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Education Committee
February 02, 2015

[LB58 LB351 LB444 LB522 LB590]

The Committee on Education met at 1:30 p.m. on Monday, February 2, 2015, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB351, LB590, LB58, LB444, and LB522. Senators present: Kate Sullivan, Chairperson; Rick Kolowski, Vice Chairperson; Roy Baker; Tanya Cook; Mike Groene; Adam Morfeld; Patty Pansing Brooks; and David Schnoor. Senators absent: None.

SENATOR SULLIVAN: Welcome, everyone. You are in the Education Committee. I'm Senator Kate Sullivan of Cedar Rapids--just rolled in from Cedar Rapids on snow and ice up until York--Chair of the committee, and I represent District 41. We have one senator who is introducing a bill in another committee, but I'd like the senators that are here to introduce themselves. We'll start with the Vice Chair.

SENATOR KOLOWSKI: Rick Kolowski, District 31, from southwest Omaha.

SENATOR SCHNOOR: Dave Schnoor from District 15 which is Dodge County.

SENATOR PANSING BROOKS: I'm Patty Pansing Brooks from Lincoln, District 28, and you're sitting in the district. Welcome.

SENATOR SULLIVAN: Senator Groene.

SENATOR GROENE: Senator Mike Groene, Lincoln County.

SENATOR COOK: Senator Tanya Cook, and that's District 13 in Omaha and Douglas County.

SENATOR BAKER: Senator Roy Baker, District 30, Gage and Lancaster Counties.

SENATOR SULLIVAN: I'd like you also to meet staff and helpers that are working with us today. To my immediate left is one of the legal counsels for the committee, Tammy Barry. At my far right is Mandy Mizerski who is the committee clerk and will make sure that we have an accurate record. Also we have two...two pages or just one today...Brooklynne Cammarata who is from Omaha and is a student at UNL majoring in advertising, public relations, and political science. The other page is Seth Thompson from Ogallala, and he's a student at Wesleyan majoring in criminal justice and political science. Today we have five bills that we are hearing: LB351, LB590, LB58, LB444, and LB522. Just to lay out some of the particulars for how we handle the hearing: If you're planning to testify, please pick up a green sheet. It should be on the tables at either entrance. If you do not wish to testify but would like your name entered into the official record as being present at the hearing, there is a separate form to do that as well, both of which will be part of the official record. Regarding the green sheet, we ask that you fill

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

Education Committee
February 02, 2015

that out before you come up to testify. Please print. And it's important to complete the form in its entirety. When you come up to testify, just simply give that completed sign-in sheet to the committee clerk. If you have handouts, please make sure you have 12 copies for the pages to hand out to the committee. When you come up to testify, please do speak clearly into the microphone, tell us your name, and spell both your first and last names to, again, ensure we get an accurate record. Perhaps I don't need to say this, but just as a reminder to please turn off cell phones and anything that buzzes or rings or dings so that we can give our full attention to the testifiers and the bill introducer. We will also be using the light system today not for the introducer but for all testifiers. Five minutes will be the limit. The yellow light will come on when you have one minute left, and then the red light is on when your time is up. So I think that is all we have to do as far as laying out the parameters. And we will start with our first bill, LB351, being introduced by Senator Brasch. Welcome.

SENATOR BRASCH: (Exhibit 1) Thank you, Chairwoman Sullivan and good afternoon, members of the Education Committee. I am Lydia Brasch, L-y-d-i-a B-r-a-s-c-h. And I represent the 16th District in the Nebraska Legislature. I'm here to introduce LB351 which I have brought to you at the request of Nebraska Farm Bureau. This bill addresses the issue of school financing and equalizing the tax burden. As Dr. Michael Dulaney, executive director of the Nebraska Council of School Administrators, has noticed in his brief history of Nebraska school financing, the issue of school financing always entails a great deal of push and pull when trying to balance the interests of funding education for equalized or unequalized school districts and providing equitable and fair tax relief for property owners, particularly farmers and ranchers who often carry an increasingly heavier burden of providing local revenues for school funding. As I present this bill, I hope that we can consider the important philosophical, political, and technical issues at task. LB351 addresses two specific issues. First, it seeks to return 20 percent of income tax to the districts that generated them. Second, it repeals the minimum tax levy penalty. As I explain the details of this bill, some of you present or watching may recognize the roots of LB351 from LB1059 which was the original bill that created TEEOSA in 1990 and addressed past school funding challenges that we continue to face today. At the time LB1059 was passed, the original drafters and forefathers/foremothers of the bill worked tirelessly to arrive at the best practical solution to bring about a distribution of tax dollars and funding to all school districts in Nebraska regardless of size. I believe we should be mindful of some of these original ideas and how they can help address the current issues at hand. As I stated, the first component of LB351 would return a greater amount of income tax dollars to the school district communities that generated them. LB351 seeks to reinstate returning 20 percent of income tax to the school district from which it came. Presently, only about 2 percent, or \$45 million statewide, of the income tax liability of residents in any school district is returned to the school district after the net option funding is taken out. When the TEEOSA formula was first passed in 1990 with LB1059, a critical component of that bill was to return the 20 percent income tax liability to the districts that generated those

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

Education Committee
February 02, 2015

revenues. The intent was to provide property tax relief by broadening the tax base for education financing. Six years later in 1996, the LB1050 component contained a provision that repealed the 20 percent figure. In its place, a \$102 million income tax rebate cap was controversially placed. The \$102 million figure represented the 20 percent income tax rebate for the years 1992 to 1993 fiscal year and accordingly for roughly 15 percent of the state's total tax liability in 1996. Today, school districts only receive \$45 million in income tax rebate which amounts to only 2 percent of the state's total income tax liability. The current figures have greatly departed from the original TEEOSA concept and LB351 would return us to the original intention of TEEOSA by providing equitable property tax relief and broadening the tax base for education financing. LB351 also seeks to repeal the minimum levy adjustment penalty. The penalty reduces the amount of income tax rebate returned to a school district. Under this bill, the full amount of the income tax base would flow back to its respective school district. Overall, I have introduced LB351 for a couple of reasons. First, the number one concern I hear from constituents and we hear from others across the state regards the high level of property taxes being paid. This is particularly true of ranchers and farmers whose taxes have disproportionately grown by 167 percent compared to their residential neighbors at a 40 percent increase in the same school district since 2007. Second, many school districts in the area I represent do not receive state aid equalization. Out of the nine school districts, only three receive state aid equalization. Two of these receive a minimal amount of state aid. One receives only \$2,700 and the other receives \$76,000. This means the school districts must overrely on property taxes and, given in the current formula, see very little in the way of improvements in state assistance. By LB351 directing more state income tax rebate dollars to local schools, both concerns that I mentioned would be addressed to some extent. More state dollars flowing directly to schools will result in lowering property taxes. It would also assure all school districts receive some form of state assistance. Moreover, school districts would no longer be penalized for being frugal and would have the opportunity to receive state aid funding. Again, I want to stress this bill's intention to broaden school funding without raising taxes. I realize that this bill is just one piece of a larger complex puzzle. In fact, this bill alongside with its sister bill, LB350, which I will be presenting in the Revenue Committee on February 19, would decrease property tax valuations on agricultural and horticultural lands from 75 to 65 percent, provides a much needed and fair solution to ensuring that we do not impose a disproportionate burden on property owners, again, especially our farmers and ranchers in the ever-important task of funding education. As it was 25 years ago when TEEOSA was implemented, it is today: We need to find a fiscally responsible way of moving the state away from an overreliance on property as the fundamental underpinning for financial education and find other mechanisms to assist in providing for education of our children. I would like to note that this bill carries a fiscal impact. As the fiscal note states, based on 2013 income tax data, the amount of allocated income taxes used in the formula will increase from about \$43.6 million to \$296 million. After other aspects of the formula are taken into consideration, the entire amount of increased allocated income taxes pursuant to the bill would not translate into

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

Education Committee
February 02, 2015

increased state aid. The increase in resources will only impact school districts not currently receiving equalization aid. The total increase to these unequalized districts would be around \$56 million. One last but important fact to recognize is, this bill does not help or hurt currently equalized school districts. I have a handout for the committee. We have...thank you. The numbers on this handout reflect those used by the Fiscal Analyst Office in determining the fiscal note. I want to briefly describe the impact of LB351 that...would have compared to how the formula currently works with regards to income tax rebates. As you look over this chart, the key points to consider is that if we look under current law, we see the \$102 million figure which represents the current cap set in 1996. Currently, the total amount of income tax rebate of \$43 million represents 2.46 percent of the state's local income...the state's total income tax liability. As you can also see in LB351, it will lead to roughly \$253 million of increased local revenues for school districts. Once this total is put in the state aid formula, it will result in an increase of state aid of \$56 million. The \$56 million increase will be concentrated to schools not currently receiving equalization aid. Equalized school districts will neither be helped nor hurt by this bill. Equalized school districts will have local income tax dollars becoming a vital source of revenue in substitution of state aid dollars. As I conclude, I would like to thank Farm Bureau in assisting with this bill. I believe there is someone from Farm Bureau behind me today that is here to testify as well and perhaps be able to answer more of your questions after any additional testimonies are given this afternoon. Again, I want to thank you for your time. And I will be happy to answer any questions. [LB351]

SENATOR SULLIVAN: Thank you, Senator Brasch. And just as a reminder to the committee, for Mandy's benefit as we ask questions and make comments, be sure that we should also speak into the mike so she can catch our comments as well. Senator Brasch, thank you for your testimony and for your introduction of this bill. When you refer to nine school districts as being unequalized, were you referring to the school districts in your district? [LB351]

SENATOR BRASCH: In my district. [LB351]

SENATOR SULLIVAN: How many... [LB351]

SENATOR BRASCH: There are many more across the state but... [LB351]

SENATOR SULLIVAN: Right, but how many...so of the...all the school districts in your legislative district, nine of them are currently nonequalized. Is that right? [LB351]

SENATOR BRASCH: Okay. Three receive equalization aid. Out of nine school districts, three receive state equalization aid. Two of these receive a minimum amount of state aid, two of the three... [LB351]

SENATOR SULLIVAN: Okay. [LB351]

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

Education Committee
February 02, 2015

SENATOR BRASCH: ...so six do not. [LB351]

SENATOR SULLIVAN: Okay. And as you indicated, you've been working with Farm Bureau and I'll ask them this question as well, but do you know, because we're...under this legislation would be increasing the amount of allocated income tax that would be designated to help the nonequalized school districts, is there any concern about the agricultural economy and income tax sort of being somewhat unstable in light of the ag economy being cyclical and we never know for sure what it's going to be doing? [LB351]

SENATOR BRASCH: That is always a concern. [LB351]

SENATOR SULLIVAN: Sure. [LB351]

SENATOR BRASCH: However, the question is, currently it's very disproportionate on how we are taxing ag land--and that's the next bill another time--and also needing to look at the history--it's very interesting; I can get a copy to anyone from the committee--that was written by Dr. Dulaney, spanning back Governors to 1954 at how our state has wrestled with needing to fund education. And solutions have changed over time with the economy and with the cycles. And at this current point, looking at the disproportionate funding and disproportionate return of dollars--income tax dollars--to communities, that this would be a solution that...I can't predict the cycle, when it will end, when it will turn around. But knowing that the world is increasingly growing in population and the need for food will also increase that perhaps this basis that was once developed years ago...I've called meetings with some of the past forefathers of this and perhaps some of them are here today. But they called a special session to address the needs, the ebb, the flow, you know, how money works. And at this point it's not working. It just is simply not working. And we've seen that when the tax modernization committee and also your special interim studies where people show up in lines wanting to express their concerns and the need for a change. And I believe that this is the time when we do need to change it and make changes again if that time in history proves present. [LB351]

SENATOR SULLIVAN: Okay. Thank you. Any other questions for Senator Brasch? Senator Kolowski. [LB351]

SENATOR KOLOWSKI: Thank you, Madam Chair. Senator Brasch, thank you for being here today and thank you for your input. I wanted to go back to the 20 percent that was talked about of...ideally of income tax. What would be the proportion for property and sales in that 100 percent cutout? What would the other 80 percent look like? Do you know what ideally there should have been? [LB351]

SENATOR BRASCH: We had thought about asking for a model. And at this point that's

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

Education Committee
February 02, 2015

not available. But we can do that so we can take a bigger look at the picture. But I don't have numbers. [LB351]

SENATOR KOLOWSKI: But ideally, was there one in 1990, 25 years ago? It should be this much, this much, and this much, or... [LB351]

SENATOR BRASCH: We can sure find out. [LB351]

SENATOR KOLOWSKI: Okay. [LB351]

SENATOR BRASCH: We'll find out. But that is an excellent question. [LB351]

SENATOR KOLOWSKI: Thank you. [LB351]

SENATOR BRASCH: Thank you. [LB351]

SENATOR KOLOWSKI: And from the legislative district, your legislative district, nine districts, three are equalized and six are not? [LB351]

SENATOR BRASCH: Correct. [LB351]

SENATOR KOLOWSKI: Do you know what the levy is on each of those six that are nonequalized? [LB351]

SENATOR BRASCH: I would need to get you the exact number. I'm not... [LB351]

SENATOR KOLOWSKI: That would be helpful also. [LB351]

SENATOR BRASCH: ...certain of that. [LB351]

SENATOR KOLOWSKI: Yeah, how much...wherever they might sit. [LB351]

SENATOR BRASCH: We are below the levy. The levy is lower. We're not at the levy. And...but I don't know the...for each of the districts what they would be. [LB351]

SENATOR KOLOWSKI: Okay. It's such a complex set of figures. [LB351]

SENATOR BRASCH: Um-hum. It is complex. It's... [LB351]

SENATOR KOLOWSKI: You have to look at everything and that's why it's very important to bring this topic up, so thank you. [LB351]

SENATOR BRASCH: Thank you. [LB351]

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

Education Committee
February 02, 2015

SENATOR SULLIVAN: Senator Schnoor. [LB351]

SENATOR SCHNOOR: Thank you, Senator Brasch. Just to clarify, the TEEOSA formula was originally set up to allow for 20 percent of the funding to come from income tax? [LB351]

SENATOR BRASCH: Initially, yes. [LB351]

SENATOR SCHNOOR: Right. And that never happened. I don't think it did from the get-go, did it? [LB351]

SENATOR BRASCH: If it did, for a very, I believe, a very brief period, and it might have been the years...later years, 1990-93. I do have...it's a wonderful thesis written by Dr. Dulaney that tells all the years and things that did happen. [LB351]

SENATOR SCHNOOR: Okay. And your bill simply returns it back to the original intent. [LB351]

SENATOR BRASCH: The original intent. They had...they joined the...they had planned on studying it for a year, and it took two years. They had a special committee, I believe, between Appropriations and the Education (Committee)...they called...they did a study similar but much longer in time. Ron Withem was then the Speaker. It was quite a historic event in our state in school financing. But again, every time you bring something about, there's questions raised. [LB351]

SENATOR SCHNOOR: Okay. And this...since this is income tax, this doesn't really differentiate any between ag land versus residential. [LB351]

SENATOR BRASCH: Not on the income tax. [LB351]

SENATOR SCHNOOR: So then it would not affect the school districts that are primarily residential...funded primarily through residential property versus ag land. It would have no effect... [LB351]

SENATOR BRASCH: It does not affect the districts that are equalized... [LB351]

SENATOR SCHNOOR: Okay. [LB351]

SENATOR BRASCH: ...or get...yeah. It would not hurt them. [LB351]

SENATOR SCHNOOR: Okay. And then...but then it only affects nonequalized districts? Those that are equalized it does not? [LB351]

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

Education Committee
February 02, 2015

SENATOR BRASCH: The ones that are not receiving any aid at this point. All school districts would get income tax funds rebated to them. And right now only 2 percent of their income tax dollars are coming back into the school district where 20 percent would. If they had been getting aid, they would continue their aid. If they had not, now they would have dollars. [LB351]

SENATOR SCHNOOR: So all districts will be affected by this. [LB351]

SENATOR BRASCH: Yes, all districts. [LB351]

SENATOR SCHNOOR: We'll get...we'll see some revenue based on this. [LB351]

SENATOR BRASCH: Um-hum. Some will be helped and others will not be harmed. [LB351]

SENATOR SCHNOOR: Okay. [LB351]

SENATOR SULLIVAN: Any other questions? Senator Groene, and then I'll come to you, Senator. [LB351]

SENATOR GROENE: You would also help equalize the aid that was low. It would not just be the nonequalized because, for example, a district in my area, Maxwell, gets a low amount of equalized aid, \$54,000, and it only gets \$14,000/\$15,000 of income tax rebate. Well, if you said that's 2.5 percent, you'd be taking that times about seven times that, so you'd be...it would jump from \$14,900. Their aid would be...their income tax aid would be...but you say if it was ten times it would be \$140,000. So it would help some of those that get equalized also. [LB351]

SENATOR BRASCH: If they are in need of... [LB351]

SENATOR GROENE: But if their income tax rebate and their equalized aid was more than the income tax rebate, they wouldn't be affected. I'm confusing here, but... [LB351]

SENATOR BRASCH: Very good. If you have some numbers in front of you that show that...we were unable to get any numbers run at this point. Perhaps... [LB351]

SENATOR GROENE: I'm just running them in my head, here. But that's...I believe it...anyway, I'll say something... [LB351]

SENATOR BRASCH: And it won't penalize districts that are frugal as well. [LB351]

SENATOR GROENE: No. [LB351]

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

Education Committee
February 02, 2015

SENATOR BRASCH: I mean, that's the good...there is no penalty here. [LB351]

SENATOR GROENE: Well, I...all I'm saying is I think you would help more districts than just the ones that were nonequalized. You would also help the ones that were lowly...a small amount of equalization. [LB351]

SENATOR BRASCH: That's...thank you. I do appreciate that assistance. It sounds good. (Laugh) [LB351]

SENATOR GROENE: It does. [LB351]

SENATOR SULLIVAN: Senator Pansing Brooks. [LB351]

SENATOR PANSING BROOKS: Thank you, Madam Chair. Thank you, Senator Brasch, for bringing this. It's...I know it's a difficult issue and we all have to grapple with it. And it's nice to initiate the discussion like this. I guess I'm interested in your perspective on why you think that the property values are going up so much and the tax on property is so high. [LB351]

SENATOR BRASCH: Nebraska taxes property--ag land--uniquely, like no other state does. And the taxes have risen. And it's interesting, because I have tax receipts from Herman, Nebraska, one example. This property tax owner, on their residential it was taxed, and I'll just give you just a fictitious number for now, but in my next hearing I have the real receipts with me. It was, let's say, \$1,500 in 2005. The residential taxes in 2014 had gone down \$200. Now, in the same school district, the tax bill for ag land in 2005, it was \$1,600. And I have this down fairly good to memory, because in 2014 it was at, I believe, \$5,600. It had gone from the \$1,000-some to the \$5,000-some. So in some cases, it's gone up 300 percent and not...the figures I said earlier were from the Revenue Department that basically one is 40 and one is 167 percent increases. And it's based on resale real estate value, how we do that. However, when you look at our surrounding states, in Iowa ag land is only at 50 percent but they used it on an income basis. I think it's 30 percent down in Kansas, 30 percent of valuation. We tax the third highest in the United States as a state except...the two higher are the state of Texas and California when it comes to property taxes. So the reason why it's the way we have set ourselves...our system up. And it has changed from time to time. Through that history sheet, you can see adjustments that were made. And it could be "cyclomatic" to farm economy. Right now, in today's market, the prices have dropped significantly on the grains, but they have not dropped on the inputs. The commodity prices have gone down. So as we stand today, you're losing money in agriculture. But that's the history of agriculture, is the demand, the markets. And so it's very difficult. Will land prices drop? Right now, I believe they're holding steady, but I still have heard there's increases in land. But... [LB351]

