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Education Committee and Revenue Committee
November 12, 2015

[LR332 LR344]

The Committee on Education and the Committee on Revenue met at 9:00 a.m. on Thursday, November 12, 2015, for the purpose of conducting a public hearing on LR332 and LR344. The Revenue Committee senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: None. Education Committee senators present: Kate Sullivan, Chairperson; Rick Kolowski, Vice Chairperson; Roy Baker; Mike Groene; Bob Krist; Patty Pansing Brooks; and Dave Schnoor. Senators absent: Adam Morfeld. Also present: Galen Hadley and Heath Mello.

SENATOR SULLIVAN: Good morning, everyone. Good morning. Let's get started. Good morning. (Whistle) I never learned how to do that, so thank you to whoever whistled for us. Good morning. And thank you all for being here. Just to make sure everyone knows that you're in the right place, this is a public hearing that is connected to the joint interim study between Education and Revenue Committees. And we will talk a little bit more about those resolutions in just a minute. But I'm Senator Kate Sullivan, representing District 41. I live in Cedar Rapids, Nebraska, and I'm Chair of the Education Committee.

SENATOR GLOOR: Senator Mike Gloor, District 35. I'm Chair of the Revenue Committee.
[LR332 LR344]

SENATOR SULLIVAN: And for starters, I would also like to have all of the senators present introduce themselves. We'll start with Senator Pansing Brooks. [LR332 LR344]

SENATOR PANSING BROOKS: Hi, I'm Patty Pansing Brooks and I represent District 28, where we're sitting. [LR332 LR344]

SENATOR SCHNOOR: I'm Dave Schnoor. I represent District 15, which is Dodge County.
[LR332 LR344]

SENATOR GROENE: Mike Groene, District 42, Lincoln County. [LR332 LR344]

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SENATOR BAKER: Senator Roy Baker, District 30, Gage County, part of Lancaster County.
[LR332 LR344]

SENATOR KOLOWSKI: Rick Kolowski, District 31, the southwest Omaha area. [LR332
LR344]

SENATOR HADLEY: Galen Hadley, District 37, Kearney and eastern Buffalo County. [LR332
LR344]

SENATOR MELLO: Heath Mello, District 5, south Omaha. [LR332 LR344]

SENATOR SCHUMACHER: Paul Schumacher, District 22. That's Platte and parts of Stanton
and Colfax Counties. [LR332 LR344]

SENATOR BRASCH: Lydia Brasch, District 16, Burt County, Cuming County, and Washington
County. [LR332 LR344]

SENATOR SCHEER: Jim Scheer, District 19. [LR332 LR344]

SENATOR SMITH: Jim Smith, District 14, Sarpy County. [LR332 LR344]

SENATOR KRIST: Bob Krist, OPS and Bennington Badgers. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Senators. We also have several staff members helping us
today. To my immediate left is Mandy Mizerski, who is the committee clerk for the Education
Committee. Krissa Delka over there is the committee clerk for the Revenue Committee. We also
have legal counsels: Mary Jane Egr Edson is the legal counsel for the Revenue Committee; also,
Tammy Barry and LaMont Rainey, who are the legal counsels for the Education Committee; and
Kay Stilwell Bergquist, who is the research analyst for the Revenue Committee. The senators
that introduced themselves are, as I indicated, both...members of both the Education and
Revenue Committees, but also we've allowed our Speaker of the Legislature, Senator Hadley,

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and also Senator Mello, the Appropriations Committee Chair, to be part of this effort as well. I think we have a page helping us today. I'm sorry, Brandon, you are from... [LR332 LR344]

BRANDON METZLER: Omaha. [LR332 LR344]

SENATOR SULLIVAN: Okay, thank you. And he'll be helping us today. As I indicated, this is a public hearing connected to two interim study resolutions that were introduced by the Education Committee and also Senator Gloor, looking at how we fund our public schools and also the use of property taxes to do that and, in so doing, trying to find a way to provide some relief from property taxes. Senator Gloor, do you want to add anything to that? [LR332 LR344]

