess I just asked that question because Lynn Rex mentioned Kearney earlier and Kearney's employees are not covered by the collective bargaining agreements. And they got together with the city management and agreed to a zero percent increase, because they were able to sit down and talk about the problems concerning raising of taxes and such as that. And the perception that the public has of, you know, mandated pay raises, when we have Social Security and many other things that are being held flat for a year or two...and I've met with a number of groups and I tell them it can be a perception problem of wanting relatively significant increases at the same time a lot of people are going without those increases. [LB383]

JAY VAVRICEK: You bet. And once again, nonunion sees no increase in this year's budget, the department directors as well. But probably, gosh, 95 percent of our work

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force is all representative of collective bargaining agreements. Many have been multiyear. So that's all part of it. [LB383]

SENATOR HADLEY: I would just add real quickly, I know from higher education it can really be dysfunctional when you have the covered employees getting 3 and 4 percent and the secretarial staff, who dearly need it, getting nothing. It can cause real serious problems within your organization by having two different sets of rules that you have to deal with. [LB383]

JAY VAVRICEK: Yeah. And we had that situation come up this past year. A certain number of nonunion individuals elected that their...opt to go ahead and unionize for that same reason. [LB383]

SENATOR HADLEY: Thank you, Mayor. [LB383]

SENATOR UTTER: Senator Pirsch. [LB383]

SENATOR PIRSCH: Just a question. You said you in past years made some reductions. I think you said a \$1.7 million reduction from '08 to '09, is that...? [LB383]

JAY VAVRICEK: The previous year, yes, sir. [LB383]

SENATOR PIRSCH: How did you achieve those reductions? What were the items that were focused on? [LB383]

JAY VAVRICEK: In our community they adopted a...called a prioritization program, which is worked with department directors in concert with city councilmembers and set a series of values based on essential programs and services. And ultimately the less-essential services and programs were eliminated. And when you do that, that also indicates staff positions, so much of that cut was posed with the reduction of 27 full-time-equivalent positions. [LB383]

SENATOR PIRSCH: Did they come from any particular segment, or was it just a prioritized look throughout the entire system? [LB383]

JAY VAVRICEK: Any number. From public works. One from emergency management. You just go right through the laundry list of departments. Parks and recreation, finance, administration. Legal--over the years that's been reduced accordingly. And so, you know, what I think is going on within all our communities is that...and I can't speak for the communities. It's my assumption that whenever...like in our case, when we have a vacancy of a position, then we first evaluate that position. Does it need to be rehired? Can it be outsourced? If it can't, then we'll rehire it. Right now, any vacancy we have...there's automatically a 60-day wait before I even go ahead and start to recruit,

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and that gave us somewhat of a bubble to where we're not incurring personnel costs. Right now, the city of Grand Island has five vacant police positions, and there's a compelling, I think, sense in our community to continue to fund public service, so. [LB383]

SENATOR PIRSCH: What would the amount...what would your share of the reduction be if the state were to discontinue? [LB383]

JAY VAVRICEK: I'm sorry. Reduction in what? [LB383]

SENATOR PIRSCH: What's your state aid right now? What are we talking about here in terms of dollars? [LB383]

JAY VAVRICEK: Yeah. In state aid to cities, we're budgeting \$350,000. It's averaged \$376,000 the last four years. [LB383]

SENATOR PIRSCH: So it's \$350,000. [LB383]

JAY VAVRICEK: Yeah. [LB383]

SENATOR PIRSCH: Okay. And that compared...you had the \$1.7 million reduction for '08 and '09. [LB383]

JAY VAVRICEK: Right. [LB383]

SENATOR CORNETT: Further questions? Seeing none, thank you, Mayor. [LB383]

JAY VAVRICEK: My pleasure. Thank you for your leadership. So very much appreciate it. [LB383]

PAM SPACCAROTELLA: (Exhibit 6) Good afternoon, Senator Cornett and members of the Revenue Committee. My name is Pam Spaccarotella. It's S-p-a-c-c-a-r-o-t-e-l-l-a. I'm the finance director for the city of Omaha, and I want to thank you for the opportunity to testify today here with respect to LB383. I think it's apparent from all the people that have testified that most of the cities and counties throughout the state of Nebraska are facing the same or similar financial difficulties that the state is facing. And I thought I'd just take this opportunity to explain to you some of the ways that the city of Omaha has faced some of the challenges over the last two years. In 2009 we had a approximately \$10 million shortfall in our general fund, and we faced a similar shortfall in 2010. What we've done to reduce our expenditures is we've left a significant amount of positions open. In fact, in 2010 we left 212 positions unfilled, of which 74 were firefighters and we have approximately 33 that are sworn police officers. We've negotiated wage freezes with both the civilian and the police unions, and we are continuing to negotiate wage

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freezes with the fire department. We have a spending freeze that we instituted in March 2009 that we held fast through the...actually through today. And in addition to that I'd like to also point out that the city faces a significant unfunded pension liability of approximately \$743 million. In 2009 we also did quite a bit of cuts with respect to swimming pools, closing libraries. We grounded police helicopters. And we've all faced those same challenges and made those reductions necessary. I also realize in testifying before you in the past that the city's tax levy is below what its lid is, and I understand that that is something that's of concern. But I also wanted to make a comment that the city has, in fact, raised its property tax levy over the last two years in an effort to balance its budget. We've also, in addition to property taxes, we have citizens in Omaha to pay sales tax. They pay significant fees for services. They pay for business licenses and permits. They pay for a wheel tax that we also increased last year, and we also have a new 2.5 percent restaurant tax. So we haven't shied away from the property tax issue. We have just chosen alternative resources in order to fund...or in order to balance our budget. Based on these facts, we are here today before you to oppose LB383. There have been several questions about the dollar value. The city of Omaha receives \$3.3 million worth of state aid. That's approximately 1 percent of our general fund and about .5 percent of our total funds. If LB383 is enacted and reduces or completely eliminates the state aid to cities, that will force the city of Omaha to reduce essential city services. And to put it in perspective, what \$3.3 million means to the city of Omaha, that's approximately 52 police officers; that's the entire budget for the city's swimming pools for the summer; and that's the equivalent of three libraries. So it is not insignificant, and it will put a severe hardship on the city of Omaha as well as other cities and counties. We also recognize, however, the state faces similar economic pressures, and we understand the necessity for the state and the Governor to propose such reductions. So we want to be a participant. We want to be a team player. And we want to ensure the stability of the state as well as the city of Omaha. So in the event that the state must cut the aid, the city of Omaha would ask that that state aid not be eliminated completely but a reduction instead. I'd be happy to answer any questions that you have. [LB383]