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

Education Committee
February 02, 2015

SENATOR PANSING BROOKS: Okay. Well, so...but the land isn't losing value. I mean, the land is increasing. That's why the taxes are increasing, right... [LB351]

SENATOR BRASCH: The willingness to pay because...you would think... [LB351]

SENATOR PANSING BROOKS: ...because of the value of the property? [LB351]

SENATOR BRASCH: Yes. You would think it is because the way we value ag land, it's dry land, irrigated land, waste land, and that's according to the ability to earn income from the land. So is the... [LB351]

SENATOR PANSING BROOKS: And would you count subsidies as part of income? [LB351]

SENATOR BRASCH: And I'm not familiar with the subsidies. My husband and I on our farm operation, we don't do the subsidy programs. [LB351]

SENATOR PANSING BROOKS: Okay. [LB351]

SENATOR BRASCH: That's...some do. Some don't. [LB351]

SENATOR PANSING BROOKS: Okay. I guess my next question then is...and I'm not sure that I totally agree on that number three...number third highest, but...in taxes, but I guess what I'm interested in is, what's your opinion on...if we...my feeling is, and...is that if you depend more on income taxes and sales taxes that you have more of a roller coaster, an up and down effect. And so I would like to see these numbers around the 2008 recession and see what happened if we would insert the same numbers for income tax and property in that time to show how much of a loss we would be in at that point, because that's my greatest fear, is that if we rely too much on that, then...I mean, imagine if a local tax seat authority all of the sudden had a 10 percent or greater loss that they had to contend with. There's...with property taxes I think we have a much more stable... [LB351]

SENATOR BRASCH: But again, it's disproportionate, is what we're trying to address. And by working with our income taxes, we are offering some property tax relief. [LB351]

SENATOR PANSING BROOKS: Yeah, I think the only thing that I would add to that is, if I buy a lot of properties in Lincoln and own a lot of different houses, I'm going to pay a disproportionate tax as well, but it's partly because I've chosen to do a business that will allow me to succeed in that regard. And so part of it is a decision to enter into business and you realize the risk and cost of that business in my estimation. So I just need to look at some of that and see. And if we increase income tax, there's a lot that don't pay

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

Education Committee
February 02, 2015

income tax, so we have a lot that are taken off the rolls at that point. I'm just interested in the whole balance of everything. And I really appreciate you bringing it forward to...so that we could have this discussion. Thank you. [LB351]

SENATOR BRASCH: Thank you. Thank you. [LB351]

SENATOR SULLIVAN: Any other questions for Senator Brasch? Thank you. Will you be here for closing? [LB351]

SENATOR BRASCH: Yes. [LB351]

SENATOR SULLIVAN: Very good. We will now hear proponent testimony. Welcome. [LB351]

STEVE NELSON: Welcome. Good afternoon, Senator Sullivan. Great to see you. And welcome...or thank you to all of the committee as well. My name is Steve Nelson. I'm president of the Nebraska Farm Bureau. I'm here on behalf of the Nebraska Farm Bureau providing testimony today in support of LB351. I'm from... [LB351]

SENATOR SULLIVAN: Mr. Nelson, you've got an easy name, but maybe you'd better spell it for the record. (Laugh) [LB351]

STEVE NELSON: Oh, yes. Steve, S-t-e-v-e N-e-l-s-o-n. [LB351]

SENATOR SULLIVAN: Thank you. [LB351]

STEVE NELSON: And I'm also a farmer from Axtell, which is in Kearney County, the county right south of Kearney, Nebraska. And my son and I raise irrigated corn, soy beans, and hybrid seed corn there. As Senator Brasch mentioned, Farm Bureau has worked with the senator to introduce LB351 because we believe the bill brings the school finance component to the table. It's a step towards the goal of reducing the property tax burden for Nebraska farmers and ranchers and will bring greater balance to the state's tax system. I'm sure everyone here, if I asked, would say that they would like to reduce their tax burden. And I wouldn't disagree. But the distinction and the difference with property taxes as it relates to agriculture is that property taxes are very much a tax on what we do for a living, almost a livelihood tax, because of the nature of our business. If you're a farmer or a rancher--and it doesn't really matter whether you grow crops or grow livestock--you need land. The use of land is fundamental to what we do in raising food. That's why our members are so engaged in the issue of property taxes on agricultural land. Farm and ranch families don't exist without the land. It's the very core of what we do for a living. There's no other occupation that requires as much land as raising food. Therefore, there's no other livelihood in Nebraska that is hit as hard by property taxes than farmers and ranchers. There's...and I'm not going to...I hope to

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

Education Committee
February 02, 2015

get to some of this in some of the questions when I finish up here, but I would just reiterate those things that Senator Brasch talked about related to the difference between the property tax collected in Nebraska and our surrounding states. And I can talk more about that when we do questions. And also, Senator Brasch reviewed the history of LB1059 very well and I'm not going to repeat that, just to say that the legislation will provide unequalized districts, those not receiving state aid to education, some state funding. We believe this is important because everyone across the state pays income tax and all school districts that...have access to a percentage of the income tax collected. Today, Nebraska farmers and ranchers make up 3 percent of our state's population, yet we pay nearly 30 percent of all of the property taxes paid in the state. Farmers and ranchers should not be forced to carry an unfair and disproportionate share of the support for our schools. LB351 will bring fairness, balance, and equity to the way we fund education in our state. There are many proposals before the Education Committee, the Revenue Committee, and the Appropriations Committee that deal with the property tax issue. We're committed to work together to make life better for all Nebraskans. So at this time I would welcome your questions. [LB351]

SENATOR SULLIVAN: Thank you, Mr. Nelson, for your testimony. Are you concerned, as I indicated to Senator Brasch, at all about putting more reliance on the allocated income tax, what's generated locally in terms of stability or instability of that? [LB351]

STEVE NELSON: Well, I don't know that my answer is really any different than what Senator Brasch gave. You know, there's cycles in everything, and certainly--when we...and we may talk about his a little bit more, but--there's cycles in the value of land as well. And that has really shifted the pendulum in a very, very significant way in the last few years into the...you know, in the proportion towards what agricultural land is paying. And so obviously there will be those cycles that you might see in income. Hopefully a couple of things: One is that the formula will balance some of that out. And then by taking all of the forms of income...and of course we argue all the time that Nebraska's agricultural base--and whether you're a farmer or rancher--that much of the economy in Nebraska is based on agriculture. There's still a lot of diversification between what different people do. And so hopefully that would help, to a certain extent, balance out the concern that you have with income tax changing from one year to the next. [LB351]

SENATOR SULLIVAN: Do you know on average here in Nebraska what percent of the gross income of a farmer is devoted to taxes? [LB351]

STEVE NELSON: To all taxes? [LB351]

SENATOR SULLIVAN: Um-hum. [LB351]

STEVE NELSON: I don't, but that's a great question. [LB351]

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

Education Committee
February 02, 2015

SENATOR SULLIVAN: Okay. [LB351]

STEVE NELSON: And we'll try to find out. It'd actually be interesting to know, you know, kind of the breakdown of property tax and income tax. And then you...and sales tax and all the other taxes that are there. I don't have a number for you, but I know when you add them all together it's kind of scary, which would be true for people that aren't farmers and ranchers as well. [LB351]

SENATOR SULLIVAN: Okay. All right. Any other questions for Mr. Nelson? Senator Kolowski. [LB351]

SENATOR KOLOWSKI: Thank you very much, Madam Chair. Mr. Nelson, good to see you, Steve. Thank you for being here today and for your testimony. Just a couple clarifying questions if we could: You mentioned the comments that the senator mentioned also on a third...we're up among the highest-paying states. [LB351]

STEVE NELSON: Yes, yes. [LB351]

SENATOR KOLOWSKI: The Governor even in his state of the state address said we're the third highest or the third highest paying. And that's been refuted already by the Omaha World-Herald. We're...the vast majority of studies have us right about in the middle, about 25 out of the 50 states. [LB351]

STEVE NELSON: Yeah. [LB351]

SENATOR KOLOWSKI: I think that's an important distinction that we look at what study was used and where those facts or figures came from. Do you have a comment on that? [LB351]

STEVE NELSON: Yeah. On that point, I think the difference could be in that when you look at all property, you're...that number, that puts us, you know, in that...I think it's in the mid-teens somewhere that you're speaking about where...and that's looking at all property in the state. When you look...and the number that we're talking about here and comparing it to other states is a number that is comparing farm and ranch property, ag property. So farmers and ranchers in Nebraska compared to farmers and ranchers in Texas or California, we come in number three. That's the way I understand our numbers. And I believe that their numbers, although I'm not going to argue for their numbers... [LB351]

SENATOR KOLOWSKI: Sure. [LB351]

STEVE NELSON: ...but I believe that those numbers look at all property and not just

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

Education Committee
February 02, 2015

farm and ranch property. [LB351]

SENATOR KOLOWSKI: And that clarification helps. [LB351]

STEVE NELSON: Yeah. [LB351]

SENATOR KOLOWSKI: But that wasn't necessarily used in the speech at the time. And I think it's important we talk about it. The other aspect would be, you used some percentages. Farmers ranchers are 3 percent of the population but they're paying 30 percent of the property taxes. That's two different issues. And what percent of the land do they own becomes the issue, not what percent of the population are they? How much land do they own or if they're renting or whatever else becomes the issue of paying property taxes on that. I don't really care what percent of the population they are. Those are two different topics. Do you know the answer to that? [LB351]

STEVE NELSON: Yeah. Yeah. I don't know the answer to that, but we care. The 3 percent of us that are paying for, you know, that amount of tax, that's important to us. [LB351]

SENATOR KOLOWSKI: I understand that. [LB351]

STEVE NELSON: Now obviously, there's some other ag property owners, but farmers and ranchers own the vast majority of it. I don't know what the exact number is, but I can find that for you. [LB351]

SENATOR KOLOWSKI: Well, equal topics is all I'm asking about. [LB351]

STEVE NELSON: Yeah, yeah. [LB351]

SENATOR KOLOWSKI: The world is not going to make more dirt. The brick countries--Brazil, Russia, India, China, and probably a billion more people in the next thirty years--is a real challenge. Do you think our land property...our land values are going to go in a cyclical fashion in fact going down very much at all, because it becomes so important to have good dirt? [LB351]

STEVE NELSON: Yeah. I mean, you make several great points. First of all, the demand for agricultural production will continue to grow. It...I think it's important to remember, and I might talk more about this later, but it's important to remember that the demand for agricultural products does not always directly equate with profit in growing those products from the farmer and rancher perspective. And that's part of what we...part of the issue here when I talk about the importance of land to farmers and ranchers, it really leads a little bit to your questions earlier, Senator. But we obviously need land to grow crops and to grow livestock. Because of the cyclical nature of any business, there are

years when that is profitable and years when that is not profitable. And that would be true for any business, but I think it's much more cyclical in the agricultural business. When you...if you buy apartment houses, you're intending to make money on apartment houses every year. Now, some years you may make more or less, but I think that income is more steady. Now, someone who owns apartment houses might differ from me. But in agricultural land, and I've seen it at least two times in my farming career, hopefully we're not looking at a third year where we've seen good economies in agriculture because of good prices. And we've seen land prices increase significantly. Then we've seen the economy moderate. Through all of this time, the demand for food is continuing to grow. But we've seen profits at the point where we're losing money for a period of time. What we just went through was, I think, maybe the most exceptional time in agriculture history, certainly in my lifetime, where we had profits, particularly in grains, that we've never seen before. And that is part of what drove the land price to where it is today. And some of the residual from that profitable time continues because there's still some money left to buy that land. When it...you know, to the question about what's going to happen with land prices, I can't answer that. You know, common sense would tell you when you've had a 50 percent drop in corn prices, irrigated land ought to drop some. And it really hasn't yet. But if we stay at these kind of prices or go lower, it will. Now, it may not drop to where it was before. I can't...that would be impossible to predict. At the same time, we have some really good times in livestock production right now, partly because the feed costs are lower, partly because of the drought that we had in the...a couple years ago, which is kind of a double-edged sword in this argument because, you know, today we have high cattle prices that's led to record-high rangeland prices, and yet just a couple years ago, people were selling cows and had no profit off of that land, yet under both circumstances you have to pay the property tax. It...again it's...and I don't mean to belabor this, but it's why there's a difference between agricultural land and other kinds of property. And that...you know, Senator Kolowski talked about...asked early, you know, about...and I'm not sure if this is what you were getting at or not, but related to how much tax should come from each area. [LB351]

SENATOR KOLOWSKI: Yes, sir. [LB351]

STEVE NELSON: You know, we've talked a long, long time. And I've asked the question, you know, is there some kind of basis for this? And I haven't really been able to find it. But in this state we've talked for a long, long time about having a balance of about one-third of the public needs in the state being funded by property tax, one-third being funded by income tax, and one-third being funded by sales tax. We're over 40 percent right now, in the mid-40s somewhere--I don't know the exact number today--being funded by property taxes. So that's why...another reason that you see farmers and ranchers concerned about this issue. It's because of that imbalance. And I need to let you ask questions, but just one last example. And there would be the hundreds if not thousands of examples. But I took a trip across the state on Thursday and Friday and met with six different groups of farmers and ranchers ranging from all

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

Education Committee
February 02, 2015

ages of farmers and ranchers and some small groups all the way to a group of over 60 people in Sidney and...to talk about these issues. And I could fire off more than one example, but just to point it out, that I talked to a farmer who lives south of Sidney who has land both on the Nebraska side of the line and Colorado side of the line. On the Colorado side--same type of land--on the Colorado side of the line a little over \$1 per acre taxes. On the Nebraska side a little over \$11 per acre. Now, that doesn't sound like very much, but that land doesn't produce very much either. That's a dry, high country there. And that's a big, big difference. It's a competitive disadvantage that Nebraska farmers and ranchers deal with. So, apologize for... [LB351]

SENATOR SULLIVAN: No, that's fine. [LB351]

SENATOR KOLOWSKI: Well, thank you, Steve. [LB351]

STEVE NELSON: You're welcome. [LB351]

SENATOR SULLIVAN: Senator Pansing Brooks. [LB351]

SENATOR PANSING BROOKS: Thank you, Madam Chair. Thank you very much, Mr. Nelson, for your testimony. It's helpful. I guess a couple things I'm interested in: I'm interested...I understand as the values rise, don't the local authorities have the ability to lower the mill levy? So couldn't that help deal with some of these issues, but in actuality, those local officials in many instances want to keep that high level so they can use it for funding other things within their own community. [LB351]

STEVE NELSON: Right. [LB351]

SENATOR PANSING BROOKS: So in effect, it isn't really that other areas are getting it because it has to do with that mill levy. And that funding does go back to the district in which those taxes were paid. And merely by lowering...it seems to me that by lowering that levy, then all of a sudden those farmers and ranchers would have less to pay out of that. [LB351]

STEVE NELSON: You're right about how the system works as far...the way the rules are set up. And in theory, if spending stays the same for county government or for schools, that if valuations go up the mill levy should go down. Taxes would be the same. In practicality, what has happened is that we've seen continued growth...I mean, that typically the mill levy has been left the same and the schools and the counties have taken advantage of that growth in value to...for the use of either the schools or the counties. And because that value has grown...and I had some numbers in here. We're questioning whether we have exactly the right numbers, but within the last ten years, you're looking at somewhere around 150 percent growth in agricultural land over the ten-year period, double-digit years the last years. [LB351]

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

Education Committee
February 02, 2015

SENATOR PANSING BROOKS: Which is wonderful. [LB351]

STEVE NELSON: In some respects. [LB351]

SENATOR PANSING BROOKS: A lot of respects. [LB351]

STEVE NELSON: And we've seen nonagricultural property in about 50 percent. I'm...don't hold me to those numbers, but it's in that range. And what that's done is, again, it has shifted the burden over to the land, over to the agricultural property. And that's fine when prices have been like they have been a few years ago. But when we...it's okay to pay it. We can pay it. But it still shifts that burden way out of proportion from our perspective. And so we believe that that needs to come back. Part of what this bill does is do that. And part of what it does is really set up a second measurement of wealth. Right now, in the state aid formula, the only measurement of wealth--primary measurement of wealth--is property. And we believe that that needs to be spread out in a different way. [LB351]

SENATOR PANSING BROOKS: Okay. All right. That's all I have right now. Thank you. I may... (Inaudible) [LB351]

STEVE NELSON: Okay. [LB351]

SENATOR SULLIVAN: Any other questions? Senator Schnoor. [LB351]

SENATOR SCHNOOR: We all know valuation for ag land has just...has skyrocketed. There, however, is a difference between, you know, valuation and market value. Years ago, ag land...you know, and market value, just like everything else, fluctuates. It goes up and down. We're in uncharted territory on ag land market value. Do you ever see...I mean, here's the \$1 million question. I don't know if you have the answer but, you know, we see--I got to think of where I'm going with this--we've seen the market value go up and we're expecting that market value to go down for ag land. But do you see valuation going down for ag land? And has it ever historically gone down in the past years? When market value fluctuated, did valuations fluctuate? [LB351]

STEVE NELSON: Well, the last...I mean, they're both good questions, and I'm not sure I can answer. I...you know, certainly it should based on, you know, if we have lower land values, the total tax paid should go down. I don't know that that's happened very often. [LB351]

SENATOR SCHNOOR: But just true valuation, taxable valuation, if market...if ag land goes down, as I see, the taxable valuation has not followed that. It has stayed where it's at. But now we're at uncharted territories where the market value is incredibly high. Like

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

Education Committee
February 02, 2015

everybody...you know, it'll drop sometime, don't know when. But will the valuation, taxable valuation, follow? That's the... [LB351]

STEVE NELSON: It's the \$1 million question. Yeah. [LB351]

SENATOR SCHNOOR: Yeah. What nobody knows...historically, I don't think that has ever happened. [LB351]

STEVE NELSON: No. And I think, you know, the...in my time...my memory would be about the same as yours, I suppose. But, you know, if you look at, you know, in my life time, then I can think about land prices from about the mid-'70s or so till today and what's happened. And you've rarely seen much of a drop. You'll see it flatten out. The only time that there was a drop was in the '80s, early '80s. And we don't want to go through that again. I mean, that would be...you know, I mean, that was precipitated by several years of little or no profits and 20 percent interest rates. But, you know, we don't have a... [LB351]

SENATOR SCHNOOR: True, but was... [LB351]

STEVE NELSON: So I don't...to try to answer your question, I guess I don't...you know, I think we can see some drop in land values, you know, unless the bottom falls out of everything. You know, I think they'll drop some. But they're not going to drop to where they were before. [LB351]

SENATOR SCHNOOR: True, but was that market value or valuation, because I think back in the '80s, yes, the market value dropped considerably? But, you know, I didn't own any land back then, but according to my dad the valuation did not drop and taxes did not go down. [LB351]

STEVE NELSON: It probably didn't, because even though the land dropped in a lot of value, it didn't change the needs of school districts. And, of course, that was before LB1059. But the need was still there, the need to educate kids and to (inaudible) county government, so... [LB351]

SENATOR SCHNOOR: So, I guess what I'm getting to...I think that's the fear now, that the market value is very high. That market value could go down but the tax value will probably not be based on history. [LB351]

STEVE NELSON: I would agree. [LB351]

SENATOR SCHNOOR: Okay. Thank you. [LB351]

SENATOR PANSING BROOKS: I have a couple more. Sorry. [LB351]