SENATOR GLOOR: I would say that it's a bit unique. This is not a tag team; this is a collaboration and it probably emphasizes the collegial nature of both...how Senator Sullivan and I work together, as well as members of our respective committees, that we decided to join forces and try and address this significant problem for Nebraska and Nebraskans working together. I wouldn't call it unique, but I would call it a good sign of the commitment of this legislative body to try and get a handle on things if possible. [LR332 LR344]

SENATOR SULLIVAN: I wanted to lay out just a few of the logistics for today. If you are familiar with testifying at either an interim study or a legislative hearing, we'll operate much the same way in that there are blue sign-in sheets that if you're planning to testify we'd like you pick those up and fill those out before you come up to testify. 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 on the table for you to sign for that purpose as well. Regarding the sign-in sheet, as I said, please complete it in its entirety and give it to the page when you come up to testify so that we can have an accurate public record of this event. If you have handouts, please have 24 copies and hand those to the page as you come up to testify. Regarding your testimony, please speak clearly into the microphone, tell us your name, and please spell your first and last name again to ensure an adequate record. Maybe this goes without saying but, please, if you have a cell phone, put it on vibrate, quiet. We want to give our full attention to the testifiers with no distractions. One of the things when the joint committees met the last time, the members, the senators felt that it was going to be important to have a little bit more additional expert testimony, so that's one of the

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things I wanted to explain to you this morning. We have three individuals that will be coming up to give testimony, ten minutes each, and we will hear from them and the senators will have opportunity to question them. After we get done with those three expert testifiers, then we will open it up to the groups that we have invited to testify. We will be...with the exception of those three individuals, we'll be using the light system today and each testifier will have three minutes. When you see the yellow light come on, then that is a signal that you've got one minute left. And when the red light is on, we want you to end your testimony. We have to be really cognizant of that today because we want to give everyone who wants to testify and make comments today the opportunity to do that. So that's, as I said, the way we're going to handle it. But before we get started with that I'll turn it over to Senator Gloor, because then we'll talk a little bit about the background of this effort. [LR332 LR344]

SENATOR GLOOR: The basis for these hearings really have to do with the efficiency and effectiveness of funding K-12 education, and the genesis for it began several years ago. Most of you know about the Tax Modernization Committee led by now Speaker, then Chair, Senator Hadley of the Revenue Committee that held hearings, was able to enact a number of the recommendations or brought back recommendations that we were able to enact that covered a wide variety of taxation issues in the state. But the one issue that remained a tough nut to crack was the issue of state support to fund K-12 education with the hope that that would, in fact, relieve some of the burden on property tax. And that began as sort of the genesis for what we've been working on for a number of months now during the interim with LR332 and LR344. We have asked Senator Hadley, given his role then and his role now, if he in fact would talk to us a little bit about the Tax Modernization Committee and this issue. And so with that, we turn it over to Speaker Hadley. [LR332 LR344]

SENATOR HADLEY: Thank you, Senator Gloor, I appreciate it. I'll be very brief. We did have the Tax Modernization Committee and I believe we went to five different places around the state and held hearings, including Lincoln. And we heard a lot of testimony from the people in the state of Nebraska. And we heard testimony on all the different taxes, but we certainly heard a lot of testimony on property taxes. And as Senator Gloor said, we have been able to do some things that came about as a result of the Tax Modernization Committee. We've indexed the tax brackets. For the first time ever, we have kind of decoupled from Social Security and we're exempting