SENATOR CORNETT: Questions from the committee? Senator Adams. [LB383]

SENATOR ADAMS: Excuse me, Pam. I asked you the other day and I have forgotten, where is your general fund property tax levy at? [LB383]

PAM SPACCAROTELLA: For the general fund our property tax levy is 29 cents. [LB383]

SENATOR ADAMS: Twenty-nine? [LB383]

PAM SPACCAROTELLA: Yes. [LB383]

SENATOR ADAMS: Okay. [LB383]

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SENATOR CORNETT: Further questions from the committee? Senator Fischer. [LB383]

SENATOR FISCHER: Thank you, Senator Cornett. We just heard from the mayor of Grand Island saying, I think, that they've cut their budget the last four years. What's Omaha done? And again, I'm not trying to micromanage here. I'm just interested in the information. [LB383]

PAM SPACCAROTELLA: That's fine. I think that the city of Omaha has faced different challenges than Grand Island. We have this last--in 2011 our budget actually increased. We held steady for 2009 and 2010. The reason for the 2011 increase, of course, was the increase in order to fund the unfunded pension liability. With respect to decreases, in 2011 we have cut...we've gone from 714 firefighters to 657. For the police officers, we are funded at 820; we're going to go down to 789. We are continuing to find or try to find ways to cut. And so I guess I hope I answered your question. [LB383]

SENATOR FISCHER: Thank you. [LB383]

PAM SPACCAROTELLA: You're welcome. [LB383]

SENATOR CORNETT: Ms. Spaccarotella, let me ask you a question. [LB383]

PAM SPACCAROTELLA: Yes, ma'am. [LB383]

SENATOR CORNETT: We're talking about, about \$3 million for you, correct? [LB383]

PAM SPACCAROTELLA: That's correct. [LB383]

SENATOR CORNETT: Isn't that about the surplus that was in the paper last week from the restaurant... [LB383]

PAM SPACCAROTELLA: I thought you'd ask me that question. [LB383]

SENATOR CORNETT: Pardon me? [LB383]

PAM SPACCAROTELLA: I thought you'd ask me that question. So let's talk about what's going to happen to the city in 2011. Currently, the 2011 budget has approximately a \$5.4 million gap in the fire department's budget. We are hoping to negotiate those savings. I am sure most of you have heard that we have gone...we have a 2009 decision with respect to the Commission on Industrial Relations with respect to the fire department. That's going to impact us as well in 2011. We're hoping to negotiate additional cuts for the \$5.4 million, but we may not. We're facing, as many of these

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counties and cities said today, other areas that could potentially be cut. We're facing a \$6 million cut in our street and highway, as we all know, which is approximately a third of the budget for our road repairs and maintenance. We'll have to come up with that. So there's many things that are facing the city that will more than eliminate that \$3.3 million surplus. [LB383]

SENATOR CORNETT: But the \$3.3 million was for last year. Correct? [LB383]

PAM SPACCAROTELLA: That's correct. And we're hoping to place that in our cash reserve fund, which again we took money from in 2009 in order to balance the budget. [LB383]

SENATOR CORNETT: So what is your actual projected revenue off the restaurant tax, considering that it was more than you originally projected for 2011. [LB383]

PAM SPACCAROTELLA: Which budget year are we talking about? [LB383]

SENATOR CORNETT: 2011. [LB383]

PAM SPACCAROTELLA: 2011, our anticipated revenue for the restaurant tax is between \$14 million to \$16 million, based upon what we received. [LB383]

SENATOR CORNETT: Was that the original projection or now? [LB383]

PAM SPACCAROTELLA: The original projection was \$14.7 million. With the change in--or the amount that we received in 2010, it's approximately \$1.4 million or \$1.3 million greater. [LB383]

SENATOR CORNETT: Thank you. Senator Hadley. [LB383]

SENATOR HADLEY: Thank you. Pam--and I apologize, I was testifying in a different committee and this may have been answered. From a tax policy standpoint, what is the reason that the state should be sending aid to the cities and counties? [LB383]

PAM SPACCAROTELLA: Well, I guess I would go back to what Lynn Rex commented on, is that it has to do with the original property tax exemptions that were granted, and that was the original commitment from the state: to give it to the cities and the counties. And it's been relied upon by the cities and counties in their current budgeting process. It helps to fund all of the different programs that the cities and counties fund. And so I believe that we're all partners, and that would be my answer. [LB383]

SENATOR HADLEY: So it's more of a promise or something that we have done in the past versus a real policy issue, then, if I'm stating that correctly. [LB383]

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PAM SPACCAROTELLA: You know--and I'm not sure I'm the right one to answer that. I think my legal department would probably tell you that it represents a portion of what the city of Omaha contributes to the state in respect to all of the sales tax and income tax and all the citizens send to the state for their budget as well. [LB383]

SENATOR HADLEY: Okay. Thank you. [LB383]

PAM SPACCAROTELLA: You're welcome. [LB383]

SENATOR CORNETT: Further questions from the committee? Senator Fischer. [LB383]

SENATOR FISCHER: Thank you, Senator Cornett. I'm new to this committee, and I'm trying to look at what is good policy and not a reaction to people or communities that may be in favor of something or against something because of how it affects them. With all due respect to Senator Adams, I've been involved in school finance for over 25 years. And things change; expectations change. I told Senator Adams that I was going to bring this up. When we passed, in the late '80s, early '90s, the first school finance formula, I would argue that it passed in the 3rd Congressional District with the promise that our schools and our communities there were always going to receive that income tax rebate. That's been whittled away through the years, and basically we get nothing. The formula changes every year down here in the Legislature with 25 votes. That's what determines education financing in this state. I would argue it's not on what's best for children; it's 25 votes. I'm hoping to look for policy here and what's the best policy. So when you brought up to Senator Hadley that in Omaha you're paying more sales and income tax so the state should basically give you that back, I don't know if that's good policy. Were you suggesting that should be the policy in this state, that we should figure out what the income tax and sales tax is that's collected in different communities and the state just refund that to those entities and basically be a pass-through? And in that case, I guess the state doesn't provide any services, does it, because we no longer have any revenue. [LB383]