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

Education Committee
February 02, 2015

SENATOR SULLIVAN: Senator Pansing Brooks. [LB351]

SENATOR PANSING BROOKS: Thank you, Madam Chair. Sorry, I got distracted with what I was thinking. I guess I have a couple things. First off, you are a very strong, wonderful advocacy group in the state for farmers and ranchers. And then there's another strong advocacy group with which you're often aligned and that's the State Chamber. And it's my understanding that the State Chamber is saying to get rid of all income taxes. So what happens when we shift this over to education? I'm a huge proponent and advocate for our constitutional duty to educate our children. So I'm wondering what happens when...if something like this were to happen and we've boosted the property taxes 20 percent, and then in comes the chamber saying, oh no, we need to get rid of property taxes, that's how we become competitive in the state? [LB351]

STEVE NELSON: Yeah. [LB351]

SENATOR PANSING BROOKS: And I don't know. I just...I guess my perspective from...we've done corporate and business law for 30 years. [LB351]

STEVE NELSON: Yeah. [LB351]

SENATOR PANSING BROOKS: And it's my knowledge from working with various business that every business, of course, has to fight for their own interests and their own rights. [LB351]

STEVE NELSON: Sure, sure. [LB351]

SENATOR PANSING BROOKS: So the farmers are fighting for what they want. The businesses are fighting for what they want. We all want to succeed and become as successful as possible and have as little tax as possible. [LB351]

STEVE NELSON: Absolutely. [LB351]

SENATOR PANSING BROOKS: So I guess that's the whole rub of this thing. And knowing what's looming, that a whole nother major group that a lot of people listen to is going to come in and say, maybe next year if this were to be passed, oh no, we need to get rid of that. And I guess that's my concern. Do you have a comment on that? [LB351]

STEVE NELSON: I...yeah, a couple thoughts. First of all, our members, my members, farmers and ranchers in Nebraska, care about education as much as anyone else. And we understand as well what the constitution says about the state's responsibility in funding education. And that's part of the reason that we believe that there should be a

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

Education Committee
February 02, 2015

balance here, that it shouldn't be as disproportionate towards property as it is today, that there...so that's really fundamental behind our argument. When it comes to the...you know, where we might be headed as far as income tax goes, I...probably the best answer I can give you is what I already talked about, about the three-legged stool, that we believe that there should be a balance in there. And, you know, so that probably answers the question. [LB351]

SENATOR PANSING BROOKS: Okay, I guess I just wanted to just quickly add that I've talked to people in Lincoln that have concerns about spending the money to put broadband out across the state. [LB351]

STEVE NELSON: Sure. [LB351]

SENATOR PANSING BROOKS: I can't think of anything more valuable for the farmers and ranchers in the western part of the state... [LB351]

STEVE NELSON: Sure. [LB351]

SENATOR PANSING BROOKS: ...than our intrusion and addition of dollars to help that happen so that we can bring businesses here. But that's the whole point about the state is that we all have to work together. And some of us are able to raise more income, some of us are able to raise more land. And the tax study--the interim tax study--came back and said that generally Nebraska's taxes are fair and reasonable. So I guess I'm just interested in that and I'm also interested in the 65 percent. The Governor wants to drop ag land values to 65 percent. And I presume the Nebraska Farm Bureau is in favor of that. [LB351]

STEVE NELSON: We are. [LB351]

SENATOR PANSING BROOKS: So you're in favor of raising 20 percent and dropping to 65 percent. Is that correct? [LB351]

STEVE NELSON: Well, first of all, this bill doesn't raise income taxes 20 percent. This moves the money around. And I'm not prepared to talk about the fiscal note part of it or what that means, but it's certainly different than raising 20 percent of new income taxes. [LB351]

SENATOR PANSING BROOKS: Okay, I must have...I mischaracterized what was being said, but... [LB351]

STEVE NELSON: And so that part of it...what was the other part of your question, Senator? [LB351]

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

Education Committee
February 02, 2015

SENATOR PANSING BROOKS: Well, I'm interested in the 65 percent... [LB351]

STEVE NELSON: Oh. [LB351]

SENATOR PANSING BROOKS: ...the desire to drop valuations to 65 percent. And I'm just...I guess I'm worried about education. Where is all of this going to be coming from? And will we be able to support funding our children? Those are jobs bills in my estimation. [LB351]

STEVE NELSON: Yeah. [LB351]

SENATOR PANSING BROOKS: Funding education is our whole future. [LB351]

STEVE NELSON: Yeah. And these are jobs bills too, because agriculture is our number one industry in the state. [LB351]

SENATOR PANSING BROOKS: It is. You're right. [LB351]

STEVE NELSON: And again, we're not opposed to education. I don't...I'll talk about the 75 to 65 percent some other time, but I'd be happy to visit with you. [LB351]

SENATOR PANSING BROOKS: Okay, but you're after both of those things. Thank you. [LB351]

SENATOR SULLIVAN: Senator Groene, did you have a question? [LB351]

SENATOR GROENE: Thank you, Senator Sullivan. Maybe I could help you out, but they're not talking about 20 percent more money from income taxes going to education. They're talking about everybody getting...if we paid \$100 in my school district in income taxes, at least you get 20 percent of that back towards education. [LB351]

STEVE NELSON: That's right. [LB351]

SENATOR GROENE: Lincoln and Omaha that doesn't affect. They've been getting that. I think next year out of 245 school districts only 70 are equalized. It doesn't affect them at all. What we're basically saying here, I believe, is instead of giving a \$200 million rebate back on property taxes, let the state do what it's supposed to do and fund every child's education. It is not a local responsibility. It is the state of Nebraska's responsibility to provide a free education. And in 170 districts they are not doing their job. Is that basically what we're saying? [LB351]

STEVE NELSON: I agree. [LB351]

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

Education Committee
February 02, 2015

SENATOR GROENE: Thank you. [LB351]

SENATOR SULLIVAN: Any other questions? Thank you, Mr. Nelson. [LB351]

STEVE NELSON: Thank you. [LB351]

SENATOR PANSING BROOKS: Thank you. [LB351]

SENATOR SULLIVAN: Any other proponent testimony on LB351? Welcome. [LB351]

LAURA FIELD: Thank you, Madam Chair. Members of the committee, I'm Laura Field, L-a-u-r-a F-i-e-l-d. I'm here on behalf of Nebraska Cattlemen. I really could just kind of say, me too. I don't have a lot to add except to say that, like what Senator Brasch said and a little bit of what Steve said, we are looking at this comprehensively. We realize there's a lot of moving parts in property tax relief and education funding. And our members feel strongly about both of those issues. And we see this bill and we know there are some other proposals that have some similar parts as this one does, and we're kind of taking them all in stride and realizing that we want to be part of the bigger discussion to see what we can do that's meaningful and long term. So we just wanted to offer our support. And I don't really have anything and I know you have a long day, so I don't want to take too much of your time. [LB351]

SENATOR SULLIVAN: All right. Thank you, Ms. Field. Any questions for her? [LB351]

SENATOR GROENE: Yeah. [LB351]

SENATOR SULLIVAN: Oh, Senator Groene. [LB351]

SENATOR GROENE: There was an example where you only pay \$1 in Colorado for, I'm sure, the ranch land and then \$11 in Nebraska. Would you like to explain to folks how many acres it takes to one cow/calf operation the further you go west? [LB351]

LAURA FIELD: That's a great point. And obviously they do it a very different way in Colorado. But the further west you go, the acreage is tremendous. And depending, obviously, on how much rain there is that year, you could say you've got a cow/calf pair to 40 acres where in part of the state you could run a one-to-one ratio. So it's a very different percentage. Thank you. [LB351]

SENATOR SULLIVAN: Any other questions? Senator Cook. [LB351]

SENATOR COOK: Thank you, Madam Chair. You don't know off the top of your head what the population of Colorado is or how they fund their schools? [LB351]

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

Education Committee
February 02, 2015

LAURA FIELD: Quite a bit larger, yeah, quite a bit larger. [LB351]

SENATOR COOK: My...as I'm thinking, they probably get to export a lot of their taxes, too, with people coming in to ski and hike and etcetera. [LB351]

LAURA FIELD: It is quite a bit different and I actually lived there for quite a few years before here. But, yeah, definitely quite a significant different population. You're right. [LB351]

SENATOR COOK: Thank you. [LB351]

SENATOR SULLIVAN: Thank you, Ms. Field. [LB351]

LAURA FIELD: Thank you. [LB351]

SENATOR SULLIVAN: I wanted to also mention that Senator Morfeld has joined us after his introduction in the other committee, so glad to have you here. Any other proponent testimony? Welcome. [LB351]

JON HABBEN: Good afternoon, Senator Sullivan, members of the committee. I don't have a lot of...to add to the conversation, because you've gotten into... [LB351]

SENATOR SULLIVAN: But you'll introduce yourself first and spell your name... [LB351]

JON HABBEN: Oh, I'm sorry. Jon Habben, J-o-n H-a-b-b-e-n, Nebraska Rural Community Schools Association. You've already gotten into a number of the technical aspects of this tax and that tax. I think the question that I hear most often is, what happened to the three-legged stool? Is it permanently tilted or is it not valid that we talk about one-third from sales, one-third from property, and one-third from income? Has that philosophy changed? Should it be permanently tilted? Should it be returned to one-third, one-third, and one-third? And I think that's part of this discussion with this and several other bills, is in the discussion of technicalities, stepping back to the broader picture of, so how much should come from this or any other particular support in terms of statewide education and in terms of a local district's education? Now, having been a school superintendent for many years, I can tell you that the color of the dollar that comes in is pretty much the same. And on the one hand one could say, well, as a school district, why would you care? I think part of it comes from your district's clientele. I think part of it comes from the makeup of your boards of education. I think part of it comes from who you serve. And that's not just in the rural community school I was in. That's in the largest districts of the state as well. That should go without saying. So we come at this, maybe, from some different ideas about, what's the fair balance in this? But I guess from our perspective, this is kind of a discussion going back a number of years. It's a discussion that goes back to when income tax receipts began to go up and

there was a change that, well, we don't want to pass...we don't want a pot that collects that much money to distribute. So we reduced that a little bit. And then we reduce it a little bit. And we try to figure out what the appropriate balance is for that particular part of the revenue pie. Well, we probably want to do that with all of them. And the biggest thing that I notice, the biggest thing that I hear is, hmm, what happened to your taxes? I don't hear about levy. Everybody knows that in rural, most of the district's levies have gone down. Everybody knows that. That's no revelation. Values have gone up. Levies have come down. Now, if the values had gone way up and the levies had gone way up, we'd all be wondering, holy cow, what's going on here? But that's not what's happening. The budgets are restrained. The budgets are subject to the spending lids. So that's really less the issue. It's more a matter of, how do we reflect the proper funding both in its total amount that gets distributed for all TEEOSA and in its distribution which goes to different school districts? And the income tax rebate discussion is a part of that discussion. And I really hope that it continues to be a part of the discussion, because I think it has more to offer than what it has been offering lately in the last several years. And it may be something that helps balance that stool if we want the stool balanced. And I guess maybe that really does become the big question, because since '08/'09, if you were to draw a line straight across and in the vertical columns put the amount of TEEOSA paid into rural Nebraska, small B, C, and D schools, that void is nearly \$295 million. And that's no growth. That is just filling the void. So what has happened to those places, those rural districts? They didn't just see the state aid go away and then say, oh, we're good, we left it flat, not a problem. Even with their levies coming down, they were raising taxes to make up for that loss. And whether it's filling a reserve that had been depleted earlier, whether it was restarting a program that had been depleted earlier, those are the local decisions that they were making. But I do hope income tax rebate, along with several other things, becomes a part of that broader discussion. I think it's really important. Thank you. [LB351]

SENATOR SULLIVAN: Thank you, Mr. Habben. Senator Morfeld. [LB351]

SENATOR MORFELD: Sir, one of the things that I'm trying to grapple with and wrap my head around...and I guess, you know, you were talking about some of the biggest things that you hear. I mean, the biggest thing that I hear from folks is, they all want us to shift around the different taxes and somebody get their aid restored and have somebody else get some taken away from them. That's what I'm hearing and...but yet, nobody wants to raise taxes. I mean, that's off the table. I mean, so I'm assuming if we shift some of the state aid over to more rural schools, and then to make up for that funding that we lose because in LPS, the district I represent, we have 1,000 more students each year coming in than the last year...so we have to provide funding for those kids one way or another. And in my district, a lot of them are apartments, renters. It's not a lot of new property tax base that's being created. So I guess my question is, is your organization going to come out in support of an income tax increase to make up for this aid that we shift if we have to do that? [LB351]

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

Education Committee
February 02, 2015

JON HABBEN: Well, a couple of things: First of all, from a rural perspective, the shift has been occurring dramatically. That \$300 million or that \$295 million that I talked about, that's been added to the property tax. So as far as those folks paying extra taxes, they saw the shift coming back to them. It may have been in a property tax rather than in an income tax or in a sales tax. But they watched their taxes skyrocket in some of the places. So they see that shift as already occurring back. [LB351]

SENATOR MORFELD: But you did note that they're also lowering the levies as the property values went up as well. [LB351]

JON HABBEN: Well, sure, they're lowering the levies. That's a math calculation. [LB351]

SENATOR MORFELD: But you're...but they're seeing less state aid. [LB351]

JON HABBEN: Yes. [LB351]

SENATOR MORFELD: That...so they're lowering the levies as the property values are going up. They're seeing less state aid. [LB351]

JON HABBEN: Correct. [LB351]

SENATOR MORFELD: My issue is that my district is gaining 1,000 students every year. And so what are we supposed to do when our levy is maxed out at \$1.05? [LB351]

JON HABBEN: I think that group of schools, by the way, and there are a number of rural schools that have...that are between that \$1.00 and \$1.05, you know, a little bit of...and bang, they slap up against it pretty fast. [LB351]

SENATOR MORFELD: Yeah. [LB351]

JON HABBEN: I think all of those schools need to be...need to have attention paid to their circumstance. I don't think it's just an issue with LPS. [LB351]

SENATOR MORFELD: Certainly. [LB351]

JON HABBEN: But in TEEOSA, if I'm not mistaken, there's a student growth formula or a student growth component. [LB351]

SENATOR MORFELD: There is. [LB351]

JON HABBEN: I guess I'm assuming that that student growth component has a function

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Transcriber's Office

Education Committee
February 02, 2015

and that it translates into something that was supposed to help in the circumstances of student growth. So I guess from where I'm at, TEEOSA already has a piece in there to deal with your question. But now the question of moving taxes, the question of shifting... [LB351]

SENATOR MORFELD: Um-hum. [LB351]

JON HABBEN: I'm...it's real easy to paint things as a shift, because what people want to do is they want to see this increase in taxes, especially in ag land, but they want to see this increase in taxes as if it's, well, they just grew. And they're making more money, and so the discussion is over. That's not any kind of a shift. They just grew. Well, you can paint it that simply, or you can recognize that in that district that, say, lost \$3 million and is down to nothing and maybe they only had a \$12 million budget, their taxes have certainly, significantly, repeatedly increased during that period of time from '08/'09. They see that as, it's more weight, more responsibility has shifted onto them. The question that I'm asking is--and I think this may be where you're headed--is our three-legged stool in balance to deal with whether it's LPS or whether it's Superior or whether it's Bayard? Those are the kind of questions we're asking, is are we figuring this out in a reasonable way or have we started to set a burden that is becoming so significant in one sector that we've lost our balance? [LB351]

SENATOR MORFELD: And you are getting to what I'm saying, actually, sir. But what I'm saying in response is, in order to balance out that three-legged stool and to make up for the resources that some of these fast-growing urban districts are experiencing, we would have to increase taxes to make it work. And what I hear is that a lot of these organizations--maybe yours included, let me know if I'm wrong--want us to shift over some of this equalization aid to your district but are not willing to support us for increasing the resources needed to make up for those resources that we shift... [LB351]

JON HABBEN: I don't know that that's the case. [LB351]

SENATOR MORFELD: ...through an income tax increase or whatever the case may be. [LB351]

JON HABBEN: Yeah, I don't know that that's the case. I think... [LB351]

SENATOR MORFELD: Okay, so you guys would be in support of an increase? [LB351]

JON HABBEN: I...no, I think the focus that we're talking about has much more to do with ag land and rural property tax than anything else. You're asking me if we would simply go on record as saying, well, sure, we'll be happy to pay extra income tax without any concern to how much or why or whatever. I don't think we can say that any more than you can say the same thing about property or sales tax. [LB351]

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

Education Committee
February 02, 2015

SENATOR MORFELD: Certainly. But you're asking us to shift resources that are currently...if we're just looking at all things remaining equal, you're asking us to shift resources to some of these school districts. I'm not saying that's fair or unfair. I'm just looking at the pot of money that we have. [LB351]

JON HABBEN: Yeah, and I think that's a good question, the fair or unfair. I think that's a good question, because we're struggling with that a lot as to what's fair to your district or what's fair to your district or what's fair...we're...I mean, we really are. I think everybody has to admit this fairness issue has us arguing with each other a lot about not only the fairness of what goes in but the fairness of the distribution. [LB351]

SENATOR MORFELD: Certainly. And I'll end it with a statement. This isn't a question. I think that we're dealing with the fairness of it. The difference is that under our current tax system, the districts you represent have the ability to increase their levies and have more resources. [LB351]

JON HABBEN: That's true. [LB351]

SENATOR MORFELD: Our ability to raise those resources to make up for any shift in funding, however you want to look at it, is much more limited than yours. And that's what we're facing. I'm not saying that's right or wrong, but that's the reality we're facing. And that's a statement, not a question. [LB351]

JON HABBEN: Senator Morfeld, I would just say that a few years ago, when we were struggling on that end in rural, folks would look at us and say, why don't you just have an override vote? [LB351]

SENATOR MORFELD: Fair enough. Thank you, sir. [LB351]

SENATOR SULLIVAN: Senator Groene. [LB351]

SENATOR GROENE: Would it be fair...thank you, Chairman Sullivan. Would it be fair that, because it's all going to get asked...Kate...Senator Sullivan's, my bill, Senator Brasch's bill...none...they all have a pretty hefty fiscal note. Nobody is asking about shifting anything. What those bills are asking is if you, in Lincoln, are going to get your share of your income tax allotment, we should get it too in the rural areas, because we pay income taxes too. We're talking about adding more state aid...more money to the state aid formula. Just give us some of our income taxes back. Also, could it be said by those of us in rural areas, say--everybody is bragging about this huge reserves--that we funded it, because we haven't gotten our state aid to education, because our property taxes are paying for our schools. And that big pot of money sitting there might be a big chunk of stuff that we in rural Nebraska funded. Could it be looked at that way? [LB351]

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

Education Committee
February 02, 2015

JON HABBEN: That's a question I'm not prepared to answer, Senator. [LB351]

SENATOR GROENE: Well, I will. [LB351]

JON HABBEN: I think you went beyond me with that. (Laughter) [LB351]

SENATOR SULLIVAN: Any other questions for Mr. Habben? [LB351]

SENATOR PANSING BROOKS: I sort of do. You know, I think I'm just interested in the take on...the take in the bigger cities is that income taxes just aren't being paid mostly by...that's there's a lot of ways to cover income taxes out in western Nebraska. And so could you...that there's...income taxes, there's a lot of exemptions, every home...that's what I'm hearing. So could you speak to that for me and why that's...if that is or isn't true? You're looking quizzical, so... [LB351]

JON HABBEN: Yeah, I am. [LB351]