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more of Social Security income for the lower-income people. We've worked on the homestead exemption. We've done some things, but the property tax has still been one that's been hanging out there, and it hangs out there every year because of the increase in ag land values. And so I applaud Senator Gloor and Senator Sullivan for taking this on and trying to find the linkage between the funding of education, K-12 education, and property taxes. And it's one of those things...the only advice I would give people who testify today, we know there's a problem. So if you get up and just tell us that there's a problem you're stating the obvious. If you could help us come up with possible solutions to the problem, it would really help us. I think I speak for everybody that if you're going to spend your three or five minutes telling us there's a problem, you're preaching to the choir at that point in time. But we are looking for solutions that we can help alleviate some of that burden on property taxes. And lastly, I want to say that on the Tax Modernization Committee we heard from all three sectors about property taxes. We heard from the ag people, but we heard also from individual homeowners and we also heard from businesses. So, you know, we have a tendency to think in terms of the ag sector when we think of property taxes, but obviously the other two sectors are impacted by property taxes. And I think the people who run for the Legislature, one of the things you hear even when you go door-to-door is the impact of property taxes on homeowners and business also. So I look forward to hearing which of you has the best solution to the problem and will applaud you when you give us that. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Speaker Hadley. As I indicated before, we're going to start the testimony today with what the committee had requested, and that would be to bring to the table a little bit more detailed information to add to our knowledge base in working through this. And so we have selected three individuals that I think have a broad base of knowledge in different areas, but also overlapping areas: one is an ag economist; one is an individual who's had many years working in state government and particularly with tax policy; and another is a former state senator who not only served as Chair of the Revenue Committee, but also on the Education Committee as well. I'm going to, of course, let those individuals introduce themselves and enter their names into the record. We are going to have all three of them come up to the table and make their testimony as a panel. I would ask the senators...that we'd like each of them, these testifiers, to give their ten-minute opening statements with no questions in between. So they will just each make their ten-minute comments and then for the remainder of the time, which will go

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till probably about 10:30, then we will have that time available for questions from all of you. So at this point, I'd like our three guests to come forward. Welcome. And I don't know if each of you have decided who's going first. I see on the...that there is an order, so I'll presume you're going to follow that. [LR332 LR344]

BRUCE JOHNSON: Good morning. My name is Bruce Johnson, spelled B-r-u-c-e J-o-h-n-s-o-n, professor of ag economics, emeritus, university. Been asked to comment briefly on questions of the agricultural economy and kind of putting a context to it. And so I'll hopefully do that quickly without the yellow light showing up here. First of all, we need to think really that our ag production complex is very remarkable. It's not just a side issue in rural Nebraska, it's the engine of our economy across the state. We did a study in 2012 looking at the economic impact of that production complex and found that 40 percent of the business receipts generated in this state represent ag and the ag-related industries and components of that. Basically, 25 to 26 percent of value added from the state of Nebraska is from this agricultural economic complex. And basically a fourth of all jobs, employment, and wage and income earnings are from the agricultural complex. So as the ag economy goes, so does the state economy. And, in fact, in our amazing but short-lived prosperity of the ag economy during the recent U.S. recession and recovery, Nebraska weathered very, very well because of that. We know that. Now, conversely, we find that the recent tax revenue forecasts are coming in on the short side. That, too, is reflecting a downturn in the ag economy. Perspective of that, in 2013 our ag economy or the Nebraska net farm income, I should say, had a record of almost \$8.3 billion. Two years later, 2015, projections are that that net farm income will be more like \$3.5 billion. That's more than a 50 percent drop. That's a significant decline in our major economic activity of the state, and it's going to continue. The repercussions of that are going to continue by all forecasts coming from USDA and others that the next few years are going to be very lean with very narrow profit margins if any, in some cases, for production agriculture across the country, but certainly in Nebraska. So that's our situation there. Getting back to this whole point of property value increase, the common question is, hey, farmers had good income years and they were largely the ones that were running up the values, and so high assessed values are just natural. Hey, everything is working that way. Yes, there's truth to that. We did have a "miniboom," no question about it. And what happened is, in 2009, 24 percent of the total assessed value of the state was in the ag land component. By this year, 38 percent of the total ag land assessed value was in the ag