PAM SPACCAROTELLA: I'm not suggesting that it's good policy. I'm just suggesting that's probably one school of thought. What I will tell you is what I feel is the most compelling argument that I've heard here today. And there are many counties that are out there that are at their max property tax levy, and when they have cuts that are this significant to their overall budgets it's going to be very difficult for them to compensate for that. Omaha will compensate one way or the other, I'm sure of it. However, it is a significant amount for Omaha as well. We are all facing the same struggles, and I believe the state as well as the city are a collective unit and they have to do what's good for all parties. That would be my answer. [LB383]

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SENATOR FISCHER: I'm happy to hear that because I think that's my duty as a state senator, and my colleagues would agree that we're here to do what's good for all parties also. Thank you. [LB383]

PAM SPACCAROTELLA: Thank you. [LB383]

SENATOR CORNETT: So then let me ask you a question. [LB383]

PAM SPACCAROTELLA: Yes, ma'am. [LB383]

SENATOR CORNETT: It was brought up earlier that possibly we should look at continuing to fund the counties that are at a higher percentage of their lid levy than what Lincoln and Senator Adams' county and Douglas County and the cities are currently at. If we exempt those counties that need the most, are we going to hear--or in the cities are we going to hear: Well, what about us? [LB383]

PAM SPACCAROTELLA: Well, of course you are. (Laugh) However, I...you know, now I'm speaking outside of my role as finance director for Omaha. But, you know, there...Omaha has quite a bit of resources available. [LB383]

SENATOR CORNETT: Well, exactly. [LB383]

PAM SPACCAROTELLA: Right. And...but some of these counties and cities do not. But what I also want to...you know, when we get to the next bill--I want to talk about the next bill because, you know, just because the city of Omaha has a property tax levy that is less than what the max levy is doesn't mean that our citizens are taxed any less. It just potentially means they're taxed in other areas. So when you look at these cities and counties that are at their max levy, I would hope that you would also take into consideration what other revenue sources they have available and whether they have availed themselves of those revenue sources. So I would look at a more comprehensive approach than just a property tax levy. [LB383]

SENATOR CORNETT: I was going to say I think some of our municipalities have looked at occupation tax for that, but that will be another day. [LB383]

PAM SPACCAROTELLA: Well, good. [LB383]

SENATOR CORNETT: Any other senators? Thank you very much. [LB383]

PAM SPACCAROTELLA: (Exhibit 7) I do have...Senator Cornett, the city council has asked me to have this entered as a matter of record. [LB383]

SENATOR CORNETT: That would be wonderful. If you just would like to hand it to Matt,

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that would be great. Further opponents? May I see a show of hands for the opponents, remaining opponents? [LB383]

RANDY GATES: Good afternoon. I'm Randy Gates, finance officer for the city of Norfolk, here to testify in opposition to LB383. I'd like to start off by saying I realize the state has a difficult budget position this year and I appreciate what the Governor and the senators have to work with to try and balance their budget. Unfortunately, before anybody asks, I'll tell you I don't have any solutions for it. I've had enough trouble trying to balance my own budget this last ten years. Norfolk has struggled, beginning in about 2000, because of relatively flat sales tax. I think Grand Island mentioned they had flat sales tax. Ours is...we've had a few years in there where we've had nice little bumps up, but we've had a few years in there where it's actually gone down. It's averaged, over those ten years--our taxable sales is increasing about 1 percent per year. So that makes it tough when you're trying to put a budget together and inflation is going up more than 1 percent, and that is the lion's share of your general fund revenue--by far, the largest piece of your general fund revenue. So we've been struggling and trying to put together a balanced budget for the last ten years, so I feel your pain. State aid for the city of Norfolk is \$191,450 or a little over 1 percent of the general fund revenue. I can only speculate if this gets eliminated what Norfolk will do. We haven't even started trying to put our budget together for next year, but what we often do, many, many times, is look at, okay, what's the impact of this on our property tax levy. And it would increase our property tax levy rate by about 1.7 cents or \$17 on a \$100,000 home. I just want to make you guys aware of that. I came here primarily to testify on LB119, but while I was here I thought I should share with you what impact that has on Norfolk, and say that Norfolk would like to keep our state aid, of course--it helps with our budget problems--or at least keep a part of it. I'd be happy to answer any questions. [LB383]

SENATOR CORNETT: Senator Pirsch. [LB383]

SENATOR PIRSCH: You said that if--you received \$191,400 in state aid--that if you didn't get that, then you would raise property taxes, then? [LB383]

RANDY GATES: I don't know if we'd raise property taxes or not. At this point saying we'd do anything is purely speculation, because we have not even started on our budget. We would merely look at many things, whether it's revenue changes or expenditure changes--is, what does that do to your typical homeowner? We normally translate that into what happens to taxes on a \$100,000 home, and in this case it would be about \$17, if we replaced it with property tax. I'm not suggesting that's what we'll do. We have plenty of room in our lid limit. We're the fourth-lowest levy rate of the first-class cities, so we've got lots of room that we could do that, but I'm not suggesting that that's what we will do. [LB383]

SENATOR PIRSCH: I would assume the first step, though, you would probably be

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looking at spending reductions, or areas, before you would look to property tax increases? Is that typically what you do there? [LB383]

RANDY GATES: We've, as I said, we've struggled for ten years with revenue problems, because our largest revenue source has been pretty flat. We did a lot of expenditure cuts early on in that ten-year period. I'd say here lately, the citizens have been putting pressure on us, saying: You've cut too much; we need more expenditures. Which means we need more revenue. I think there's been some votes that the Norfolk citizens have had the last several years that show that. About three years ago they voted to have Keno implemented in Norfolk for park improvements. They voted LB840 in the May primary, which increased the taxes on their home about \$36 on that hypothetical \$100,000 home. In the last election, in November, they approved a \$16.4 million recreation bond issue. So I've been hearing...of course, there's never uniformity out there amongst the citizens, but the votes that have been coming in the last several years, and what I've been hearing, I would almost tend to think our citizens have said, you've cut too much; you don't...we want you to go the other way--because we did cut a lot in those early years when we're...particularly the first...when the sales tax first started getting flat and going down. That was about 2000, right when there was a little bit of a downturn in the national economy. And then at first we thought this is a blip; when you cut expenditures it'll come back up here in a year or two. So that's how we looked at this for a number of years, and realized finally that this wasn't a blip; it isn't coming back up. [LB383]