SENATOR PANSING BROOKS: ...I'm telling you that the view is that most farmers are able to shelter a huge portion of their income because they live on the land that they farm, so their business is their home, so every car, every single thing that's there is able to be written off. So that's the feel. So could you speak to that a little bit? I'm not saying yes or no whether or not I believe that, but if we don't bring it up, it's a like a gorilla sitting in the corner. [LB351]

JON HABBEN: Yeah, but my assumption to that is that whatever my dad as a retail businessman on small town main street could do as far as mitigating his income relative to paying income tax, he had those tools at his disposal that the state Legislature put in place. I'm assuming the same thing is...occurs in Nebraska with farmers. I don't have any reason...and I don't know that any of them are not legitimate. I don't know that any of them are unfair. [LB351]

SENATOR PANSING BROOKS: I'm not saying that they are not legitimate at all. [LB351]

JON HABBEN: I don't have a sense of your question. You know, that may be more for the accountant that fills out those tax returns than me. [LB351]

SENATOR PANSING BROOKS: And that's who I've heard from, that the farmers are not paying a lot of income tax, so they're... [LB351]

JON HABBEN: Yeah, I can't really speak to that. [LB351]

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

Education Committee
February 02, 2015

SENATOR PANSING BROOKS: I'm surprised that you can't, really. [LB351]

JON HABBEN: Well, quite honestly, having never been a farmer... [LB351]

SENATOR PANSING BROOKS: Oh, but you represent rural... [LB351]

JON HABBEN: I represent rural community schools. [LB351]

SENATOR PANSING BROOKS: Oh, okay. Excuse me, sorry. [LB351]

JON HABBEN: Yeah. Yeah. [LB351]

SENATOR PANSING BROOKS: I thought it was rural community. I didn't get the school part. [LB351]

SENATOR SULLIVAN: Senator Groene. [LB351]

SENATOR GROENE: Jon, another statement as a question, but to Senator Pansing Brooks, the Department of Revenue figures out how much each district paid in income taxes, is that correct, as a school administrator? [LB351]

JON HABBEN: Um-hum. [LB351]

SENATOR GROENE: It would be 20 percent of what they paid, not what they should have paid by some accountant in Lincoln, right? So if you cheat on your taxes and you don't pay all your taxes, the school district only gets 20 percent of what you actually paid. Is that not correct in the formula? It's not what you should have paid. It's what you paid is what the state of Nebraska calculates the formula on. [LB351]

JON HABBEN: If I understand you, yes. [LB351]

SENATOR GROENE: So what any theories or beliefs that they don't pay enough is moot. It's what you actually pay is what the state aid formula would do or does. [LB351]

JON HABBEN: Yeah, well, I have to admit in the level of the tax discussion that you're bringing questions... [LB351]

SENATOR GROENE: Formula preceded your... [LB351]

JON HABBEN: ...that's probably not something that I should testify to. [LB351]

SENATOR GROENE: Your time as a superintended of school preceded the formula? [LB351]

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Transcriber's Office

Education Committee
February 02, 2015

JON HABBEN: I started as a superintendent three years after LB1059 was passed. So it was passed in 1990, I believe, and I started in '93. But anyway, the relative merits of the three-legged stool... [LB351]

SENATOR PANSING BROOKS: Good idea. I'm sorry, I just thought it was the...that you were with the rural community association not Rural Community Schools Association. [LB351]

JON HABBEN: Oh, no, that's okay. [LB351]

SENATOR PANSING BROOKS: So I wouldn't have asked you those. Thank you. [LB351]

JON HABBEN: (Laugh) Okay. [LB351]

SENATOR PANSING BROOKS: Thank you for your testimony. [LB351]

SENATOR SULLIVAN: Thank you, Mr. Habben. Thank you. [LB351]

JON HABBEN: You're welcome. [LB351]

SENATOR SULLIVAN: (Exhibit 2) Any other proponent testimony? We'd like to read into the record that Larry Mussack from the Nebraska Corn Growers has also submitted a letter of support for LB351. Now those wishing to speak in opposition to LB351? Welcome. [LB351]

ROGER BREED: (Exhibit 3) Good afternoon. I'm Roger Breed, R-o-g-e-r B-r-e-e-d. I'm representing the Greater Nebraska Schools Association, an association of 24 equalized school districts serving approximately 200,000 of the 300,000 Nebraska public school-aged children. I'm not going to go into the finances of LB351. I just want to deal with one aspect in that it proposes to eliminate the minimum levy adjustment which is now 95 cents. The minimum levy adjustment reflects one of the original and ongoing intents of the TEEOSA formula which is to create a funding system that sets clear expectations for local investment in education that would be equitable across the state. There are more than 100 districts that are levying at \$0.80 or below at this time. This is 15 cents below the minimum levy. Of those 100 districts, 50 have levies more than 30 cents below the minimum. All of these districts have sufficient local resources when combined with the state resources they receive in the form of special education receipts and net option funding to meet their student needs even with the loss of allocated income tax. In looking at the pattern of the application of the minimum levy adjustment on both equalized and nonequalized school districts, the process appears to be working as intended. For districts that have adequate state and local resources to meet their

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

Education Committee
February 02, 2015

needs, there is a penalty, but not so severe that they cannot meet their local needs, nor are they forced to keep their levies artificially high. Since the application of the minimum levy appears to be...continued to meet the original intent of TEEOSA, we as GNSA oppose LB351 in its proposal to eliminate the minimum levy adjustment. And I'll stop there and respond to any questions that you might have. [LB351]

SENATOR SULLIVAN: Thank you, Dr. Breed. Any questions for him? Senator Kolowski. [LB351]

SENATOR KOLOWSKI: Thank you, Madam Chair. Dr. Breed, what is the average levy of the 24 districts you represent in your... [LB351]

ROGER BREED: It's \$1.05. [LB351]

SENATOR KOLOWSKI: Pardon me, sir? [LB351]

ROGER BREED: Just under \$1.05. [LB351]

SENATOR KOLOWSKI: Under \$1.05. Thank you. And some go up as high as what? [LB351]

ROGER BREED: That's just for the general fund operating. Most of those districts also have bond levies that go up to 24 and 25 cents beyond the \$1.05. [LB351]

SENATOR KOLOWSKI: Thank you. Thank you very much. [LB351]

SENATOR SULLIVAN: Senator Groene. [LB351]

SENATOR GROENE: You said you had 200,000 of the students out of the 300,000 in your 24 districts? [LB351]

ROGER BREED: Representing the GNSA, yes, sir. [LB351]

SENATOR GROENE: Of the \$862,335,000 of equalized aid, what...how much of that do your 24 districts get? [LB351]

ROGER BREED: I couldn't tell you exactly the amount. But I will say this: that at this point, the equalized state aid flows to 86 percent of the students across the state. [LB351]

SENATOR GROENE: So 14 percent of the students get none? [LB351]

ROGER BREED: They get no equalization aid. [LB351]

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

Education Committee
February 02, 2015

SENATOR GROENE: Okay. [LB351]

ROGER BREED: They still get other sources. [LB351]

SENATOR SULLIVAN: Any other questions? Senator Pansing Brooks. [LB351]

SENATOR PANSING BROOKS: I'm just interested in what other kinds of sources, please, Dr. Breed. Thank you. [LB351]

ROGER BREED: They get special education funding. They get allocated income tax rebate. They get net option funding, which are three sources that are available to all school districts regardless of resources. [LB351]

SENATOR SULLIVAN: Thank you for your testimony. [LB351]

ROGER BREED: Okay. Thank you. [LB351]

SENATOR SULLIVAN: Any other testimony in opposition to LB351? Anyone wishing to speak in a neutral capacity? Senator Brasch, for closing. [LB351]

SENATOR BRASCH: I'd like to thank everyone who testified here today and the committee. But I also wanted to elaborate on a few points that were made earlier. And it takes me back a little bit in time when Senator Pansing Brooks talked about a business decision, about a renter versus this or that. And just to put things a little bit in perspective, when you think about a farmer or a rancher...I've been married to a farmer now for over 21 years. Before that, I was from Lincoln. I went to Lincoln High just like the Speaker did, and I didn't understand farming. But what I did know is when I went before my then-to-be mother-in-law, she pulled out this green ledger sheet...so you want to marry my son, eh? Well look at here. Seed costs this much. This costs that much. Fertilizer costs this much. She went through this whole...and he owes \$20,000 to the bank, and blah, blah, blah. And he makes no money. And I said, oh, Mrs. Brasch, I'm so sorry. We can live in Lincoln. I make good money, and I'm sure I can find him a job too and he'd make good money. I have a new custom-built home and so on and so forth. And at that point there was the loudest noise you could ever imagine. And it was imagined. It was five generations of Brasch's turning over in their graves. He is the son of a farmer of the son of a farmer of the son of a farmer. And it goes back. This is a lifestyle. This is a commitment. And in those 21 years, we have sent cattle out our gate with a \$100 bill taped on their forehead. Goodbye. I saw \$60,000 go out. You know, we...you see a lot. It's not just about a business decision. It is about a commitment and individuals who are willing to go out in minus 2 degrees to do their chores. And it's more than that. And we are fair people. Farmers love education. We love our kids and grandkids like no other exactly the way people from the city, which I started out

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

Education Committee
February 02, 2015

being...we are also fair people of conscience. And the conscience I'm talking about is...today is disproportionate taxing in ag land. That's an occupation. A person may have a lot of land. But I drive by places. I see a lot of house. Some people are like a castle. I don't know how much money they make. I'm not jealous. I'm not angry. I just want taxes to be fair. And farmers, when you talk about the income, we answer to the IRS as well. And the income that we have goes right back into operations. The other day, I had to do banking remote. And I look online and I'm thinking, oh, great, I can pay this one bill here for this or that and called my husband and I said, I moved over \$2,000, so, you know that's...and said, what? That's my entire combine payment, what did you do? We have no money. I mean, the money that we put...it goes back. So we can help the economy. We put it right back in there. And the income that we don't put right back in there, we pay taxes on. We pay plenty of taxes. So have your accountants call me or whoever thinks that farmers don't pay taxes. It's disproportionate when you look at the same school district and it changes. And we do want to work with the Lincoln schools and the Omaha schools and all of...that we need but basically that...income taxes are paid here. And they will be putting more into the income tax base for education. Right now, most of the schools are only getting 2 percent of that income tax fund. So when it's 20 percent, it will be 20 percent of the income that is from Lincoln, Nebraska, or Omaha, Nebraska, or those over 1,000-population greater Nebraska schools that run along I-80 for the most part. We want to do what's right and what's fair. And I'm not saying what I've presented to you is anything I can take credit for. It is some of the greatest minds in Nebraska legislative history like Senator Warner and the list goes on. Again, the study is very interesting to read and this is a complicated issue of many, many moving parts. And this is one piece to the solution where I believe that we can bring our farmers and our nonfarmers together be it by marriage (laugh) or by a commitment to educating our kids in an equitable way. So...and I know the goodwill is here, and I know fairness...and no one wants to have one particular occupation be penalized by sharing a greater tax burden than their good neighbor would. That's what brings us apart. And if it wasn't for the late Mrs. Brasch setting me straight on, no, you're not moving my son to Lincoln (laugh), that farming has a huge greater purpose in our state moving towards the future. You know, without farming, you know, Nebraska's ag land, you know, basically...but we have some very wonderful industries that complement that. And that's what our children have done. But we want them to come back to the farm. But there has to be a living on the farm as well. And I don't know if...in general, I want to make sure that, you know, everyone here understands that hopefully we get closer to an equitable solution. We're talking property tax relief. And is it a shift or is it a share? Are we going to share this burden? And with that, I do want to thank you. If there's other questions, I, you know, I'm happy to visit with you. I think you've been on this quite a while now, and I appreciate your attention. [LB351]

SENATOR SULLIVAN: Thank you, Senator Brasch. Thank you again. [LB351]

SENATOR BRASCH: Thank you. [LB351]

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Transcriber's Office

Education Committee
February 02, 2015

SENATOR SULLIVAN: That closes the hearing on LB351. We will now move on to LB590 being introduced by Senator Friesen. Welcome. [LB351]

SENATOR FRIESEN: Welcome. Good afternoon, Senator Sullivan and the rest of the members of the Education Committee. I'm Curt Friesen, F-r-i-e-s-e-n. And I'm representing District 34, and I'm here to introduce LB590. Recognizing the importance of different economic development tools that the Legislature in 1979 gave cities the ability to use TIF, which is tax increment financing, for those projects that would not have been possible without the financial help that this program provides. One of the requirements of using this program is that a hearing must be held. And at such hearing, the governing body may approve a redevelopment plan (a) if it finds that the plan is feasible and in conformity with the general plan for the development of the city as a whole and the plan is in conformity with the legislative declarations and determinations set forth in the community development law; and it finds also that the plan uses funds authorized in Section 18-2147; that the redevelopment project in the plan would not be economically feasible without the use of tax increment financing; and the redevelopment project would not occur in the community redevelopment area without the use of tax increment financing. Recently, some municipalities have stretched the definition and intent of this program. The program was also designed that would not harm state equalization aid for those school districts in which the projects would be located by requiring the TEEOSA formula to use the base value of the property and the redevelopment area versus the actual full value. By using the lower base value, it lowers available resources that are available and thus raises the needs of a school district in the TEEOSA formula and so more and more projects that you have, the higher the equalization dollars the school receives. Though I don't think the purpose of the high number of TIF projects in some cities is to garner more state aid for school districts, it is starting to have a major impact on where TEEOSA dollars are allocated. LB590 would require the TEEOSA formula to use the full value of all property. As you can see from the fiscal note, by using the full value of these projects versus the base value, this would show a \$20.7 million savings in equalization dollars needed in the next fiscal year. It's not my intent to cut state aid to schools but rather to shift the savings toward property tax relief or to some other programs that would spread these dollars to more schools in the state and that would be, maybe, like the different education programs, the special needs programs that schools have. Currently, over 64 percent of the school districts receive no equalization aid under the current TEEOSA formula. I'm still a strong supporter of the TIF program but feel it is being abused more and more by cities and this change may help to slow down this trend. As a farmer, a businessman, and also on a previous...on a city council where we implemented the first TIF project in our small community, I do understand the projects and how they work. And I'm open to any questions. [LB590]

SENATOR SULLIVAN: Thank you, Senator Friesen. Couple thoughts: As you noted,

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Transcriber's Office

Education Committee
February 02, 2015

there would be a \$20 million decrease in state aid, but your intentions are not necessarily to hurt education. And I think, if I understood you correctly, you were indicating that perhaps then there should be a shift to putting more emphasis on other education-related programs that would go out to all school districts. Is that correct? [LB590]

SENATOR FRIESEN: That's correct. [LB590]

SENATOR SULLIVAN: And if so, what would those be? [LB590]

SENATOR FRIESEN: Well, currently special education receives funding that's totally separate from equalization money. I wouldn't mind seeing it go into those funds. I think there's needs all across the state where maybe it would be distributed a little bit more equitably among school districts. [LB590]

SENATOR SULLIVAN: So you'd prefer to see an increase in state support of some of these other kinds of things? [LB590]

SENATOR FRIESEN: Yes. [LB590]

SENATOR SULLIVAN: Okay. Thank you. Any other questions? Senator Morfeld. [LB590]

SENATOR MORFELD: Senator Friesen, you may know the answer to this, because you were on the city council before and had used TIF. In the city of Lincoln, TIF has been fairly successful in increasing property values. And in fact, my understanding is that the schools still get the base amount of property tax before the project was actually implemented. One of my concerns is that the school district, while there are some steps they could take to stop a TIF project, they're ultimately not in control of the TIF projects. So I think our school board in Lincoln gets along pretty well with our city here from what I understand, but say there was a school board and a city that didn't get along very well, and their missions really did not align in terms of what they want to do with TIF and what they don't want to. Don't you have some concern that a school doesn't have any control over what's TIFed and what's not, but yet it affects their equalization aid? [LB590]

SENATOR FRIESEN: Well, yes, there is a little bit of that concern. But there's a lot of other entities in it with the taxing authority too who are also not held harmless by TIF financing. And we just expect those to move forward without any change in their funding. They just make do. So I don't think that in the long term that this would have a huge impact on any one certain school district. When you look at the \$20 million-some dollars, I mean, it would be spread across numerous school districts. But I do think that by holding them harmless, large swaths of some cities have been declared a redevelopment area where typically we wouldn't see that in most communities. Some

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

Education Committee
February 02, 2015

communities have been very judicious in how they've chosen to use TIF and they're very precise and to the law. And others I've seen where there have been a move to use it in numerous other places where it doesn't probably meet the intent of the law back when it was written. [LB590]

SENATOR MORFELD: And as a follow-up question, Senator, in a city like Lincoln--and I've seen the numbers and the projections and then also completed projects in the past and the actual results--I think I would make a pretty good argument that TIF in Lincoln has actually decreased the reliance and the need for some equalization aid from the state in the long term. Don't you think that's possible with TIF? [LB590]

SENATOR FRIESEN: You would say it may have done that, but if you wouldn't apply that exemption, it would have been even more so that it would have decreased the need for equalization. You have the resources. When I...when we talked about doing TIF in Henderson on our project, we included our school superintendent. We brought him to the meeting and we discussed why we were doing this project and the need for it. And we always looked at situations where some places were doing it for residential development and there you're bringing in new students and at the same time decreasing the assets of the school district. Ours was more to bring in jobs, so to speak, or from that aspect. And when I've looked at some of the TIF projects, some of them when you get into retail sales and things like that, I don't think the job creation is there as much as you may be increasing the value to the district. But a lot of those projects would have happened regardless. So I'm not seeing, I guess, that if you could honestly say that those projects would not have happened were it not for TIF financing, I would buy into that. But I think some of the projects I've watched, at least, do not meet that criteria. [LB590]

SENATOR MORFELD: Certainly. And Senator, like I said, my only concern is that, number one, the school board doesn't have direct control over what's TIFed and what's not. And then number two, I think in cities that do use TIF responsibly--and, in my opinion, the city of Lincoln--I think this could actually...excuse me, I think TIF could actually decrease the need for state equalization aid in the long term. But I appreciate, you know, what you're trying to do here and I understand in some communities it may not work out that way. [LB590]

SENATOR FRIESEN: I'm not opposed to TIF. I think it's been a fantastic tool. I'm just saying that I think it's been abused. And if I can find a different loophole to close that a little bit, this just maybe puts a little pressure on to use it...those projects that are meant for TIF. [LB590]

SENATOR MORFELD: I understand. Thank you, Senator. [LB590]

SENATOR SULLIVAN: Senator Groene. [LB590]

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Transcriber's Office

Education Committee
February 02, 2015

SENATOR GROENE: Thank you, Senator Sullivan. The way I understand it is, the school district, if you're equalized, don't lose any money. I mean, the valuation isn't there, but that hole is filled in then by state aid to education because your needs are...your resources are less. So the formula still fits in. But I understand towns like Valentine, we had one in a small town in Madrid where if you're not equalized--I don't know about Henderson, but--you just plain lose the property taxes because the state aid to education does not fill the hole. And then good example is the big apartment complex here in Lincoln. Those folks will be living there 15 years in that apartment complex and not contributing any property taxes to the city of Lincoln schools because it will be TIFed. So it's...and I've got another example where a city out there TIFed 30 percent of their property. They were equalized. Well, somebody else has felt when you get 30 percent more state aid coming in because it's not in your resources, the rest of us are filling that hole for them. So there's a...I see where you're going with this, Senator. But is Henderson--I guess, long story short--is Henderson equalized? [LB590]