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component, the ag land component, in fact. And ag has other components there too (inaudible.) Accordingly, 20 percent of all property taxes paid to the state in 2009 were by that ag land component. That has increased this year to 28 percent. Now dollar numbers: \$572 million paid by the ag land component in 2009 going to \$1.39 billion in 2014, nearly an 82 percent increase, compared to residential property class over the five years rose 7 percent--yeah, we were in a recession and we had some reduction in stability there happening--as well as commercial-industrial, 12 percent increase. There's a huge, huge disparity. So the short of it is, ag is the heavy lifter of local government services in our rural economies. There's no question about it. And that burden has really continued to grow. And, hey, we're preaching to the choir. I know that, so. Comment on terms...you know, again, the perception that, hey, not all ag landowners are wealthy farmers. In fact, they're not even...many of them are not farmers and not farmers at all. We have 44 percent of the land...the agricultural land in this state that is owned by nonoperator landlords, 44 percent. You go out to York County, Fillmore County, it's 60 percent. That's a pretty huge amount. So what we're seeing is that there are a lot of people, thousands of people, owning modest-sized parcels renting, cash renting to other larger farm operators, and basically on modest incomes, too, retired people and so forth. That's their retirement legacy that they are living off of. Looking at recent University of Nebraska land studies data, you look at cash rents relative to the values that are out there and see what's coming to that widow lady--the second installment, December 1--is kind of the typical thing. And whatever hundred dollars that widow lady is getting from that cash rent tenant for the year, \$30 of that will go for paying property taxes. Okay? Dryland in Nebraska, eastern Nebraska, \$6,000 land is going to have \$60 property taxes per acre. Irrigated land in York County, I just talked to an individual there who is paying more than \$100 tax per acre. Those are very, very high, very, very high income tax on an income basis here, in a sense. So the question comes up, are our ag landowners in our neighboring states in the same kind of predicament? The answer to that is: in no way. In fact, you're all familiar with Bill Lock and his work over the years. And last year about this time he came out with a report that showed that Nebraska's property taxes on ag land were at least two to two-and-a-half times greater on proportional land as our neighboring states; in some cases, far greater than that. So that gets to be a question of competition or of competitiveness, relative competitiveness. We're looking at livestock development in the state, very critical to our rural economies. And when people are looking at starting up a livestock investment, you can better believe that they're looking at property taxes as a consideration of economic viability and relative place to locate. So,

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again, the policy comes down to this group, you know, because 60 percent of property taxes in general goes for...of that levy goes for K-12 education. And, you know, here we see the warp. Currently, local property taxes pay something like 48 percent of our total expenditures for K-12 education, compared to less than 30 percent at the national level. And then conversely, when it comes to state aid we are paying in around 30 percent in terms of general appropriations, as of now, which has gone down as a percent of state aid, compared to 46 percent at the national level. So there's a flip-flop, an inverse of who's paying for K-12 education that's pretty significant property or other tax sources coming through state channels. So, yeah, if we were to correct to the national average of something like 45 percent of state aid to cover K-12 education, that's over \$500 million adjustment. Now, that would be a \$500 million property tax reduction--that's meaningful, for sure--and about a 15 percent across-the-board reduction in property taxes. Now, that's property tax relief. The question is, okay, how do we deal with that? Where does that money come from? I know that. Just offhand, if we put political will aside for just a second, think about it from the standpoint of tax equity and fairness, okay, one is the ability to pay but another is benefits received. That goes way back in terms of principles of sound taxation. Benefits received, yeah, farmers have kids going to school and landowners, for sure. But in a disproportional way, there are lots of other folks that have their kids there, too, looking for the same thing. And that's where the idea of coming towards...let's say, move it more towards a state consideration of individual income and corporate income as a component of that. Why? Ability...benefits received--that individual that gets a quality K-12 education is going to go on and be a productive and much higher wage earner and so forth. So...and corporations, likewise, get a good work force. So there are legitimate reasons for that. Now, we may not have the will to do that. So as far as getting a little closer to the situation, the idea of going from 75 to 65 percent valuation for the ag component in the equalization formula, that is a step--there's no question about it--as I estimate it, about a 8 percent to maybe 9 percent reduction in property taxes for the ag land component. Now, considering that over the last five years ag lands' increase in property tax has been more than 10 percent a year for five years, an 8 percent reduction is fairly modest. But maybe that's what's doable and that should be done. Assessment practices, all I would say there, and I'll defer to my institutional knowledge of colleagues here, but one thing is that our value estimate from the market is pretty difficult in these days because of the thin agricultural land market. Okay? Very little land sells; less than, in some cases, 1 to 1.5 percent a year turnover, compared to 3 percent in earlier decades. So county assessors have a heck of a time