SENATOR CORNETT: Senator Hadley. [LB383]

SENATOR HADLEY: Senator Cornett, thank you. A comment, then a question. After working in the city areas for a few years, I think the one thing that most citizens do not understand is the role of property taxes in funding city governments. It is a relatively small part of the city government, and I think citizens have a tendency to look at...they don't pay close attention to their property tax bill and they want to blame a lot on the cities. And that's usually a pretty small part of the total property tax. The second question: Are you covered by collective bargaining agreements in your city? [LB383]

RANDY GATES: We are not, but we are under the Commission of Industrial Relations, so if our...if we're not paying comparability, our employees could go to...any one of them could go to the CIR and say the city is not paying comparability. The CIR would look at that, and if we're not paying comparability, we would have to pay comparability. We try to treat all our employees the same and not give, you know, one group more favorable treatment than the other, trying to avoid having unions come in, and treat everybody fairly and play fair and square with everybody, and try to...we did get a little bit behind the curve when we were trying to deal with the flat sales tax, and got a little bit below comparability. We're, here lately, trying to get that back up where it belongs, because if we don't do it, some employee can come in and do it, and that would, you know, just

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incentivize for employees to try and unionize and, you know, and we would...we like to treat everybody fair and hope they realize that. [LB383]

SENATOR HADLEY: Then one follow-up. Can you tell me approximately what your wage increases, salary increases for your city employees are for the last two years? [LB383]

RANDY GATES: I remember last year it was 1.9 percent. I'm drawing a blank on what it was the year before. I could... [LB383]

SENATOR HADLEY: Okay, that's...okay. [LB383]

SENATOR CORNETT: (Exhibits 8, 9, and 10) Further questions from the committee? Seeing none, thank you very much. Are there any further opponents? Before we move on to neutral, the committee clerk advises me that we have two letters in opposition...or letters in opposition from the Nebraska Association of Resources Districts, the NRDs; as well as the county commissioners of Richardson County in opposition to LB383. With that, we will move to neutral testimony. Is there anyone here to testify in a neutral capacity? The Governor has waived closing. With that, we will close the hearing on LB383. Why don't we take a five-minute break for the committee. [LB383]

BREAK

SENATOR CORNETT: Senator Avery, thank you for indulging us. We needed a break. [LB119]

SENATOR AVERY: Well, I know how to clear a room, don't I. [LB119]

SENATOR CORNETT: You know, we appreciate that. Thank you so much for coming to the committee and we look forward to your testimony. [LB119]

SENATOR AVERY: Thank you, Senator Cornett, and good afternoon, committee. My name is Bill Avery, B-i-l-l A-v-e-r-y. I represent District 28. I am here today to talk to you about LB119. I realized that you have already heard testimony from the Governor's Office and I presume you had a few opponents to that bill, as I would have expected, and the Governor's proposal relates to what I'm going to talk to you about here for just a few minutes. This bill, LB119, actually is a result of the LR542 budget review process. This bill, as did the bill on aid to NRDs, came under the subject matter jurisdiction of the Government, Military and Veterans Affairs Committee. We voted to put these on the option list unanimously. This particular bill differs from the Governor's bill in that the Governor--I believe his bill cuts all aid to municipalities. Let me explain what the Government Committee decided to do instead of that. We did talk about that option. We decided to reduce aid to municipalities by 10 percent and to restructure the aid formula

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to distribute those funds to municipalities that maintain a certain minimum levy effort. The current aid program to municipalities is based on population. Currently, the fund is, I think, at somewhere around \$11 million. The Government Committee decided to cut the fund by 10 percent and change the distribution. LB119 caps the amount of aid to be distributed to municipalities at \$9.9 million, which is about 10 percent of the fund. Also in the changes that we've proposed to how the money is distributed, we put language in that said that municipalities that have a nonbond levy that meets or exceeds 75 percent of the state average for nonbond levies would be spared from cuts. The Tax Commissioner will determine the amount to be distributed to each municipality that qualifies for aid based upon the population. We had lengthy discussions about this in committee and we decided that this was perhaps a way to, in a sense, not inflict undue harm on those cities that were maintaining a reasonable effort to raise their own funds. This maintenance of effort is a part of much of our budgeting process. We thought it probably wouldn't be appropriate to apply it here. So the goal of the committee was to provide aid to those cities that already had high levies and may have challenges in raising the revenue lost by cutting state aid. I realize that this differs from the Governor's proposal. I talked with the Governor about our approach. He preferred his approach. I present this to you as an additional tool. You may wish at some point in your deliberations to consider this; you may not. I trust that you will make the right decision, what is best for the state and for our budget crisis. But I am of the strong belief that we need as many tools or as many options out there as we can identify to help us close that budget gap, and this is one of them that will do less damage to cities than the--what I call the nuclear option. This is the hand grenade. Thank you. [LB119]

SENATOR CORNETT: I have to ask: Is it like Monty Python? [LB119]

SENATOR AVERY: (Laugh) [LB119]

SENATOR CORNETT: Senator Adams. [LB119]

SENATOR ADAMS: Thank you, Senator Cornett. Senator Avery, did you, in the process of looking at this formulation, do a determination--if we use this right now, what is the state average on those general fund less bonds? [LB119]

SENATOR AVERY: We have that, and I should have brought a handout that showed what it would do to what communities. We can get that for you. I believe the staff prepared it. I had three other bills today, and I...this is...(laugh). [LB119]

SENATOR ADAMS: That's all right. You don't need to get it for me. I just thought that you would know, or if you had run the number, what that average levy would be. [LB119]

SENATOR AVERY: We did. [LB119]

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SENATOR ADAMS: Okay. Thank you. [LB119]

SENATOR CORNETT: Senator Fischer. [LB119]

SENATOR FISCHER: Thank you, Senator Cornett. Thank you, Senator Avery, for your work on the LR542 process. When you were looking at this and developing this formula...and are we looking at local effort here? Are we...you know, are...if we would adopt something like this, I can see us creating a monster in the future, which is the state aid to schools formula. So is this, like, the first step that we're headed in there? [LB119]

SENATOR AVERY: We didn't have that discussion in committee. (Laugh) [LB119]

SENATOR FISCHER: I like the idea of it, but I worry. [LB119]

SENATOR AVERY: You could adjust it up or down if you decided you wanted to take this approach. [LB119]