SENATOR FRIESEN: I will speak for my district, which is District 34, which includes part of the Henderson School District. But there is...if I saw the numbers correctly in the last estimate on equalization funds, there is no school district in my whole district that will receive equalization money. [LB590]

SENATOR SULLIVAN: Any other questions for Senator Friesen? Thank you and will you be here for closing? [LB590]

SENATOR FRIESEN: Yes. [LB590]

SENATOR SULLIVAN: Okay. Very good. [LB590]

SENATOR FRIESEN: Thank you. [LB590]

SENATOR SULLIVAN: We'll now hear proponent testimony on LB590. Anyone wishing to speak in support? Anyone wishing to speak in opposition to LB590. Welcome. [LB590]

JOHN NEAL: (Exhibit 1) Thank you. Good afternoon, Senator Sullivan and members of the Education Committee. My name is John Neal. I'm assistant to the superintendent with Lincoln Public Schools, and I'm here today representing the Greater Nebraska Schools Association. The 24 member school districts of GNSA are responsible for the education of two-thirds of all Nebraska public school-aged students. The purpose of GNSA is to collectively advocate for all Nebraska public school students. We are here today to oppose LB590. One of GNSA's legislative goals is to support legislation that reinforces local authority of local school boards. Local school boards do not have control over the utilization or the implementation of TIF projects within their districts. The

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

Education Committee
February 02, 2015

passage of LB590 would hold school boards and school districts responsible for decisions made by city governments. It would be similar to lowering the valuation property by 10 percent per individual property tax holders but then holding the school district accountable for the 10 percent gap in valuation. For this reason, GNSA is opposed to LB590. I thank you very much for allowing me to share these brief comments from GNSA and I would be happy to try to answer any questions. [LB590]

SENATOR SULLIVAN: (Exhibits 2, 3) Thank you, Mr. Neal. Any questions? All right. Thank you for your testimony. Continuing opposition for LB590? I would like to read into the record that we have two letters of opposition for this bill: L. Lynn Rex, executive director of the League of Nebraska Municipalities as well as Dave Landis, director for the city of Lincoln of the Urban Development Department. Anyone wishing to speak in a neutral capacity for LB590? Senator Friesen, for your closing. [LB590]

SENATOR FRIESEN: Thank you, Chairman Sullivan. I'll just go back and address a little bit. I mean, we keep saying that schools are going to be held accountable for all this. Well, the NRDs in those districts, they're also losing out on tax dollars. So are the county boards. Go down the list...the historical societies, everybody is taking their hit. And no one is allowed to not be held accountable for that loss. I mean, they have to make it up either in raising their levy that they levy against property or they find other ways to produce that revenue. So school districts I don't feel should be any different. They have their ways of raising revenue also. They should be held to the same standard as any of the other boards that are dependent upon those property tax levies. So from that aspect, I don't feel that any harm is done. In the long run, when the 15 years are up, everybody gets their cut of the action and you look at it as long-term economic development. I mean, all the communities and all the whole state then enjoys that prosperity that that brings through job creation and whatever else. So I'm a strong supporter of TIF financing. I just...my only concern is that...how it impacts equalization aid at this point. And so, any further questions? Otherwise, thank you very much. [LB590]

SENATOR SULLIVAN: Just one question in that you're a proponent of TIF. You think perhaps it's been abused and that you're looking at this...as LB590 as a possible way to curb that abuse? Have you looked at other alternatives as well? [LB590]

SENATOR FRIESEN: Well, I looked at some other wording and stuff. And then you start to tie cities' hands a lot in how they're going to use TIF. I don't like to get it narrowed too much that they can't be creative in using it, because I do feel it's a good program. And so by doing it this way, I mean...I'm open to any other suggestions. By doing it this way, I thought there would...you know, a city would maybe stop and think a little bit and see how it impacts their area as a whole before they just randomly take on and do TIF projects. [LB590]

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

Education Committee
February 02, 2015

SENATOR SULLIVAN: Okay. Any other questions for...Senator Morfeld. [LB590]

SENATOR MORFELD: Just for the record, Senator, I don't think you're anti-TIF. (Laughter) So, didn't mean to come across that way. [LB590]

SENATOR FRIESEN: Thank you. [LB590]

SENATOR SULLIVAN: Any other questions? Thank you very much. [LB590]

SENATOR FRIESEN: Thank you. [LB590]

SENATOR SULLIVAN: This closes the hearing on LB590. We'll now move on to LB58 being introduced by Senator Scheer. Welcome. [LB590]

SENATOR SCHEER: Thank you, Senator Sullivan and esteemed colleagues on the Education Committee. My name is Jim Scheer, S-c-h-e-e-r, representing District 19 in the Legislature. I'm here to introduce LB58 to the Education Committee today. It's a fairly simple idea. It's fairly wordy as far as the bill goes. But essentially, it's taking the TEEOSA formula for the previous year of this and the current year's TEEOSA formula. It would take last year's TEEOSA formula and those schools that are equalized would be funded off of that formula. Those school districts have already lived with the limitations of that school district. If it stayed stagnant it also gives some continuity to TEEOSA because it's not being ratcheted around every year to either maneuver the amount of available dollars but hopefully would start having some relevancy to the need for education. The second TEEOSA formula, that one that we are in this year, had some modifications done that brought more dollars into TEEOSA this year than last year. According to the fiscal note, that is somewhere in the neighborhood of \$27.5 million. The difference between those two TEEOSA formulas, the \$27.5 million by this bill, then would be brought back to all unequalized school districts and apportioned out on a per-student basis. So if you had 86 students, you would receive 86 times whatever the per-student amount is. If you had 384 or 1,452 or whatever that amount be, it would be multiplied by that student proportionate amount and brought back to the local districts that are unequalized. But the bill also specifies that those dollars coming back have to be a direct correlation to the tax request. So it has to come off of their property tax asking. If that were in place this year, based on my office's calculations--and I'm not going to say we're perfect; I think we'll be in the ballpark--but it would equate to about a \$629 foundational aid or a second-tier TEEOSA or whatever terminology you would like to utilize. But it does get some funding back to those districts that are not equalized. And each year that I've been here, and it's starting to accelerate, we have more and more districts that are nonequalized. And if we're going to try to provide some property tax relief on a statewide basis, it appeared to me that this was probably the first and the best place to start, because those districts that are unequalized essentially are paying for education strictly from their local property tax asking. So this foundational aid or

proportionate aid per student between the two formulas would help offset their tax asking on a per-district basis. And it would force property tax relief simply because of, it has to go back against their tax asking from a district perspective. It's complicated more so in the bill than what it really is. It talks about the two TEEOSA formulas. From my perspective, the two years that I was in your chairs, and I'm sure from Senator Sullivan's vantage point for the last six years that she's been on the committee, we continue to hear, you know, leave the formula alone. Let the formula run its course. Let it determine the values. This would do that. We have a formula that would be in place that would be funding those that would be receiving state aid, those that would be equalized. The second formula would produce whatever amount of money it would produce. The difference then would go to those unequalized districts on a per-student basis in the form of some tax relief that would come off of those districts' financial request for property tax. It seems more complicated than it is, but it's really quite simple. We're going to run the formula twice. The districts that are equalized are going to live off the first one. And by the way, they already have. So it's not trying to introduce something that has no semblance of something that has worked. It did work. It was in place a year ago. And we're taking another TEEOSA formula that worked--it's working this year--running it so that we have two set standards that would produce a secondary amount. The difference between the two would go back to unequalized districts. With that, I'd be glad to answer any questions. [LB58]

SENATOR SULLIVAN: Thank you, Senator Scheer. So under this scenario, you're showing an additional expenditure, with the emergency clause I think you've added to your bill, goes into effect this year adding about \$27 million additional expenditures that would go out to those nonequalized... [LB58]

SENATOR SCHEER: Well, I don't believe...the fiscal note implies the \$27 million. But we're already spending the \$27 million, because all this does is takes the difference between the two bills. And in this case you are spending whatever you are spending with TEEOSA. So if the TEEOSA was going up \$27 million based on this year's formula, then indeed it may cost \$27 million more. But I'm not changing the formula. The formula...the second formula that we're using is exactly what's in place now. So if it goes up, it goes up. I'm not forcing it to go up. It's going up because the needs are there to justify that going up. The two TEEOSA formulas were already in place. And from the vantage point of the secondary one, the one that's going to be producing more money than last year's...is in place right now. So if it...if the A bill or the fiscal note is showing \$27.5 million--which I don't dispute it might--as that's the difference or that's the amount that's going up, that's because the formula says it needs to go up \$27.5 million. That's not because this bill forces it to go up. It flows with the formula. It has no effect. It turned no knobs. It didn't change a thing. And so from the vantage point of a fiscal note, this is not additional dollars. It indeed may go up, but not because of the bill, because the formula is already in place. [LB58]

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Transcriber's Office

Education Committee
February 02, 2015

SENATOR SULLIVAN: And then as far as this going specifically to the nonequalized school districts to actually be used for property tax relief... [LB58]

SENATOR SCHEER: Correct. [LB58]

SENATOR SULLIVAN: ...I don't quite follow you in terms of what mechanism will ensure that that happens. [LB58]

SENATOR SCHEER: It is in the bill. It requires that when the district finalizes its budget, the amount that will be coming from the state on a Tier II basis or a per student basis, whatever terminology we choose to use. If a district has a prefunded tax request of \$1 million, and if they're going to get \$50,000 from the state through this formula mechanism, then they can only request \$950,000 from property tax, where because they're unequalized they would have been requesting the full \$1 million from property values. [LB58]

SENATOR SULLIVAN: Okay. Thank you. Any other questions for Senator Scheer? Senator Kolowski. [LB58]

SENATOR KOLOWSKI: Thank you, Madam Chair. Senator Scheer, thank you for being here today, Jim. It's good to see you again. The unequalized schools getting this additional shot of money, when they're sitting at levies, that could be 20, 30, 50 cents less than what metro schools are putting out. How do you answer that or justify that? [LB58]

SENATOR SCHEER: How do I justify that? Well, I justify it from the vantage point that the purpose of the bill goes back to the escalation of property values from a rural standpoint going up and the lack thereof of residential. In the last five years, for example, and I don't have the exact information in front of me, but in 2010, I believe, ag values on a statewide basis went up 11 (percent) and change. Residential went up just a smidgen over 1 percent. And that was the same for 2011. I think 2012 ag went up about 13 percent. Residential went up about 1.3. But then in 2013, ag went up about 19 percent, 19.48, and again, my memory is...you know, I'm getting old. But residential only went up about 1.4 or 1.5 percent. And this last year, agricultural went up about 29-point-some-change percent statewide average. Residential statewide average was about 2.3 or maybe 3 percent, somewhere in that vicinity. So literally, their valuations have been going up ten times as much. And I'm trying to also maybe detach some of the symbolism of property value, property mill levy, to the extent of the check. So from an ag land owner or a ranch owner...and, again, specific example, a farm in Madison County that in 2010 produced about \$10,000 and change for property tax this last May wrote a check for almost \$25,000 in tax. Now, I can appreciate your point, for example, in Millard or Omaha or any of those that are frozen at \$1.05. And the state is going to continue to pick up that percentage. But those residential homeowners, quite probably,

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

Education Committee
February 02, 2015

if they were paying \$3,000 for their property tax on a home for whatever value that might be, in 2014 they were probably maybe paying \$3,500. So from a proportionate standpoint, a very modest change in the check. Those in agriculture had a huge impact on the check. And so because the values went up, the mill levy goes down, but just like you writing the property tax, we don't really care so much how it was figured. We just care about the check. And so I'm trying to provide some type of help in those rural areas from a farm or a ranch land perspective for the check and help to equalize...we talk about equalizing, well trying to equalize how quickly and how rapidly those values have increased in one segment versus the other. And I would venture to say that if you went back to 1991 or '92 when TEEOSA was first developed, I truly believe it was the intent of that legislation that both of those values, both ag values and residential values, over long periods of time would somewhat mirror. But over the...truly at least the last ten years, that hasn't been the case. And one has really gotten out of whack compared to the other. And so this is...this really is...the intent of this is to try to go back. I'm not fixing the problem. But I'm trying to give them a little bit of the skin in the game so that everyone can feel that at least we're trying to respond to their issues. And that would be their issue. Their issue is the check. [LB58]

SENATOR KOLOWSKI: And that land had gone up and has gone up in farm and ranch land. And if you're selling that land, that's a very good thing for you. You like it to be there, because... [LB58]

SENATOR SCHEER: Absolutely. The problem is... [LB58]

SENATOR KOLOWSKI: ...you're taking a big check on that. [LB58]

SENATOR SCHEER: That would be true, Senator. The problem with that scenario is though probably less than 2 percent--I'm going to guess maybe 1 percent--of ag ground is sold in any given year. And so that can make a...you can say, well, you know, they made a lot of money this last year, because their ag value went up 30 percent. Well, on my financial statement that may be the case if you're a farmer or a rancher. But just like the institutional investor or the investor that may own stocks and equities, if he owned Berkshire Hathaway or Nucor Steel or whatever else they may choose to invest in, if that stock went up 10 percent or 50 percent in any given year, if they haven't sold it or there's no intention to sell it, the increase in value really didn't help that individual. And...but the difference... [LB58]

SENATOR KOLOWSKI: Commodity classes would be the difference. [LB58]

SENATOR SCHEER: But the difference here is that land is taxed on that appreciated value where no other investment vehicle in the state of Nebraska is taxed. So we need to be cognizant of...that it is somewhat of an isolated investment that we choose to tax on a statewide basis. This doesn't solve all the ills, but it might be a good starting point

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

Education Committee
February 02, 2015

to try to redirect some funds back to the unequalized school districts. And as...I don't envy this committee. I truly don't. And I'm not being flippant when I say this. You know, looking at your first printouts, we're going to be up to 159 nonequalized school districts out of, I believe, 239, again, if we don't do anything with the formula. My gosh, that's almost two-thirds of the school districts that will be nonequalized. And at some point in time, there's got to be a tipping point where we're going to have to change things. This is my attempt--and I think a modest attempt--to try to equalize that so we don't tip it over and it sort of helps start to equalize that so that those 159 school districts feel some share of equalization with the others, certainly not in proportion. Those other districts...I'm not trying to imply those other districts don't have other needs and dollars that are necessary because of the lack of property valuation. But that doesn't mean from a state policy perspective that we shouldn't try to also direct some of those funds to the others that aren't receiving it. [LB58]

SENATOR KOLOWSKI: There's also the fact that property values declined from 2008 up to our present day and we were still paying the same taxes or larger taxes on our same homes or rental properties or anything else that we may have had during that same time. So there's two different worlds going on there. [LB58]

SENATOR SCHEER: Certainly. You may be paying more. Again, the amount more that would be paid in those that...bear in mind, you're living in a district that does receive equalization aid. Those that...for example in the Omaha area, the equalization aid for OPS, I'm going to guess, is maybe over 50 percent of their budget for any given year. So the state is working to help offset those additional expenses for those districts like Millard and the rest that are equalized. The state acknowledges that there is a commitment to do that. I'm just asking that this committee and the state might also acknowledge that we may have a commitment to try to help offset some of that higher escalating values that have now put so many districts outside of the equalization aid. [LB58]

SENATOR SULLIVAN: Any other questions? Will you be here for closing? [LB58]

SENATOR SCHEER: I suppose. I don't think I have a preponderance of people. I've not contacted anyone to speak in support, and I imagine there might be somebody here opposed again. So it may not take long. [LB58]

SENATOR SULLIVAN: Okay. Very good. Very good. Anyone wishing to speak in support of LB58? Anyone wishing to speak in opposition? Welcome back. [LB58]

ROGER BREED: (Exhibit 1) Senator Sullivan, members of the committee, I'm Roger Breed, R-o-g-e-r B-r-e-e-d--that hasn't changed--representing the Greater Nebraska Schools Association and here, apparently, singing a "no" song once again. We're here today to oppose LB58 as introduced. First of all, this bill seeks to distribute just under

\$26.4 million to nonequalized school districts based upon a proportionate number of students. By operation of the TEEOSA formula, a school district is nonequalized because it has adequate resources locally and does not require additional support from the state of Nebraska. That's the first objection. The second objection is that the bill fails to identify the additional funding for the \$26.4 million. Given this position, one can assume that the money would have been intended to go to those districts that are equalized and, therefore, you're taking away out of one pocket, putting it in the other. Again, by definition in operation of TEEOSA, equalized districts do not have adequate local resources to educate their students. Finally, there are several technical issues with the bill and Senator Scheer mentioned a couple of those. The number of students...one is left to guess whether this is a head count, a formula student, an average daily attendance, or average daily membership. Does it include preschool students? How does it account for the difference between full- or half-day kindergarten programs? At what point in the school year is this information based on? Equally important is the stated intended use of the funds and what is the accountability mechanism to make sure that that desired outcome is actually achieved? So in summary, LB58 does not provide students with an equitable opportunity and seeks to work against those school districts with the highest financial needs while rewarding school districts that already, at least according to TEEOSA, have adequate local resources. With those statements, I'll respond to questions. [LB58]

SENATOR SULLIVAN: Thank you, Dr. Breed, appreciate your testimony. Recognizing your association's support and belief in the equalization component of the formula and that the nonequalized districts have the ability through their levies to provide an increase in their local resources but recognizing, as what Senator Scheer has made the point of saying, is that in spite of these low local levies, we have seen taxpayers, because of the increasing land values, pay a significant larger portion for their taxes. How do you balance the concept of equalization with some of those concerns? [LB58]

ROGER BREED: Well, historically, you know, I've been a school administrator since 1985. And my first year as a school superintendent was in Axtell where you heard from Steve Nelson just a little while ago. And Steve was a young parent in the school district at that time. Now he and I are both old people. But the issue then was, as it is today, an overburden on property taxpayers in terms of what we set aside for funding of school purposes. If we want to address that--you know, Jon Habben calls it the three-legged stool--then that needs to take a comprehensive look at addressing and formulating a tax policy that raises some, lowers some, but assures all students in all school districts equitable resources. TEEOSA, in my opinion, would be the mechanism to do that if it was properly funded. It has not been properly funded, not through the fault of this committee or others, but through the pressures of economics over time. We're now 20 years, 25 years past the founding of TEEOSA. And I do not think our funding has kept up with that to meet its original purposes of driving levies into a narrow range; providing adequate support across all school districts; and providing its first two names, tax

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

Education Committee
February 02, 2015

equity, across the state. And yet I'm a realist enough to know that chances are they're not going to appoint me as the tax administrator (laughter) and allow me to set that. So it is a difficult problem. I guess that's a long answer to say, we need to study it further, and if we're serious about addressing those concerns and looking at a policy to set us up for the next 20 years, that we need to study that and do that cautiously, carefully, and with great calculation. [LB58]

SENATOR SULLIVAN: Thank you, Dr. Breed. Any other questions for him? Thank you for your testimony. [LB58]

ROGER BREED: Okay. Thank you. [LB58]

SENATOR SULLIVAN: Anyone else wishing to speak in opposition to LB58? Anyone wishing to speak in a neutral capacity? Senator Scheer. [LB58]