SENATOR FISCHER: Right. You know, I like the idea of it. I'm just concerned when we start creating more formulas we might just be creating more monsters. [LB119]

SENATOR AVERY: Nobody wants another TEEOSA formula, believe me. [LB119]

SENATOR FISCHER: Thank you. [LB119]

SENATOR AVERY: Do we, Senator Adams? [LB119]

SENATOR ADAMS: I'll refrain from... [LB119]

SENATOR AVERY: (Laugh) The idea behind such a formula is good. You know, maintenance of effort is a good concept in budgeting, I think. [LB119]

SENATOR CORNETT: Further questions from the committee? Oh, I'm sorry. Senator Utter. [LB119]

SENATOR UTTER: Senator Avery, thanks for coming. Thanks for bringing the bill. But you're talking municipalities. Are you suggesting that the same type of a situation could apply some way or another to the other governmental units: the counties and the natural resources districts? Are you...or does this just strictly address the municipalities? [LB119]

SENATOR AVERY: I think if you wanted to take that concept and use it elsewhere, you

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certainly could do that. It's not, of course, in LB119, and we didn't discuss it in any other context. We looked at...and I see that I am going to appear before you again to talk about aid to NRDs--and we'll keep that one short, by the way, because you've already heard that testimony. But we did look at how much state aid accounted for the budgets of NRDs, and we only found one NRD that had more than 1 percent of their budget that came from state aid, and that was 1.2 percent. So we didn't think that maintenance of effort was an important one there. And we didn't have subject matter jurisdiction over counties; I think that was this committee. [LB119]

SENATOR CORNETT: Further questions? [LB119]

SENATOR PIRSCH: Just quickly, because you looked at the NRD, what was the total amount of state aid to NRDs in raw dollar terms? [LB119]

SENATOR AVERY: Oh, it was several million, as I recall. Did that come up today? They didn't...well, I will bring that to you when I appear next--and I promise you that will be very short testimony. (Laughter) [LB119]

SENATOR CORNETT: Further questions? Seeing none, thank you, Senator Avery. [LB119]

SENATOR AVERY: If you don't mind, I will not close on this. You've probably heard all you want to hear about it anyway, and I'll go back to my committee, because I have another bill coming up. [LB119]

SENATOR CORNETT: Go right ahead, and thank you very much. First proponent. Opponent? [LB119]

SENATOR AVERY: I feel like Ron Raikes... [LB119]

SENATOR CORNETT: Well, there isn't a herd waiting to oppose you, so. [LB119]

LYNN REX: Senator Cornett, members of the committee, my name is Lynn Rex, R-e-x, representing the League of Nebraska Municipalities. And, first of all, we'd like to thank Senator Avery for introducing this bill. We like part of it, and we are concerned about the other part of it. We do appreciate the fact that the Government Committee was responsive after years of listening to the issues that municipalities are facing, and others, to basically put the maximum cut at 10 percent. And as I indicated in my prior testimony, I'd like to have all my testimony from LB383 apply to my testimony to LB119 because I won't repeat that for you. But I do think it's important to note, if you look on page 2 of this measure, as Senator Avery noted, it limits who gets the funding to those municipalities that have a nonbond levy. And I'm reading on page 3, lines 1-4. It limits this to "municipalities that have a nonbond levy that meets or exceeds 75 percent of the

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state average for nonbond levies." And we were told that that would be .2361. And part of the dilemma is that, I think as others have testified on LB383, that municipalities have an entire...different mixes of where they get their revenue sources and where it is appropriate for their citizens and where their citizens would like to have it. We have cities that have done polling to find out, you know, would you rather have it here or would you rather have revenue come from here. So cities have a different mix, and it seems to us that this particular element of it basically punishes those cities that try to keep property tax low. With that, what I would like to underscore is that for decades--and I've been with the league for over 30 years--for decades the mantra from the Legislature to local governments is "keep property taxes low." And we have 184 cities with local option sales tax that is the single most important way in which municipalities have tried to keep property taxes low. But we have other cities that have done other sorts of things in terms of trying to make sure that they have the best mix of revenues that they can to provide the citizens the services that they need for their citizens. And I would like to answer a question that came up at the prior hearing, Senator Hadley, because you weren't here at the time that we were discussing the comparability aspect of this. When it comes to the comparability measure for municipalities, it doesn't matter if you're unionized or not. You can have one employee--and it's happened--that will file a petition with the CIR, Commission of Industrial Relations. And so at that point, the league, if you're a league member--except for Lincoln or Omaha because they have such a wide mix of where they have to go for their numbers--we do provide comparability information. We hire a separate firm to do that. The cities know, especially the nonunionized cities, which are most of them--most of our cities are nonunionized--and so that they know what comparability is, because otherwise they can be taken to the Commission of Industrial Relations and they have to face those issues. And so basically the comparability issue when you are dealing with Kearney, if they're a little bit above comparability, they can do the pay freeze. But comparability does not now say it's based on ability to pay. We don't think the ability-to-pay concept works in any event, because we don't think the CIR should be a super city council. But all of that being said, comparability does fit into all of this. So we would...again we stand ready to take our fair share of cuts. The handouts that I've given you before showing a series of cuts over the years...and with the Appropriations Committee, because we're in the State Treasurer's budget, we were told the first round of cuts, when the economy improves, local governments will get reimbursed. We never have been reimbursed one dime--not one--over a period of all these years. So with that--when it comes to state aid cuts--so with that we just close by saying that we appreciate the hard battle and the tough decisions that you have to make, and we do again hope that you would hold these bills until the Forecasting Board has met so we get a realistic view of what really is necessary to make these cuts. With that I'd be happy to respond to any questions. [LB119 LB383]

SENATOR CORNETT: Ms. Rex, you testified on the prior bill... [LB119]

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LYNN REX: Yes. [LB119]

SENATOR CORNETT: ...that you were in opposition to it. [LB119]

LYNN REX: Yes. [LB119]

SENATOR CORNETT: At the same time, you said you were willing to step up to the plate... [LB119]

LYNN REX: Yes. [LB119]

SENATOR CORNETT: ...and help. [LB119]

LYNN REX: Yes. [LB119]

SENATOR CORNETT: You're testifying in opposition to this bill, and I can understand opposition on just the one section of this... [LB119]

LYNN REX: Just on the formula. [LB119]

SENATOR CORNETT: Okay. Because then you said all of your previous testimony also applied to this bill. [LB119]

LYNN REX: Oh, I'm sorry. You're...let me clarify this. [LB119]

SENATOR CORNETT: That might be a good idea. [LB119]

LYNN REX: Yes. Thank you for giving me the opportunity to clarify. The League of Nebraska Municipalities has a position that basically we're prepared to take our fair share of a cut up to 10 percent. [LB119]

SENATOR CORNETT: Up to 10 percent. [LB119]

LYNN REX: Up to 10 percent. I mean, we think that that is realistic... [LB119]

SENATOR CORNETT: Straight across the board. [LB119]

LYNN REX: Yes. And we think that's realistic. We also...that being said, the reason why we're here in opposition to this, though, is the way in which the formula works. [LB119]

SENATOR CORNETT: And I understand that. [LB119]

LYNN REX: But I do want to apply the historic testimony, the testimony that I gave the

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last time in terms of why we're here. [LB119]

SENATOR CORNETT: I was going to say, unfortunately, though, no present Legislature or future Legislature is bound by the past actions... [LB119]

LYNN REX: That's right. [LB119]

SENATOR CORNETT: ...of another Legislature. Now the previous Legislature's intent may have been one thing. [LB119]

LYNN REX: Yes. [LB119]

SENATOR CORNETT: What we are looking at with these bills is possibly remaking completely how we fund cities, counties, and NRDs. [LB119]

LYNN REX: Yes. [LB119]

SENATOR CORNETT: So that argument--I don't feel bound by the history per se. [LB119]

LYNN REX: And I do understand that. I guess my point, Senator, was just to underscore the fact that we started out with a property tax base of this big. It has now been brought down to this big. [LB119]

SENATOR CORNETT: I was going to say, Lynn, you know, I worked for how many years on jail reimbursement. [LB119]

LYNN REX: Yes. [LB119]

SENATOR CORNETT: And I am kind of flushing my own baby out with the bath water, so to speak, on this, and I understand how there are promises made in the past that have moved forward, but a lot of times it's based on the situation you're in currently. Senator Adams. [LB119]

SENATOR ADAMS: Thank you, Senator. Lynn, assuming for a minute that we were going to create a formula... [LB119]

SENATOR CORNETT: Hmm... [LB119]

SENATOR FISCHER: Hmm... [LB119]

SENATOR ADAMS: Oh, listen to them. Don't you think that if we were going to do that, even in its most rudimentary form, that we should fairly distribute and recognize those

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cities that have local option sales tax and those that don't. Now, I realize that may be because of a vote or it may be because of they've got it but they're so far off of the beaten path that they really don't generate much...you see what I'm getting at? I mean, if I'm going to look at a formula for cities to distribute this aid, and we say that there ought to be some kind of local effort on your own part, as Senator Avery's bill does--it includes that general fund levy--I have to assume that a lot of the cities--and maybe I'm only looking at York and that's skewing things but has a very low levy because they've got sales tax--shouldn't we look at sales tax as a resource in our calculation? [LB119]

LYNN REX: Yes, absolutely. [LB119]

SENATOR ADAMS: Maybe I misunderstood, then. [LB119]

LYNN REX: But it's also an effort. [LB119]

SENATOR CORNETT: I was going to say this... [LB119]

LYNN REX: That's what I'm saying. That's an effort. So basically you've got cities that have made a decision--and York being one of them, one of the 184 cities that have made that decision--that citizens would rather pay for...use sales tax to fund vital services than property tax. But that being said, that doesn't mean it's not an effort, because they are using sales tax, if I understand your question. So I think the sales tax needs to be recognized. It needs to be recognized as a context of you have sources of revenue that come from various mixes, just as I believe one of the individuals testified on the prior bill that a city decided to go ahead and pass Keno to fund parks. But that's a local effort. So some of our cities, regrettably, do not have some of the same...because they don't have, really, lots of businesses in downtown. They don't even have much of a downtown left. But they certainly are looking mainly, predominantly, at property tax. But I don't think this is just...if you look at where we are in terms of what state aid is now, which is basically what...a reimbursement for the property tax base lost over a period of years, that's what the sales tax has been too. So the way I see it and the way our board sees it is that this is just a mix of cities that have various mixes of revenue and that this was intended to be a formula distributed on a per capita basis. And so...and I realize, as Senator Cornett rightfully points out, you're not bound by what prior Legislatures have done. City councils aren't either. But every time that there's an agreement to sit down and negotiate a bill, we always take that into consideration. And with term limits it's even more profound, because, obviously, the institutional memory is gone. There will be a number of you leaving in a couple years, and that's quite regrettable. [LB119]

SENATOR CORNETT: Senator Hadley. [LB119]

SENATOR HADLEY: Senator Cornett, thank you. Ms. Rex, thank you. And again I apologize I wasn't here earlier. But it was caught...someone mentioned I'd asked the

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question about, from a tax policy standpoint, what do you see as the reason for this, that the state should be taking some of its resources that it's collecting and moving it down to lower governmental agencies? From a tax policy standpoint. [LB119]

LYNN REX: Okay. From a policy standpoint...and again, realizing that Senator Cornett has made a very good point, which is you're not bound by what past Legislatures did, but there were commitments made to local governments. And I'm not going to go through all of it, but basically when, in 1967, when households and intangibles were removed, the Governmental Subdivision Fund was created. When LB518 passed exempting livestock, farm equipment, business inventory, the Personal Property Tax Relief Fund was created. Those later were merged because of unconstitutional formulas. And the Legislature said, okay, we can't seem to come up with, because of Supreme Court decisions--we're dealing with a frozen class, we can't track where all the property is--and so what we're going to do is we're just going to call it state aid. So that being said, I think that is the policy reason. And we are here today--and do understand exactly what Senator Cornett is saying: just because it happened before doesn't mean that you're bound by this. But from a local government perspective and having sat at those meetings and listening and taking notes at those meetings and realizing that local governments were assured that there would be a dollar-for-dollar reimbursement so that there would not be property taxpayers hammered on the local level with these exemptions being granted, knowing that those were legitimate exemptions...but over time the Legislature--from day one Senator Exxon said they couldn't afford the \$250 million--some, and so a \$70 million cap was put on, and that was only fully funded a couple years and then it's been cut ever since. [LB119]