SENATOR SCHEER: Wow, I'm feeling good already. (Laughter) Thank you, Senator Sullivan. Very shortly, what Dr. Breed said I certainly expected him to say and fully understand their perspective. However, please remember that what this is doing is using a TEEOSA formula that was in place, that was fully funding education a year ago. But we...but this committee and its members last year changed some of the dials to try to bring more dollars into TEEOSA, because if the truth be known, if we had left the formula alone for this year, the TEEOSA funding actually would have went down about \$6 million or \$7 million. It would have gone down, I believe, to \$899 million or \$896 million or somewhere in there. But...we'll call it stagnant, but I believe it actually went down a little bit. And because we had a budget that said we thought it was going to spend around the \$940 millions, the committee worked on some avenues to try to increase the funding, because essentially the money was there in the budget. It wasn't that anything changed, but we thought we could put more dollars in. So from my perspective, you have a formula that was working, that was fully funded a year ago. That would go into place for equalized school districts. So now from the perspective of the GNSA, you are still funding that. You're not taking away any funds from TEEOSA via that formula. And the formula worked and they lived by it. There is a second formula that indeed is in place this year that produces some more dollars. And all we're doing is taking the difference between those two to help bring some type of relief to those unequalized school districts that are continuing in numbers to grow. Now bear in mind, those numbers are growing, but so is TEEOSA. And so the state is providing more dollars to TEEOSA. Even the first formula would produce more dollars this year than it did last year. So we are producing more dollars. There would be some dollars. But there's no additional dollars. It's not at the expense of the other school districts. That formula would be fully funded. So there is no loss of funding. We're just using the difference between those to help provide some type of property tax relief to the smaller districts that are unequalized which continue to grow, that simple. And any final question I'd be glad to answer, but that's it. [LB58]

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Transcriber's Office

Education Committee
February 02, 2015

SENATOR SULLIVAN: Thank you, Senator Scheer. Any questions for him? Thank you. [LB58]

SENATOR SCHEER: Thank you so much. [LB58]

SENATOR SULLIVAN: Um-hum. That closes the hearing on LB58. We will now move on to the next one, LB444 to be introduced by Senator Groene. Welcome. [LB58]

SENATOR GROENE: Thank you, Senator Sullivan, Chairman, and my colleagues on the Education Committee. I guess I'm not as bold as Senator Brasch or after reading Senator Sullivan's bill. Mine... [LB444]

SENATOR SULLIVAN: Can you spell your name first, please? [LB444]

SENATOR GROENE: (Exhibit 1) Mike, M-i-k-e, Groene, G-r-o-e-n-e. But it's in the same train of trying to get some property tax relief, trying to get some true equalization in funding for our schools for all students across the state. Basically what my bill would do would...the present TEEOSA formula that governs state aid to public education penalizes school boards in two distinct ways if they set their local effort property tax levy below \$0.95. Equalized school districts lose a portion of their equalization aid. Certain ones do. Nonequalized school districts lose their allocated income tax. LB444 will eliminate those penalties and allow local school boards to exert true local control in setting their local property tax levy at or below the minimum without losing TEEOSA aid. This bill does not change the maximum property tax levy rate allowable of \$1.05. Just the...in my district, Wallace loses all of its state aid...well, of its income tax rebate of \$17,618. And to clarify what that is: The Revenue Department figures out how much income taxes were collected in a school district, and then that number is stuck into the formula. And I didn't realize it was averaged out to less than 2 percent or a little over only 2 percent back is what Senator Brasch said. I thought it might be more. But that's where that number comes from. It's...has nothing to do with somebody not paying enough taxes or paying too little taxes or too much taxes. It's based on what we actually pay in that...every school district. So what the formula was meant to do is to fulfil the state's obligation to supply a free education to students from 5 to 21. That's in our state constitution. And it's their duty, the state, not the local school district, to fund that education, to supply that free education. I got another district that's--Hershey--that loses its...keeps its allocated...its income tax rebate, because it keeps its mill levy at \$0.95. But it does lose some state aid because it's penalized because its reserves are too high. So it starts losing money that way. And we...keeping that aid, that mill levy artificially high, it does not encourage fiscal responsibility at the local school board, because if you drop it below \$0.95, you start losing aid. And some of those that are right on the edge, like let's say at Gothenburg, Hershey, they start losing it if they drop it. Eventually they are forced to drop it because their reserves get so high. I think Gothenburg that's just

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Transcriber's Office

Education Committee
February 02, 2015

across the line from mine had a 70-some percent reserve, because the school board and its superintendents said, well, we're not going to go below \$0.95. We'll lose \$10 of state aid. This will allow this local school board to say, no, we don't need all those assets. We're going to keep our state aid but we're going to this year lower our property tax levy because we don't need all that money. But anyway, so that's what I want to do, is just allow the people real, true local control where you can set your mill levy where you deem it appropriate for your school. In a small...I had a superintendent tell me he had a special need's student that was...went through the whole system, 18 years, and graduated. That was the only one they had. They were lucky. The 150/200 students in the small school districts had no more special needs. They could drastically have cut their spending on special needs because they had no student there. But they couldn't do it, because they couldn't lower their mill levy as much as they wanted to because they couldn't let some employees go and not hire those anymore because they had none. Believe it or not, every kid was, as Garrison Keillor said, above average that next year or two. So anyway...but they were not allowed to manage their own funds. So anyway, that's what I want to do. Now I want to talk about some of the things that happened here. Let's compare land to gold. God don't make any more. There's an awful lot of land being bought in Nebraska and across the country by people who do not plan on ever farming. And they don't care if it generates a cash flow. They do it as an investment. Ted Turner has driven up the prices of ranch land across western Nebraska. It's...the rancher who's third or fourth generation, he didn't go out and bid the land up. He knows what it takes to cash flow. It's been in the family for years. He doesn't look at that land as an asset. It's like I had a conversation with a county commissioner once who said, but Mike, we've lowered your mill levy. I said, Commissioner, when you show me what a mill looks like, I'll pay my taxes in it. But until then I will judge my property taxes in dollars. So it's just like...it's an investment by a lot of people. There is a retirement, a teacher's retirement out of Delaware that has come out and bought a bunch of land and put it in their funds and driven up the price in western Nebraska. To the farmer, he doesn't look at that land as cash. How would you like it if you were a lawyer and you...or a CPA or a medical doctor or a Ph.D. in education and we said, we are going to put a tax on those degrees, because they are worth money? They generate cash. That's what you're doing to a farmer. You're putting a tax...a high tax on what it takes for him to make a living. And that doesn't automatically turn into income. And Senator Sullivan and Senator Kolowski, the first time I met you guys a little bit, I testified down at Crete at a hearing and you had superintendent administrators up there talking...defending TEEOSA and the formula. And as I went up there and testified and told you, there was an elderly lady. And her and her husband had 900 acres, I think it was, for...in their family for years. First year they made about \$80,000. They finally made some money off it, \$80,000. They paid \$27,000 in property tax on that 900 acres. That superintendent of schools at that Class B school was probably making \$150,000, living in a \$300,000 house. He probably paid, what, \$4,000 or \$5,000 to support his local school district where he made his living, where that elderly couple paid \$27,000 to make \$75,000 to support that same school district. The land is

working capital. It is not cash. Most farmers go to their grave never selling their farm. They give it to the next generation and that's the same with the rancher. It is a working capital. To equate it to cash, which it is not, is wrong. A farmer...Senator Scheer made the comment. Warren Buffet, he can have all the money in the world and he pays no property taxes on it. He's going to pay capital gains on it someday when he sells it. A farmer will pay for his land with principal, interest. Property taxes, you take 2 percent a year to...that's 50 years he pays for it again in property taxes. And he also will pay capital gains on it when his kids are...his heirs sell it. So he will pay too. So there's something wrong with the system when you say, well you've got local resources. You do not have any more local resources than the day you have this land. You've owned it. Just because Ted Turner came into town and bought some land and drove up the valuation...you didn't do that. It's like one farmer told me once. He said, you know, my neighbor, he always complained about taxes and, I mean, he complained about Reagan at that time broke him as a farmer. And on the day they sold him out on the courthouse...because he paid too much for his land, he went up to him and said, you know, I didn't bid that land up and I'm doing just fine. So don't complain that you paid too much for the land. But the point is, most land doesn't change hands. It doesn't change hands at all. It's generational. So somebody comes into a county and school district and bids up the land and drives up the valuation, everybody's taxes go up. And they had no part in that, no part at all in that. So when...we have a problem here, folks. And my bill, Senator Brasch's, Senator Sullivan's, does not take any aid away from anybody else. It just makes sure that the state of Nebraska does its job of funding the schools a little bit at least. You know, our state constitution, I already stated it...but you go back in the 1960s when Tiemann was Governor, when we went to an income and sales tax, what was added into our state constitution, what...one of the most clear statements in the whole constitution is, Section 1A of Article VIII: levy of property tax for state purposes prohibited. "The states shall be prohibited from levying a property tax for state purposes." Now you all...then you go back to Article VII, education, "The Legislature shall provide for the free instruction in the common schools of this state of all persons between the ages of five and twenty-one." It doesn't...it's a state purpose, public education. So this argument about who's paying for what and who's going to get the state aid, really, I really don't care what your property tax rate is then in Omaha or Lincoln, don't. It's really not any of your business if we got local schools what we have out west. If you want to go per capita, why don't we go per capita? Everyone has to pay so much for state aid to education. You would be amazed what the per capita portion is for a farmer or a rural person to support aid to education. It's amazing what they do. So anyway, we need to fix it. Like I said earlier, you know, that big pot of gold that's sitting there everybody wants to split up on the reserves, a big chunk of that was paid for by agriculture, because our valuations went up. We were "thrown" out...kicked out of the TEEOSA formula. And so extra money is there that probably would have went to the TEEOSA formula if the valuations in land hadn't gone up so much. Couple of points: Like I said, I don't judge my taxes in valuations or mill levies. And the line in the movie that said, follow the money, school districts...I got a table from the Revenue

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

Education Committee
February 02, 2015

Department, the property tax assessor...assessment division. Since...I only got it till 2013. Property taxes paid to school districts has gone from \$1.2 billion to \$2.02 billion, a 61.5 percent increase. Community colleges, property taxes went 224 percent from \$75 million to \$169 million--now, these are what we pay our taxes in, dollars--Education Service Unit, \$16.5 million to \$27.9 million, an increase of 69 percent. Now, if a...most formulas, when I was in math...if you have a set amount and one of the variables goes up, the other one should come down. This went up 62 percent. Guess what state aid to education did in the last ten years. It went up 48 percent. Students have been about a 5 percent increase. We've got a spending problem, folks. Go back and look what your administrators are being paid. Go back and look at the...nobody is talking about teachers being underpaid anymore. But look at your average teacher pay versus a family income in the state of Nebraska, one salary versus a family income. We've done well by them. Maybe it's time to look at the spending also, which I'll do tomorrow. But anyway, we've got huge increases of money flowing into this system, huge amounts. Nobody should apologize in the state of Nebraska. Now, we could argue all day, did the money turn into Johnny reading better in the 3rd grade? I would say, no. I would say, you couldn't show me a study nationwide where more money increases outcomes in our schools. But we've thrown a lot of money at it. We tried that. But anyway, just remember, you might go out and buy a farm for an investment. But I bet you didn't go to college to get a law degree or a CPA or a doctorate in education because you thought you could turn around and sell it and make a buck. That's how you make your living. To a farmer, it's his land. To your doctor of Juris...your Juris Doctorate, your Ph.D. in education, that's your assets you make your money off. Land is what a farmer makes his land...money off of. He's not going to sell it and go to Vegas. He's going to die on that land. So whatever the value is is meaningless to him. All he knows is he pays way too many taxes on it. So thank you. [LB444]

SENATOR SULLIVAN: Any questions for senator? Okay. Thank you. [LB444]

SENATOR GROENE: I didn't think there would be. Thank you. They all got asked earlier. [LB444]

SENATOR SULLIVAN: We will now hear proponent testimony on LB444. Anyone wishing to speak in opposition? Anyone interested in speaking in neutral capacity for LB444? [LB444]

SENATOR GROENE: Thank you, Senator Sullivan. Can I rig this thing and have my aide testify if I have to? (Laughter) No, I didn't...this is pretty redundant and yours is going to be pretty similar, Senator Sullivan. But the point is this: Nobody is...let's not all check our pocketbooks and worry that somebody is taking money and taking aid from me if I don't...if somebody else gets their income taxes back. And I think I've answered that. But we are talking about income taxes that people pay in that district. We're trying to straighten out the formula that at least the state gives 20 percent or my point...my

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

Education Committee
February 02, 2015

deal was just 2 percent. My fiscal bill was \$8.3 million. It was basically what the minus...because they take it away from a lot of unequalized districts. But the point is, give them the aid. We're increasing it. This shell game of taking too much money in income and sales taxes and then giving a rebate back on property taxes is wrong. Let's fund it right. Let's take this money to a state responsibilities, the education and let the local people control their property taxes. By our state constitution, property taxes are a purview of the local governments. It's not the state's. It should have never been that way. I know there was a court case once where somebody brought that up and they lost and they said the state could do it. But I don't think that court case...it was on the fact that the government...the state said you should give property taxes towards schools. But I don't think there was a court case where the state said, you have to pay \$1.05 and you have to pay 95 cents. Now we're talking a mandate and not a recommendation...a little bit different. So thank you. [LB444]

SENATOR SULLIVAN: Just a minute. Just a minute. Senator Pansing Brooks. [LB444]

SENATOR PANSING BROOKS: Thank you. Well, I just wanted to just add in that I don't think the...my law degree is in the same realm, because, you know, if you talk about our law firm, then that I would agree is more similar. We pay corporate and business taxes on our law firm for the privilege of doing business in this state and have the ability to then, you know, bring people in and...or sell part of the business if we chose to do it that way. There are ways to do that. So that's one thing. But I guess I'm interested in your take on...I understand that in a state, especially a unique state like Nebraska, we have two major metropolitan areas and then we have smaller communities across the rest of the state and some areas where there is not a very high population. So I'm going back to the telecom thing. I would think that most of the western part of the state would be in favor of Lincoln and Omaha paying to make sure that we cover the broadband capabilities and have ubiquitous coverage across the state which would mean Lincoln and Omaha would be paying a lot more money to cover that portion of the state to bring in business, to educate the children, to make sure the schools have internet connections or...and any businesses. So in a state like this where we are not in a high population state with major metropolitan centers all the way across, there is an inherent inequity. So what is your perspective on...I mean, either we could talk about secession and then that does no good for our state. So my feeling is that there are weaknesses and great attributes in each part of the state. And we have to help each other out. That's part of the joy of being one of the 50 states, is that we can work together. We can...we are stronger together than we are apart. And the western part of the state will grow from the fact that Lincoln and Omaha will help pay for that broadband which we already have all over and we have great coverage. And some of the western part of the state has to help with the great poverty and the great needs that we're having in our cities right now. And otherwise, if you don't want to do that, we have to totally come to some sort of different agreement in our government, where the western part deals with itself and the two cities deal with itself. Do you have some thought on that? [LB444]

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

Education Committee
February 02, 2015

SENATOR GROENE: Well, on the broadband thing, I've got a cabin up in the middle of nowhere on the Loup River and I've got this little "hotbox" and I got all the internet I want. So I really don't know why we got to lay all this cable. But that's somebody making a buck. But anyway, that is not...to my district and the farmers I know, this broadband thing is...I don't think it's being pushed by the end user. I think it's being pushed by the folks who can make a buck laying the line. And that's just being blunt. But that's not a big problem out there. Everybody has access to the internet out there. [LB444]

SENATOR PANSING BROOKS: That's not what I hear in the Panhandle, but okay. [LB444]

SENATOR GROENE: Well, I live in the district. [LB444]

SENATOR PANSING BROOKS: Okay. [LB444]

SENATOR GROENE: And I've traveled that whole area where only the chicken hawks and the coyotes and a few brave ranchers live, and I've always had internet. I've always had GPS. And it's...but anyway, that's not...I don't think that's a fair trade-off. What is a fair trade-off is if I pay income taxes and I pay sales taxes, could I have some of it back for uses in the west? Would that be so much to ask, that I get 20 percent of it back that I've paid into the state of Nebraska to educate our children out there? We're getting none. You guys are getting my income and sales taxes. You're getting my kids. You're getting my granddaughter who's at Wesleyan. Folks aren't flocking out west. They're still flocking to the cities, even if you claim there's a...the poverty is so bad that nobody wants to live there. [LB444]

SENATOR PANSING BROOKS: I do want to live here. [LB444]

SENATOR GROENE: But just give our money back. We'll raise our children. We've done a pretty good job. But we want our...if we pay taxes, we want it back, because I don't see how that's too much to ask, because when you end it...I mean, when we come down here we pay all the taxes down here and we help out down here. We send our kids here. They go to the malls and do their Christmas shopping. We come down here, we go to your restaurants and help build your Pinnacle Arena. But I don't want to get into what...who does what. This isn't a feud. [LB444]

SENATOR PANSING BROOKS: It shouldn't be. You're right. [LB444]

SENATOR GROENE: This is, we have children. We pay income taxes. We pay sales tax. Can we have some of it back to a state-mandated need, constitutional-mandated need? Could we have some of it back? That's what we're asking here. We're not trying to take it from you, the cities. We're trying to just get our...a fiscal conservative is going

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

Education Committee
February 02, 2015

to say it, but can I have my fair share too? Anyway... [LB444]

SENATOR SULLIVAN: Senator Morfeld, did you have a question? [LB444]

SENATOR MORFELD: I do. [LB444]

SENATOR GROENE: Oh, I thought I was done. I'm used to testifying as a person coming to Lincoln testifying. [LB444]

SENATOR MORFELD: Senator, I'll just say a few things and I'll leave it at that. You don't have to answer. I guess maybe it's more statements. I mean, first, you know, as somebody with a legal degree, I consider myself a recovering attorney more than a practicing one. But I still got it anyway. But, you know, I paid \$60,000 for that degree, so I did pay something for that degree, and that money went to the state university system which paid for other folks which paid for other certain taxes. And I pay income taxes just like anybody else on that. So I don't get a free ride. You know, as far as poverty, I was looking up in your district, the median household income is \$50,000 a year. Mine is \$33,000 a year in my district. And so I just...you know, I think that, you know, to a certain extent, you kind of do make it out to be city...urban versus rural. I don't think it needs to be that way. And there are certain investments in infrastructure that I think a lot of urban folks are willing to make out in rural areas. And perhaps you have the internet, but I would suggest that your internet needs are probably a little bit different than a business's high-capacity internet needs are to be successful out west. I don't think it's an urban versus rural thing. I think it's a resources issue. And again when, in LPS, the district that I essentially represent, that encompasses my district, is at \$1.05 at their levy max, and they only way they can get more money is to do an override or to get a bond which isn't a very long-term way of funding the general operations of a school, we have to look at, you know, again, what is the fair system? And how do we shift resources? So I just wanted to make those statements. You know, I don't think that your comments about attorneys or CPAs or... [LB444]

SENATOR GROENE: Well, no, see, I'm not...I wasn't attacking them. [LB444]

SENATOR MORFELD: And I'm not finished. I mean, I think that farmers work very hard. I also think that people that work in factories in my district also wake up early and work very hard. And if I look at the overall tax burden equalized by the different sales tax exemptions and other things--and I've done the calculations, I've looked it--it's fairly similar in the end. But I'll leave it at that. And I appreciate your effort, though, to try to equal it out. [LB444]

SENATOR GROENE: Now, the old golden rule, I said that on purpose about Ph.D.s. The educators didn't bite, because they've been tried and trapped before. But now imagine a farmer sitting there saying, my livelihood is this land. Without it, I'm making \$9