SENATOR HADLEY: Okay. A follow-up question. Would it be better from a policy issue if, as a state, we loosened the ties on what municipalities could tax and do away with state aid? I'm saying, for example, if we were to give municipalities the option through a local vote to have an additional one-half cent over and above what they have now or raise the lid on property taxes, do away with state aid and go back to more of a local option, that if you want...you know, if your municipality needs...has uses, and they're willing to tax themselves, that's an appropriate use. [LB119]

LYNN REX: Um-hum. Well, for example, let me share this with you. As you know, there's some municipalities that really don't have any type of businesses left in their communities. We have hundreds of villages. And so for them, giving an extra half-cent sales tax per se, there's really no place for them to go. That's why we only have, like, 184 that have local option sales tax at this time. I think there will be more down the road. But I do think that it is critically important, and in our last testimony the essence of the league position is, yes, we're prepared to take...step up to the plate once again and take what we think is our fair share up to a 10 percent cut. But by the same token we really would like to have and think it is absolutely necessary to have an offset for those municipalities that are up against their maximum levy limit. Of the 532 cities and villages

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in this state, we have over 240 that are up against their maximum levy limit. That means many of them cannot even raise the revenue you allow on the restricted fund side, the lid side. We've got two caps: the lid, the levy. On the lid side, we're allotted 2.5 percent plus 1 percent supermajority. We have some of those 240 that can't even raise the money over here because they are right up against the levy limit. So now for the larger municipalities, sir, I think the short answer to your question is, yes, giving more options for half-cent sales tax, giving more options for other things, I think those are all valid things. But we're looking at a session not unlike Larry Dix outlined for the counties where there are several bills that are in to take away even more revenue from municipalities--occupation tax, those sorts of things. Those are vital sources of revenue for municipalities. And we're very concerned about those, Senator. [LB119]

SENATOR HADLEY: And I understand that. It, just to me, is an interesting question, because if we have the municipalities that are not in position now to, in essence, raise additional dollars, you know, what is the obligation of the state to keep those municipalities functioning and going? And we don't have to answer that at all here, but that's... [LB119]

LYNN REX: Well...yeah, but the short answer is allow them the flexibility under the levy so that they could levy more. We have a, for example, two village board chairs here today from across the state of Nebraska that came in today. They're not going to testify today but they are here, and I appreciate them coming. And for those villages, they need flexibility too. For them, that flexibility couldn't take the form, more than likely, of a sales tax. In some instances it does. We do have some villages with sales tax. But certainly giving them levy authority would be important. It's important for these cities...and these are bedroom communities, many of them, to other cities, and they provide a vital part...they're a vital part of Nebraska too. [LB119]

SENATOR HADLEY: And just one last statement, I guess. I guess the reason I ask about this is that, you know, I think in terms of if the federal government suddenly decided it was going to start telling the state of Nebraska what we can levy in the way of state income taxes, state property taxes, state sales taxes, we would be very upset at that intrusion. Yet, we turn around and at times do the same thing for municipalities and taxing units (inaudible). And obviously that's... [LB119]

LYNN REX: And as a former mayor, I know you can appreciate this, as Mayor Adams and others--Mayor Pankonin as well, former Mayor Pankonin. But at the end of the day, municipalities would much rather have the authority to make the decision on the local level than have to rely on state resources. [LB119]

SENATOR HADLEY: Well, that's an interesting tax policy question. Thank you. [LB119]

LYNN REX: Thank you for the question. [LB119]

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SENATOR CORNETT: Further questions from the committee? Seeing none, thank you, Lynn. [LB119]

LYNN REX: Thank you for your patience. Thank you. [LB119]

SENATOR CORNETT: Next opponent. May I see a show of hands for the number of opponents for the bill? [LB119]

RANDY GATES: Randy Gates, finance officer for the city of Norfolk. As I indicated when I was testifying on LB383, here primarily to testify on LB119. LB383 and LB119 would both eliminate all of Norfolk's state aid; we'd get nothing under either bill. But we find LB119 particularly bothersome. We feel like this is more or less a continuation of the same type of policy for the municipal equalization funding, which we've had a problem with for a long time. We have a low property tax rate, so our thought is we're getting penalized for having that low property tax rate. And LB119 would just penalize us further. We feel Norfolk citizens are already subsidizing other cities who either choose to spend more or get their revenue from another funding source. Maybe something like the Municipal Equalization Fund makes more sense if you're dealing with schools, who--I believe primary revenue sources for schools are property tax and state aid. As the testimony has indicated earlier, state aid is a small part of what cities get. Property tax varies a lot from city to city. Some cities rely heavily on property tax. Other cities are not relying a whole lot on property tax. In Norfolk's case, as I mentioned when I testified on LB383, we're the fourth lowest of the first-class cities. The other three...and I think we have something in common with the other three cities. York, for instance, is very low property tax; Kearney; and Scottsbluff. They have in common with Norfolk that they're all NPPD retail communities. One of our largest funding sources is NPPD lease revenue. Our largest by far is the sales tax. We get about \$7 million a year of sales tax revenue. We get about \$3.8 million of NPPD lease revenue, which is by far our second largest source. When you get down to property tax, that's less than \$1.5 million. So we have a lot of local effort through sales tax and NPPD lease revenue. So our citizens are paying for their services. I wish these services were free and I could say we've got low property tax because we're providing free services, they don't cost anything. They cost whether Norfolk provides them or York provides them or Hastings provides them. The difference is, how do you get the revenues to fund those? And the four lowest first-class city property tax rates are all NPPD lease communities; and I think, more than the sales tax, that explains why their rates, property tax rates, are so low, because we all have the sales tax. What does that translate to in real dollars? Norfolk is getting no municipal equalization funding now. Hastings, who has their own utilities--they're not an NPPD community--is real similar to Norfolk. Their population is very similar to Norfolk's population. Their assessed valuation is very similar to Norfolk's assessed valuation, but they get about three-quarters of a million dollars a year from the state through the Municipal Equalization Fund. Our citizens are paying state income tax. They are paying

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state sales tax. They're not getting any municipal equalization funding back from the state. Hastings is getting three-quarters of a million back. That's because of how...you know, there's a lot that goes into that, but what you choose for your funding sources is a large part of that. And our citizens have traditionally not liked property tax. As I mentioned earlier, we just did a \$16.4 million bond issue. It was overwhelmingly approved on the November ballot. We aren't raising property tax to pay for that; we're using occupation tax to pay for that. We had a similar recreation bond issue on the ballot a number of years ago. It was property tax-funded. It went down substantially. And when we started talking about a new recreation bond issue, there was a lot of push-back on the property tax. People felt more comfortable with the occupation tax. And I think that was very well reflected in the vote. And our occupation tax goes into effect February 1. So our citizens have said, we don't like property tax, we want you to find other funding sources. And I think that's fine that our citizens say that; but when they say that, they're penalizing themselves by not getting back any Municipal Equalization Fund money, and we don't feel that's fair. And LB119, we think, would just simply exacerbate that situation. So while I like the idea of LB119 only cutting our state aid by 10 percent, I don't like the way it goes in and says cities like Norfolk, cities like York, cities like Scottsbluff, cities like Kearney, you're not going to get any. It's not because we don't have local effort. It's because we have a different local effort than cities like Hastings. So LB119 is very bothersome to us, and I'd be happy to answer any questions. [LB119]

SENATOR CORNETT: Senator Pankonin. [LB119]

SENATOR PANKONIN: Thank you, Chairman Cornett. Sir, I'm new to this committee, but I'm curious about...I've got a couple questions here. But the NPPD lease funding--explain to me how that comes about and what is that from. [LB119]

RANDY GATES: Municipalities in Nebraska own their electrical systems. Some, like Hastings, choose to operate them themselves. Others have leased their systems to somebody else. A lot of cities in the state lease theirs to the Nebraska Public Power District. Norfolk does, Kearney does, York does, Scottsbluff does. All of those communities are getting 12 percent of the revenue NPPD earns off of that electrical distribution system back as a lease payment. So when a Norfolk citizen writes his check to Nebraska Public Power District, 12 percent of that money is going to come back to the city. So he's funding the city's general fund operations every time he pays his power bill, where somebody in Hastings is funding their general fund operations in Hastings when they write the check to the, what is it, Adams County Treasurer? Whatever the county treasurer is and where Hastings is. So Norfolk citizens are putting forth a funding effort just like Hastings citizens are putting forth a funding effort, but they're writing their checks to two different places. In the case of Norfolk, we get most of our money back from NPPD as part of the lease revenue. Hastings is getting theirs back from the county as part of their property tax. [LB119]

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SENATOR PANKONIN: Well, I appreciate that explanation, because I didn't know how that worked, so that was very helpful to me. But I can also tell you from being down in this body for five years and with Senator Adams in the room, these formulas are inherently not fair. It's hard to design one that is. And there are these differences in communities and in effort and things, and it's just very difficult to do that. I understand your situation and your position, but it is hard to do it. And as we've heard from Ms. Rex, that there's so many communities that...you know, Norfolk, I'm familiar. My wife is from northeast Nebraska. Great retail center. Like you say, you've got a lot of sales tax income, and there's a lot of communities surrounding that that don't have anything left on the main street much, that don't have some of the advantages you have as well. So, you know, it's hard to make it all fair, unfortunately. [LB119]

RANDY GATES: One point I'd like to make is, when we get those sales tax dollars, it's because people are coming into our community. They're using our streets; they're taking advantage of our police services while they're there, fire services, our rescue squad. A lot of them will visit our parks. A lot of these people will go to our libraries. We don't charge a nonresident citizen to use our libraries. So even though we are a hub of retail activity in the area, which we are, we're also a hub of municipal services in the area, where we provide a lot of municipal services to citizens that are coming in from out of town to shop and work in Norfolk. But I think the real driver to some of the low property tax, more so than sales tax, is NPPD lease revenue. That's what the lowest-property-tax first-class cities have in common. [LB119]

SENATOR CORNETT: Senator Hadley. [LB119]

SENATOR HADLEY: Yes, thank you, Senator Cornett. It's interesting, because I've looked into the, you call it the--and I never get the words right--the equalization payments backup. Could that literally be a third option? We've looked at an option of doing away with all aid to municipalities. We looked at an option here of 10 percent. Could a third option be to phase out that equalization money that goes to the cities? [LB119]

RANDY GATES: Cities like Hastings would hate me if I'd say that, but what I will say is we don't feel that it's being fairly distributed. Our citizens are putting forth local effort just like Hastings citizens are, and they're paying the taxes that go to the state that are now going back to the cities that are getting the Municipal Equalization Fund money. So we feel that the way it's distributed now isn't fair. And LB119 is, in a similar vein--would make it even more unfair. [LB119]

SENATOR HADLEY: I certainly cannot speak for the city of Kearney in my current capacity. But in a previous capacity I know that the administration would say the same thing that you've just said. [LB119]

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SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LB119]

RANDY GATES: Thank you. [LB119]

PAM SPACCAROTELLA: Senator Cornett and members of the Revenue Committee, my name, again, is Pam Spaccarotella, S-p-a-c-c-a-r-o-t-e-l-l-a. I'm the finance director for the city of Omaha, and I am here before you in opposition of LB119 primarily because of the reasons that were stated earlier, my testimony with respect to LB383. And I just really want to make two short points. The first point is that the city of Omaha would request that there be no cut to state aid until we know what the overall picture is going to be with respect to the Legislature this season or this session. We'd like to see all the impacts the city is facing, significant impacts, not only with respect to the commuter wheel fee but also with respect to state aid to cities and also with respect to occupation taxes as well. So we'd like to see the comprehensive picture. And I want to make sure that the city of Omaha notes its protest with respect to this bill. The second item is to reiterate, I guess, what Mr. Gates had said with respect to the different revenue sources. As the city of Omaha, we have, with our general fund, over 42 percent that comes from sales tax and only 20 percent comes from the property tax. That 60 percent accounts for 60 percent. The remaining 40 percent comes from a variety of other items, which include occupation taxes, licenses and permits, services, fees for services, interest income. So there's a variety of different ways to measure whether or not a city is adequately taxing its citizens. And so we would request that if the bill does go forward, that we eliminate any sort of methodology or formula that calculates whether or not the city is actually participating with respect to raising revenues. I think it's apparent from the testimony today that all cities are facing the same troubles and all cities are raising or trying to tax their citizens fairly and adequately. I'd be happy to answer any questions that you have. [LB119]

SENATOR CORNETT: Questions from the committee? Seeing none. [LB119]

PAM SPACCAROTELLA: Thank you. [LB119]

SENATOR CORNETT: Are there any further opponents? Is there anyone here in a neutral capacity? Senator Avery has waived closing. That closes the hearings for today. Thank you very much. [LB119]