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

Education Committee
February 02, 2015

an hour in town. Without your Juris degree, you're making \$9 an hour in town. That land, to them, is your Juris degree. Are you paying a tax...a fee on your Juris degree? No, it's just the...that's the point I was trying to make. It isn't a gold mine that they're going to sell and go off to the mountains and get a condo or a chateau. That is their livelihood. It's how they make their living. So this idea that because land has been selling for so much that somehow a farmer is now wealthy beyond means and he's making...living like a king, he is not. That is his assets. And if he doesn't work...just like if you don't get up, you don't find clients, you're not going to make a buck. He's not a going to make a dime if he don't get up at sunrise and work that land. It's the asset he creates his wealth with. And he is being taxed twice. You lose all your clients, your taxes go down. He loses a drought, he still pays his taxes. There is a big difference. There is a huge difference. And poverty...I've only seen the last...I've been in agriculture all my life. The last seven or eight years, those guys have done well. But before that, I would have took their net wealth on land and went into town and--anywhere in town--and compared the net wealth and the house they lived on, and you would have thought they had a net wealth of maybe \$0.5 million dollars, not the money they got, or a couple hundred thousand. They don't live high on the hog. Come to us small towns and drive through the neighborhoods and see how many of those houses you see. I drive around Lincoln since I'm here. There's a lot of people doing well. And they're not paying the amount of taxes that farmer is living the same lifestyle. So anyway, it's a fairness issue. [LB444]

SENATOR SULLIVAN: Senator Groene, I just wanted to...did you want to comment on the amendment? [LB444]

SENATOR GROENE: On my amendment we forgot to put an effective date. [LB444]

SENATOR SULLIVAN: Okay. All right. Okay. Okay. [LB444]

SENATOR GROENE: So that whole big thick thing is just saying it's going to take effective after this biennium budget cycle. [LB444]

SENATOR SULLIVAN: Right. Okay. Okay, very good. All right. [LB444]

SENATOR GROENE: And that's the end of it. But anyway, I hope these three bills get pulled together and we come up with something. But we need some...we need to get fairness out here and the state do what it's mandated to do in the state constitution. [LB444]

SENATOR SULLIVAN: (See also Exhibit 2) All right. That closes the hearing on LB444. And I will turn this over to the Vice Chair. [LB444]

SENATOR KOLOWSKI: Thank you, Madam Chair. Senator Sullivan will now present

LB522. Welcome. [LB522]

SENATOR SULLIVAN: (Exhibit 1) Thank you, Senator. I'm Senator Kate Sullivan, K-a-t-e S-u-l-l-i-v-a-n, here to introduce LB522. And I think you would probably agree with me that when it comes to either property taxes or school funding in education we've got some pretty strong feelings, (laughter) and rightfully so. But also I think you can probably see that the two are inextricably tied together. But I will also tell you in this whole scheme of things and all the discussions that we've heard, I don't think there's a silver bullet to achieving property tax relief. And I will also say, as you probably agree with me as well and others in back of me, that, yes, the TEEOSA formula as we know it and as we have seen it evolve over 20-plus years is complicated. But all of that being said, I'm here today offering a proposal for property tax relief through TEEOSA. I wouldn't say that it's necessarily complicated. But as I will lay out for you in hopefully not too lengthy an introduction that it is complex. I have always continually heard, and I probably said it myself six years ago when I entered this body, that the TEEOSA formula is broken, needs to be thrown out. We need to start over again. Now, I did take to heart Dr. Breed's comment that probably over time we need a more thoughtful discussion of a very complex problem or situation. But here and now, we have 245 school districts that are very different. And over time, the TEEOSA formula has been changed since its inception to try to respond to those varying circumstances that also have evolved over time. I think it's important to, though, look back to--as has been mentioned several times this afternoon--to when it became reality, LB1059, and the concept of equalization that recognizes the value that local school districts have at their disposal to fund their schools. And when that's not enough, additional support is provided by the state so that we rise up to our constitutional responsibility. And when it was...came into being, we did have huge variations of levies across the state, much higher than we do now. And we were recognizing that the state needed to provide additional support to our schools. Did the formula ever anticipate that we were going to see this dramatic increase in ag land values? Did we anticipate that we were going to continue to see the depopulation so dramatically of rural Nebraska? So here we are today still with wide variation in levies but not necessarily because we've got school districts as wild-eyed spenders. They have budget limitations and spending limitations to live with. But they do need to meet the requirements of Rule 10 whether they are large or small. And, quite frankly, we have seen state support for our schools cut back. We went through the Great Recession a few years ago. We went through fairly significant tax cuts before I came into this body. That in and of itself has created imbalance, because I think the goal of LB1059 was to provide a balance in terms of property taxes going to fund schools and state support and maybe there being somewhat an equal balance. Well, right now if you look at the pie, so to speak, we've got probably about 35 to 37 percent state support, well over 50 percent local support, and then the remaining being...coming from federal dollars. I don't think we should throw out the formula. But I do think that in this effort that probably is going to take more than one year to solve, that we need to look at components of it and changing some

Education Committee
February 02, 2015

components of it that in my estimation do two things. Yes, they can provide a semblance of property tax relief. But secondly, they can direct the state to provide more state support for what we identify as educational priorities for all children irrespective of their zip code. I also wanted you to know--and it's been mentioned; I think Senator Brasch said that she's going to be talking to the Revenue Committee--some components of LB522 that I'm presenting to you will also be presented to the Revenue Committee, because I truly think that both committees sort of need to hear the same story. And at the end of the day, it may require us, all of us in the Education Committee and in the Revenue committee, to have some conversations. I sit on the Revenue Committee, and I will shoulder the responsibility in having some of that conversation. But it could be, with all the proposals that we are hearing in the Revenue Committee as well as here, that we're going to have to have some joint conversations so that we can send out some good, solid bills that we are in agreement with on what we send to the floor. So I wanted to tell you a little bit more about what the components of LB522 are. And I will say right off the bat that I'm talking about implementation not for this current year but for the...starting in the '16-17 school year. First and foremost, we've had a lot of conversation about the allocated income tax fund. In LB522 I am proposing to eliminate that and instead look at 10 percent of the statewide individual income tax revenues, 10 percent of that, and then distributing that on a per formula student basis to all school districts. That's one component. And then I'm looking at several other components of the existing formula, making changes to those--and I can go into those in detail; they're sort of outlined for you in the bill as well as the fiscal note--but making changes to the net option funding, the local effort rate, the minimum levy adjustment, to how we handle allowances and also apportionment. In looking at all of those things, what I've tried to do is do a little bit for everyone, because I recognize that that's...we're going to have to strike a balance. And we're going to have to recognize what you have seen are strong feelings on either end, whether it's rural and urban, equalized, nonequalized. But at the end of the day, one could say that, yes, I am putting perhaps less emphasis on equalization but more emphasis on trying to provide state support for all students wherever they live. And I would call to your attention what TEEOSA stands for: Tax Equity--that's the equalization part of it--but Educational Opportunities...Tax Equalization and Educational Opportunities Support Act. I think LB522 addresses that. It also, I think, has been mentioned as being a feature of some of the other bills you've heard about today. It puts in some levy limitation or at least removes components that encourages districts to levy up to get more state aid. But it doesn't eliminate some components such as averaging adjustment that are very important to some of the larger districts. It also sends out 50 percent of the dollars that we devote for allowances in the form of aid. That's going to help the nonequalized school districts. There's also one aspect that just carves out details that pertain to the Learning Community. And it basically in that scenario says that we figure their aid independently so that as a whole we don't end up shortchanging the total Learning Community amounts that are sent to them. I would be remiss if I didn't tell you what the total price tag on this was. You can see it on the fiscal note. It adds about \$106 million total additional state support for funding our schools. I

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

Education Committee
February 02, 2015

thought I could leave it at that. But then I thought, well, that means that somebody else has got to give up something in the whole scheme of balancing a budget. So I'm also going to the Revenue Committee with the very...what will be a very unpopular notion of adding about a 4 percent increase to our income tax rates. That would equate with the increase that's represented in LB522. This is no easy task. And I don't think that we will arrive at a solution easily. But I really think, whether it's a tax increase or a tax cut, tax relief, tax increase, we have to look at the total picture. We have to have a thorough discussion. And we have to look at educational priorities and how they go out to all our children no matter where they live. And I think that's what LB522 proposes to do. I think it deserves our careful consideration. So with that, I will end. But I just also wanted to call to your attention that there is an amendment that's in your folders, because this was just a mistake on my part in when we were drafting the bill and looking at it. I told you at the onset that what I was doing was eliminating the allocated income tax and replacing it with the 10 percent distribution statewide. Well, in the original bill, I forgot to take out the allocated income tax rebate. So that's what the amendment does is take that out. So again, I offer this as one of the many suggestions that we have. I don't know. Maybe you don't feel as I do, but I almost feel that when it comes to all of these discussions about property tax relief and education, we almost as an Education Committee have a target on our back, because they're all looking to us to help come up with some of these solutions. I know we can do it. But it's going to take kind of a group effort. So there you have it. [LB522]

SENATOR KOLOWSKI: Thank you, Senator Sullivan. Questions, please? [LB522]

SENATOR BAKER: Thank you, Senator Kolowski. Senator Sullivan, walk me through your thought process on moving state apportionment into the TEEOSA. [LB522]

SENATOR SULLIVAN: Well, first of all, we're actually figuring it a little different, because apportionment right now has been distributed based on the census. [LB522]

SENATOR BAKER: Yes. [LB522]

SENATOR SULLIVAN: And now we are changing that to be based on a per formula student basis. So the reality is that we'll probably, depending upon how many private schools are in a particular school district, it might not work as well. But it's a more accurate reflection of the "load" that that district has to carry in educating its students. [LB522]

SENATOR BAKER: Overall, you've added \$106 million. I appreciate that. Do you think that moving the apportionment into the formula, that will create some winners and losers and...in terms of the apportionment? [LB522]

SENATOR SULLIVAN: Yes. I can't disagree with that. [LB522]

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Transcriber's Office

Education Committee
February 02, 2015

SENATOR BAKER: Yes. [LB522]

SENATOR SULLIVAN: That's very often what happens in a lot of these moves. My case in all of this, and it kind of reflects a little bit of what Senator Pansing Brooks said, that I'm challenging us to look at the state as a whole in dealing with educational priorities and how we fund them. [LB522]

SENATOR BAKER: And you've suggested lowering LER, local effort rate, by 5 cents but you didn't say anything about lowering the levy limit, correct? [LB522]

SENATOR SULLIVAN: Right. [LB522]

SENATOR BAKER: Okay. Thank you. [LB522]

SENATOR KOLOWSKI: Senator Groene, please. [LB522]

SENATOR GROENE: Are you taking income tax allotment now and then turning it into basically a foundation per student? [LB522]

SENATOR SULLIVAN: Some would say that, um-hum. [LB522]

SENATOR GROENE: Okay, because I've heard the term "foundation"...now, would that go against as part of equalization aid or would it be on top of it? [LB522]

SENATOR SULLIVAN: No. [LB522]

SENATOR GROENE: So it would be part of the equalization formula. [LB522]

SENATOR SULLIVAN: Yes, yes. [LB522]

SENATOR GROENE: But the nonequalized districts would get some foundation aid, basically. [LB522]

SENATOR SULLIVAN: Yes, yes. Yes. [LB522]

SENATOR KOLOWSKI: Senator Morfeld, please. [LB522]

SENATOR MORFELD: So, Senator, it seems to me that LB521 kind of relies... [LB522]

SENATOR SULLIVAN: LB522. [LB522]

SENATOR MORFELD: ...or excuse me, LB522, relies on LB521. The success of it,

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Transcriber's Office

Education Committee
February 02, 2015

anyway, relies on it being passed and being able to... [LB522]

SENATOR SULLIVAN: What's LB521? (Laugh) I'm still learning my numbers. [LB522]

SENATOR MORFELD: Oh, I'm sorry. No, you're fine. The one that's going to Revenue Committee...maybe I have it down wrong. [LB522]

SENATOR SULLIVAN: Oh, sure. Oh, absolutely. Yes. Yes, yes, yes. But I did that... [LB522]

SENATOR MORFELD: So they kind of rely on each other. [LB522]

SENATOR SULLIVAN: Oh, I did that intentionally. [LB522]

SENATOR MORFELD: Yeah. [LB522]

SENATOR SULLIVAN: They are significantly different. I mean, LB522 is pretty much contained in LB521. [LB522]

SENATOR MORFELD: Certainly. [LB522]

SENATOR SULLIVAN: But both committees needed to hear the conversation. [LB522]

SENATOR MORFELD: Absolutely. So...but LB521 goes to the Revenue Committee. [LB522]

SENATOR SULLIVAN: Yes, it does. [LB522]

SENATOR MORFELD: And maybe I'm still learning the process a little bit. [LB522]

SENATOR SULLIVAN: Yes. [LB522]

SENATOR MORFELD: But that's what's going to increase the income tax in order to make up for some of...some changes in here, correct? [LB522]

SENATOR SULLIVAN: Well, yes. Well, it's...yes, yes. [LB522]

SENATOR MORFELD: So if LB521 fails, do you think LB522 should fail as well? [LB522]

SENATOR SULLIVAN: No. (Laugh) [LB522]

SENATOR MORFELD: Okay. Okay. [LB522]

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

Education Committee
February 02, 2015

SENATOR KOLOWSKI: Senator Groene. [LB522]

SENATOR GROENE: Just curious why you didn't go after the reserves instead of an income...property tax rebate, actually have it in the formula, because you... [LB522]

SENATOR SULLIVAN: Well, first of all, I always look at the Cash Reserves as being a one-time fund. I'm looking at this formula as providing sustainability over time. And the other thing that I should mention that is another component of the revenue bill and another reason I didn't want to take any more dollars out of the Cash Reserve Fund is that another component of the revenue bill is to take whatever is in the property tax credit and run that through TEEOSA. It gets a little complicated, but to show that--oh no, excuse me, let me back up a little bit; it's the apportionment funds; excuse me--that that's...if we do those apportionment funds the way that we're talking about changing how we deal with that, it's going to require some transition funding over from this fiscal year to the next to the tune of about \$11 million. And I'm proposing that come out of the Cash Reserve to set up those payments. Now, what I started to tell, and I'm sorry for the confusion, the revenue-related bill proposes to take--and this is not a requirement of any new dollars--it just simply says to run the TEEOSA...the property tax credit through TEEOSA. And what that does is, it actually shows then on a property tax statement how a school levy would drop because that property tax credit is being given back to the local taxpayer. In all of these conversations, I think what gets lost--and we've heard it today--is, how does the taxpayer feel they are either not receiving relief or they are receiving relief? And somehow, we need to bring that taxpayer into a little bit more of a discussion so that they can actually see, if there is relief being realized, how it shows up on their property tax statements. [LB522]

SENATOR GROENE: All right, finish... [LB522]

SENATOR KOLOWSKI: Senator Groene, please. [LB522]

SENATOR GROENE: ...(inaudible) finished. The fiscal note only concerns state expenditures. [LB522]

SENATOR SULLIVAN: Yes. [LB522]

SENATOR GROENE: Does yours offset that \$106 million to the property tax people which you're...how much of an offset do you think would happen in an unequalization district? I mean, yes, the equalized ones, if they went to \$0.95 figuring...I think you went to \$0.90 figuring your needs instead of... [LB522]

SENATOR SULLIVAN: Well, you know, again there are components of this bill. How it translates out to real property tax relief at the local level I can't tell you. You change

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

Education Committee
February 02, 2015

things like you drop the local effort rate by 5 cents. That puts more state aid in. That says a district has less resources. At the end of the day, will a school district drop its levy? That's where the balance comes in. I am not limiting local control. And I think that's also a balance we need to keep in mind, because when we went through the visioning process this last year, one of the things I heard loud and clear from people all across the state is that they value local control. Now, some will say, we don't feel like we have local control because of all the limitations that you've put on our spending or whatever. But then again, I think any changes that we make to the formula need to be respectful of this value that Nebraskans have. [LB522]

SENATOR KOLOWSKI: Senator Pansing Brooks, please. [LB522]

SENATOR PANSING BROOKS: Thank you. Thank you, Senator Kolowski. Okay, Senator Sullivan, I guess I'm just...I'm...of course, thank you for, again, trying...this is obviously a momentous effort to try...and I also meant to say that to Senator Groene, that these are momentous efforts to try to do something to help the whole state and move us forward. I guess one of the things I'm interested in is, does it get rid of the minimum level? Is that correct? [LB522]

SENATOR SULLIVAN: Yes, it does. Mine does also. Um-hum. [LB522]

SENATOR PANSING BROOKS: Okay. Okay. And so can you speak to that a little bit just as a far as...it...that seems to be something that is not quite as...I mean, that's not as fair for the cities that are at the top of their level and I'm just interested in your take on that whole thing. [LB522]

SENATOR SULLIVAN: Well, first of all, just as I said, that we're not...we don't want to be in a position of encouraging districts to levy up or use that as an excuse so that...just so that they can get more state aid. Now, we are given...with the drop of the local effort rate to...it's \$1 now. We're dropping it in this scenario to 95 cents. So that gives school districts that are up against their levy a little more wiggle room to go up. [LB522]

SENATOR PANSING BROOKS: Okay. Just one more thing on top of what Senator Morfeld was saying, if LB521, the revenue, doesn't pass--he's asked it the opposite way--then what happens on the...because then we don't have the 4 percent, is that correct, in this bill? [LB522]

SENATOR SULLIVAN: Well, last week in Revenue, we heard all kinds of ideas... [LB522]

SENATOR PANSING BROOKS: Okay. [LB522]

SENATOR SULLIVAN: ...that were providing property tax relief at the expense of more

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

Education Committee
February 02, 2015

state dollars. Not once did I hear how they were going to compensate for that. And I'm no mathematician, but I don't get it. I mean, if you're going to try to provide relief over here and you want to provide the same level of services, I think there's got to be an increase somewhere. [LB522]

SENATOR PANSING BROOKS: Yes. I think so, too. Thank you. [LB522]

SENATOR KOLOWSKI: Any other questions? [LB522]

SENATOR PANSING BROOKS: That's just what...oh, well, I agree with you. That's what I was saying is that I think that if we don't do that, we're going to lose out. [LB522]

SENATOR GROENE: One more. [LB522]

SENATOR KOLOWSKI: Yes, sir. Senator Groene. [LB522]

SENATOR GROENE: You think we could just support...if none of the money changes hands, if a local district wants to drop their mill levy that we let them...allow them to do it without losing state aid, just do something simple? Nobody is paying for anything, but the local school district is managing the money better. [LB522]

SENATOR SULLIVAN: And in all fairness to the local school districts and listing...I mean, I live out in rural Nebraska, too. And we hear every day the burden of the higher taxes. But I also have seen school districts really try hard to reign in their spending and lower their levies. But they've got some requirements to meet, too. They've got to have salary increases for their teachers. They've got to meet the requirements of Rule 10. And so it's a challenge for everyone, large or small. [LB522]

SENATOR KOLOWSKI: (Exhibit 2) Senator, of course last year with LB438, the Speaker's bill, we got into a different mode, a different direction, different interpretation of some of the accountability that's responsible...districts are responsible for...so they on one side will continue with the local control. And they want that. But we also now have added words, and I like to use them, with accountability. And that's an expectation that your district will be performing at a certain level judged by the State Department of Education. Otherwise assistance would be given over time. So I think it's important to the concept that we have this...we talked about the rural/urban dance in the last bit of our discussion, but we also have the local control/state standard dance going on that has to be acknowledged as well. And I just hope we don't step on anybody's toes while we're dancing so much. (Laugh) So thank you. Anything else, Senators? Any additional questions for Senator Sullivan, anyone from our committee? All right. Thank you. We have one letter of support for the record on our proponent side. Sandra Rosenboom from the Crete Public Schools has sent that in. And do we have additional members...additional people that would like to speak to the proponent side of this,

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

Education Committee
February 02, 2015

please? Proponents, please come forward. Dr. Habben, please. [LB522]

JON HABBEN: Thank you, Senator Kolowski and members of the committee. I appreciate seeing... [LB522]

SENATOR KOLOWSKI: Spell your name again, please. [LB522]

JON HABBEN: I did it again, didn't I? I'm going to have to wear a tag. [LB522]

SENATOR KOLOWSKI: Yes. [LB522]

JON HABBEN: J-o-n, Jon, Habben, H-a-b-b-e-n, Nebraska Rural Community Schools. [LB522]

SENATOR KOLOWSKI: Thank you, sir. [LB522]

JON HABBEN: I do appreciate seeing the comprehensive effort in the bill, because I think everybody knows that trying to pull this stuff together is not a one piece here and...kind of a discussion. Too many things go too many different directions. They have to intertwine. You know, we talked about all of the issues on the revenue side of the formula. And you begin to think, gosh, how extensive of a study do we need to do to figure out how to balance that thing amongst significantly disagreeing parties? And that's probably an excellent thing to do. On the needs side of the formula, it's been a little harder to read how that has worked simply because of what has happened on the revenue side of the formula. But I don't think this is a, "throw the thing out." I don't think this is a, "act like it's broken so badly that we need to get it hauled out and start all over." I think we're better off in the discussion about how to make adjustments to the formula. Now, a lot of times when we're talking about rural, these last couple of years, there's a tendency to say, well, rural schools, well, you guys don't get any state aid. Well, yeah, there are rural schools that get state aid. There are rural schools that are over \$1 and up against the \$1.05 and up against the spending limitations. And, you know, those schools, they don't have anywhere to go. I mean, it's either a valuation increase or it's some kind of a circumstance where they can reduce programs. But they don't really have any place to go. The nonequalized district--and we have most of them, in fact nearly all of them, in our association--the nonequalized district does have the ability to raise its levy. But the catch with that is--and we've already talked about it--how far have those property taxes gone up for the last half-dozen years? And whether the levy is low or not, you know, what kind of a circumstance does that create? And in my opinion, it creates a very negative one. But I do appreciate the idea that several factors are a part of this bill and try to address several components among seemingly different school districts to stretch TEEOSA further and to protect those districts that are in that levying more than \$1 particularly simply because of their circumstance. We have to be very careful that that district that is sitting there at \$1.05...what do you do with that

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

Education Committee
February 02, 2015

district? How do you treat that district with the formula? That matters. Of course it does. It matters whether it's urban or whether it's rural. It matters. So we can't lose sight of the fact that this formula does have attributes to it. This formula does try to work out the difficulties in attempting to finance educating kids. It's just changed so much in terms of the circumstance that it is reaching fewer schools, fewer kids, and it's not doing the broad-based job either in tax equity or in opportunity that it was originally designed to do in 1990 and 1986 and with Senator Raikes's last effort. So I'm glad to see an attempt at a comprehensive bigger package. I think we need to look at this sort of thing. And I think we need to make a strong attempt at finding a way that isn't just simply labeled as us versus them. Thank you. [LB522]

SENATOR KOLOWSKI: Thank you. Any questions, please? Seeing none, thank you very much. Additional proponents, please? Any opponents? Good afternoon. [LB522]

ED ZIMMER: Good afternoon, Senator Kolowski. Members of the committee, my name is Ed Zimmer, E-d Z-i-m-m-e-r, and I've been a member of the Lincoln Board of Education for 19 years. I'm here today representing Lincoln Public Schools and the Greater Nebraska Schools Association. The 24 member school districts of GNSA meet Nebraska's constitutional responsibility to provide kindergarten through 12th grade education for over 200,000 of the 307,000 Nebraska public school students. And our mission in GNSA is to advocate for educational excellence for all Nebraska schoolchildren by ensuring equitable funding. GNSA actively advocates for the continuation of existing laws and for new laws that reinforce the use of the equalization formula for determining state aid to education. An equalization formula must be based on the general concept that student needs minus local resources equal state aid. Therefore, I must testify in opposition to LB522. Others will testify on behalf of GNSA focusing on the many and important details of LB522. I'll simply introduce their testimony by underscoring that in each of these details, LB522 tends to move away from equalization as a basis for state aid to public education in Nebraska. I'll cite just two examples. Moving 50 percent of the allowances addressing poverty, English language learners, transportation costs, and other needs doesn't remove any of those needs or their costs. If we have areas in Nebraska where valuation does not accurately reflect local resources, then we need to address that inaccuracy rather than distort the formula by artificially reducing real needs. Similarly, LB522 creates a new direct aid concept, student support aid, which is a grant system that allocates an amount of state aid per student without regard to needs or local resources. We estimate this change alone would move approximately \$180 million of state aid outside the equalization formula. Several representatives of GNSA schools will offer testimony today. While one of the unique features of GNSA is the broad and collaborative participation by school board members and school district administrators...so that's why you're hearing from both today. The board members of the districts within GNSA embrace our local role within Nebraska's excellent public education system. We willingly bear the responsibility of levying the majority of property taxes upon ourselves and upon our neighbors. We

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

Education Committee
February 02, 2015

rely on you to provide the state's crucial portion of public education aid in a reasonable, predictable, and equitable manner. We appreciate that LB522 addresses serious issues in our state, but we must urge you to find solutions within the essential fair concept of equalization. Thank you very much for your time. I'll answer any questions I can, knowing I'll be followed by experts who can correct my mistakes. [LB522]

SENATOR KOLOWSKI: Thank you, Mr. Zimmer. Questions, please? Seeing none, thank you. [LB522]

ED ZIMMER: Thank you. [LB522]

SENATOR KOLOWSKI: Additional opponents, please? Good afternoon. [LB522]

LIZ STANDISH: (Exhibit 3) Good evening, I think. [LB522]

SENATOR KOLOWSKI: Good evening... (Inaudible) [LB522]

LIZ STANDISH: We're there. Senator Kolowski, Senator Sullivan, and members of the Education Committee, my name is Liz Standish, spelled S-t-a-n-d-i-s-h. I'm here today representing Lincoln Public Schools where I serve as the associate superintendent for business affairs. I'm testifying in opposition to LB522 as it moves away from the concept of equalization by proposing to place demographic aid and flat aid distributions regardless of local resources, circumventing the formula. It also proposes a tax shift from local property to statewide income tax. This will be the focus of my testimony. I did also bring a colleague school district's letter, so that's not related to mine. That was just a deliver for them. So I'd like to thank Senator Sullivan for proposing state aid changes a year in advance. As a school business official, this is greatly appreciated from a planning perspective. That is a practice that's very much something we'd like this committee to take a look at in the future for any changes in TEEOSA. In addition, Senator Sullivan recognizes the need for additional funding to support the concepts in LB522 and has proposed the companion bill she described to do so. Fully funding the formula and the recognition of that is also greatly appreciated. We've discussed that the demographic variables, the allowances in the formula, they are counted 100 percent in needs minus resources equals equalization aid. But then in an effort to circumvent the calculation that includes resources, they are distributed as aid. So the aid goes out to school districts that are not equalized. For school districts that are equalized, it then is offset by equalization. So this is a mechanism simply to distribute allowances that are currently in formula need to nonequalized school districts absent the recognition of resources. This direct aid concept is furthered to a flat grant system, a foundation system in student support aid. And that equals 10 percent of the statewide aggregate income tax. And I want to make a special note here, because we've had several conversations today about allocated income tax and aggregate income tax. Aggregate income tax would be statewide income tax pooled together, then distributed as a flat

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

Education Committee
February 02, 2015

grant, versus the concept of allocated income tax, which would be where we fill our tax returns or tax filings, we designate our school district, and that's a recapture back to the local community. This is an aggregate income tax, so the rising income tax within school districts who might not see property relief related to this package would experience the increase in income tax. We estimate that the direct aid or flat grant system or foundation aid would be almost \$600 per student. LB522 proposes to remove the minimum levy adjustment. This is to offset to make sure that these various aid distributions can reach every school district even with low levies supporting their budgets. LB522 changes apportionment. It moves away from census students. We do believe there is an important mission within public schools to serve every student in their boundary. Any student in the boundary of the Lincoln Public Schools would come to the door of Lincoln Public Schools, and absolutely we'd have a seat for them. And so census students is the place for apportionment. There is that geographical tie to where students reside and the obligation the school district serves. We're also concerned that there's clearly a transitional element here, which means that school districts would lose money by bringing this as a resource into the formula. Any time you go and capture a new resource and bring it into the formula, equalized school districts are going to be hurt by that. There is a recognition, which we appreciate, of the transitional concept, a recognition, as Senator Sullivan described, that's funded by the Cash Reserve. But I think inherently that tells us that there would be an impact for equalized school districts, keeping in mind that most of the equalized school districts are very close to the levy lid of \$1.05 if not already there. So there wouldn't be a place to go recruit that need. Equalization is a center point of school funding in Nebraska. And we believe that this 25-year history with LB1059 representing that a child living in a property-wealthy area has access to education as a property-poor area, and that that equalization element of the formula must be recognized and preserved. And with that I'll close my comments and be happy to answer any questions you might have. [LB522]

SENATOR KOLOWSKI: Thank you. And what is the Lincoln levy at this time? [LB522]

LIZ STANDISH: General Fund levy is \$1.05, total levy is \$1.24. [LB522]

SENATOR KOLOWSKI: \$1.24? [LB522]

LIZ STANDISH: \$1.24, yes. [LB522]

SENATOR KOLOWSKI: Thank you very much. Senators, questions, please? Seeing none, Liz, thank you very much for your testimony. [LB522]

LIZ STANDISH: Thank you. [LB522]

SENATOR KOLOWSKI: Appreciate that. I did receive, as we all have, another opponent's statement from Superintendent Baker, the Elkhorn Public Schools, and that

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

Education Committee
February 02, 2015

has been received by all of us. Thank you. Mark, welcome. [LB522]

MARK ADLER: (Exhibit 4) Thank you. Senator Kolowski, Senator Sullivan, and members of the Education Committee, my name is Mark Adler, spelled M-a-r-k A-d-l-e-r, and I'm the superintendent serving the Ralston Public Schools. I'm here today representing the Greater Nebraska Schools Association. The 24 member school districts of the GNSA are responsible for educating over 200,000 Nebraska public school-aged children. Further, the GNSA member schools are working hard to educate two-thirds of the students in Nebraska that qualify for free or reduced-price lunches and English Language Learner services. As an organization, we come to you today in opposition of LB522. We want to thank Senator Sullivan for her work in proposing legislation that will continue to cultivate conversations about equitable funding for all Nebraska students. LB522 proposes sweeping changes to the TEEOSA formula, many of which we are not totally sure of the exact outcome. My message today will be focused on the proposed changes to the allowances within the TEEOSA formula. Such changes concern the GNSA as we serve such a diverse student population. As you heard earlier today, LB522 takes 50 percent of the each of the allowances in the formula need and distributes the funding as aid. This applies to poverty, ELL, focus schools, summer school, transportation, elementary site, distance education, and telecommunications. One hundred percent of the allowance is counted in formula needs and paid in needs minus resources equal equalization aid. To adjust equalization, 50 percent of the allowance is distributed as aid and counted as a receipt. Aid is distributed to all school districts regardless of local resources. Currently, the student characteristics are recognized in nonequalized school districts through formula needs and accounted for in needs minus resources equal aid. All of this sounds very complicated and in many cases is complicated. Our organization was created and continues to stand firm on the concept of equalization. The proposed changes to the allowances in LB522 move further from equalization. We are also concerned that these changes may not provide a level of funding appropriate to educate students in poverty and diverse backgrounds once the needs are paid in aid and become a receipt. Many of the member schools in the GNSA are taxing their local patrons at the maximum levy allowed by law. Deep changes in the allowances to TEEOSA may provide reduced funding with no opportunity to replace that lost funding through local resources. As I close, I want to thank all of you for the service and leadership you provide to schools and students all across Nebraska. The GNSA stands ready and willing to be a partner in the research and development of equitable funding for all students across Nebraska. I want to thank you for your time, and I'd be happy to try answer any questions that I can. [LB522]

SENATOR KOLOWSKI: Thank you, Dr. Adler. Any questions, please? Seeing none...oh, I'm sorry, Mr. Groene. Senator Groene, please. [LB522]

SENATOR GROENE: Could somebody in your organization get me, over the last 10/20 years, what the per capita spending per student is in your school districts? [LB522]

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Transcriber's Office

Education Committee
February 02, 2015

MARK ADLER: The per capita spending, I won't be able to... [LB522]

SENATOR GROENE: Well, it's just aid plus your resources divided by your enrollment is basically what I'm looking for. [LB522]

MARK ADLER: Right. Are you...Senator, are you talking about the average spending per pupil? [LB522]

SENATOR GROENE: Yeah. [LB522]

MARK ADLER: The schools in the GNSA are some of the lowest spending in Nebraska, I think ranging from around--I'm going to guess--about \$6,800 per student to the top, approximately \$10,500 per student. Don't take that exact, but somewhere in that neighborhood. [LB522]

SENATOR GROENE: I understand that, but I'm trying to figure out where this 70 percent increase in property taxes have gone and the 48 percent increase in TEEOSA the last ten years. And I wanted to see per student in the last ten years where that's gone. I thought maybe, could...somebody could get that for me. [LB522]

MARK ADLER: We'd be happy to try to get that. I think I understand your question and, absolutely, we will do our best to provide that. I can't answer that off the top of my head. [LB522]

SENATOR GROENE: Just trying to follow the money... [LB522]

MARK ADLER: Yes, sir. [LB522]

SENATOR GROENE: Thank you. [LB522]

SENATOR KOLOWSKI: Other questions, please? Thank you very much. [LB522]

MARK ADLER: Thank you. [LB522]

SENATOR KOLOWSKI: Additional opponents, please? Welcome, Mr. Lindsay. [LB522]

JOHN LINDSAY: Thank you, Senator Kolowski. Senator Sullivan, members of the committee, my name is John Lindsay, L-i-n-d-s-a-y, appearing on behalf of Omaha Public Schools. I'll start to echo sentiment that was raised earlier: thank Senator Sullivan for looking out in to the future to make changes rather than doing it when schools are already trying to figure out what their budgets are for next year. We do appreciate that and appreciate her coming up with some new ideas to...that should be

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

Education Committee
February 02, 2015

going through the grinder in trying to figure out what makes sense for Nebraska's schools. We would agree with some of the comments of prior testifiers, especially with those comments about equalization and any move away from equalization. Two particular things what...I'd like to note. One is the moving apportionment funds from a calculation on census data. And I think, as was previously mentioned, public schools have to provide services to children in their districts in cases regardless of whether there is enrollment. And there should be some recognition that...with respect to the number of students or children that there are there. For example, in metro Omaha area I don't have a number of students, but there are 38 Catholic schools in the metro Omaha area. And oftentimes from those schools there are services provided by many of the--or all, I would guess--of the public school districts in the metro area. Secondly, I'd like to touch on the averaging adjustment. This bill moves...makes a significant change in the averaging adjustment. The averaging adjustment came about as an attempt to help school districts which are high-taxing, who have a high tax rate but are low spending on a spending-per-student basis. And it has been tied historically to the property levy rate. In current law, it ranges from 50 percent of the difference in average spending at \$1.01 up to 90 percent at \$1.05. And it's to recognize that when you're at \$1.05, you're capped. You have nowhere to go to increase spending for students. So at that point, you will continue to fall further and further behind the curve. What...the change in this bill is to allow that averaging adjustment to be 90 percent of the difference for any school district that is below the averaging adjustment threshold which is calculated on districts above 900 students. But to get 90 percent of that difference regardless of what the levy for that district is, meaning that if a district...two districts with below average spending of the same amount, they're both going to get the same averaging adjustment, even though one may be at 50 cents per \$100 of valuation and one at \$1.05 per \$100 of valuation, which is...raises questions of fairness with respect to those property taxpayers in those two different districts with paying such enormous differences in their rate of property taxation. We would look forward to being part of the discussion as the committee determines which direction to move in the TEEOSA. We would ask that at least those considerations that we've set forth and some of the other testifiers have set forth be taken into consideration. Be happy to try to answer any questions. [LB522]

SENATOR KOLOWSKI: Thank you, Mr. Lindsay. Questions? Senator Groene, please. [LB522]

SENATOR GROENE: You said you...thank you, Senator Kolowski. You said, sir, that you're trapped at \$1.05? [LB522]

JOHN LINDSAY: Yes. [LB522]

SENATOR GROENE: You just had a elementary school...a big school fund and the people voted for it. Cannot you put before the voters an override of the \$1.05? [LB522]

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

Education Committee
February 02, 2015

JOHN LINDSAY: We could. We don't think that it would stand much chance at passage. But more importantly, the question is, looking again at...from the property tax rate payer's view of, why is it that if two property owners in different parts of the states, and I would say in...maybe a county apart or a couple of counties apart, why is it that one has to override and go to \$1.07, \$1.09, \$1.10, whereas the other one continues to get that adjustment maintaining a levy significantly below that. So it becomes a question of fairness to the rate payers who by...because of geography pay a higher rate on their property taxes. [LB522]

SENATOR GROENE: But it's also...the other side of that is, income and sales taxpayer says, why is that other school district getting more of my income tax and sales taxes than my district is? So it goes both ways, doesn't it? [LB522]

JOHN LINDSAY: Sure, and I understand it. Yeah, I understand the argument. [LB522]

SENATOR KOLOWSKI: Additional questions, Senators? Thank you, Mr. Lindsay. Additional opponents, please? Seeing none, anyone of a neutral category? Also seeing none, Senator Sullivan. [LB522]

SENATOR SULLIVAN: Thank you, Senator. And I'm...well, you are beginning to see the differences of opinion. I'm fully aware that my proposal moves us away from equalization. It doesn't throw it out the window. But it simply, perhaps in some respects, recognizes that other part of the TEEOSA acronym: Educational Opportunities for all students in the state based on the priorities that the state determines are worthy of funding. So I want you to keep that in mind. Secondly, yes, there are huge variances in the levies. But also take into consideration the fact that this LB522 is trying to achieve some semblance of property tax relief, not just for the rural taxpayers either, but it has impact for taxpayers across the board. Thirdly, I think it's important to recognize this concern over how we distribute the dollars for allowances. We set precedents for that two years ago when we changed how we treated the instructional time allowances and teacher education allowance. Fifty percent of the dollars went out in aid. That doesn't necessarily mean that the equalized school districts are losing that. It simply means that 50 percent of the dollars is going out in allowance, 50 percent is going out to aid. Bottom line there is that then there are some additional dollars going to the nonequalized school districts, because it goes out as aid. There's a tug of war and a perception of somebody winning and somebody losing. But I think the challenge that I am presenting here is to try to look at what we have heard from so many people across the state, the need for property tax relief, but also trying to look at it from a big picture. I also wanted to clarify, not...and I apologize for not having all my numbers right on my bills. LB522 is the bill that I'm presenting here to you today. LB521 is the bill that I'll be introducing to the Revenue that contains all of these components. LB523 is the one that also goes to Revenue for the income tax increase. Now, I don't want you to also think of it in terms of either/or because I think, from a policy standpoint, I'm hoping that we can

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Education Committee
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get comfortable with whatever we decide as an Education Committee is important for educational policy and can build a case for state dollars to be put behind that effort. Thank you. [LB522]

SENATOR KOLOWSKI: Thank you very much. Senators, questions for Senator Sullivan? Making laws and sausage, as long as it's spicy, I think we're in good shape. So thank you very much. Any other questions? No other questions? We're...that ends our hearings for today. [LB522]