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trying to find a meaningful base of getting a metric on what really is the market...a realistic and representative market. And that does create a dilemma. And with that, I will pass on to my colleagues. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Johnson. [LR332 LR344]

CATHERINE LANG: Good morning. [LR332 LR344]

SENATOR SULLIVAN: Good morning. [LR332 LR344]

CATHERINE LANG: Chairwoman Sullivan, Chairman Gloor, Speaker Hadley, Chairman Mello, and members of the Education and Revenue Committees, my name is Catherine Lang, C-a-t-h-e-r-i-n-e L-a-n-g. I'm the vice president of accelerate nebraska. From 1996 to 2006 I was the Property Tax Administrator for the state of Nebraska. I began my career with the state of Nebraska in 1981 at the Nebraska Department of Revenue with Senator Brasch, which was a wonderful time. And my focus there was on property assessment and taxation policy. Today the committee is considering two legislative resolutions that are continuing the focus of the 2013 Tax Modernization Committee. One of the committee's first recommendations was to increase state aid to schools to offset property tax use as a share of the total state and local taxes. What I want to talk to you about today is sort of the macro picture from a constitutional and legal framework, related both to the property assessment process and to state aid. The resolution encourages the examination of fairness and equity, efficiency and effectiveness, stability of resource and, lastly, the competitiveness for the state in terms of our state's ability to attract and keep well-paying jobs and investments in Nebraska, which is near and dear to my heart because I was also the Commissioner of Labor and the Director of Economic Development. So these resolutions impose a tall order. In my view, the funding of our K-12 public education system resembles a large bucket. The bucket is the amount of spending determined necessary by our school districts individually, and then ultimately collectively, based upon the needs of the district represented by their budgets. So if this necessary spending is the bucket, it must be filled with public revenues, taxes from taxpayers across our state. Today those taxes are sourced primarily from the property taxes of the district. In aggregate, about 56 percent of the K-12 General Fund spending is satisfied from this tax source. Second, the spending is satisfied from the sales and income tax

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collected by the state and distributed through an intricate formula designed to address and balance the unique characteristics of the 249 Nebraska school districts. In aggregate, about 44 percent of K-12 General Fund spending is satisfied from this tax source. While the total or aggregate ratio of the two funding sources is 56 to 44, that ratio by school district can be very different. And that all depends upon the relationship of the needs of that district minus its revenue resources, primarily from property taxes, and the amount of any state aid, if necessary or needed, to satisfy those needs of the district. So if the recommendation is to increase the amount of sales and income tax revenues through state aid to the school districts to offset property tax use and reduce property taxes as a share of the state and local taxes, then the focus of the efforts of this committee must be on the spending of the districts. It is the spending that drives the need for any and all tax revenues. Therefore, the policies considered by the Legislature must address the size and the rate of change of that bucket that you are filling with tax revenues. Related to fairness, property taxes, because of the protection afforded by the uniform and proportionality clause in the Nebraska Constitution, I believe has placed Nebraska in a very unique situation related to its property tax structure. It is very transparent and reasonably simple. All real property is assessed at its market value. One exception authorized by the constitution and effectuated by statute is that the class of ag land is assessed at 75 percent of its market value. As a property owner, and considering that most property owners' major asset is real property, knowing its market value is an important financial value to know. People know what the market value of their property is. Therefore, they know when they get that assessment statement whether or not it is fair and reasonable. It is never going to be perfect. The question is, is it fair and reasonable? And you can know that because you can know what your market value is and you can know whether it's at 100 percent or whether it's at 75 percent of that value. This guiding principle--it's the one that I believe creates fairness, equity, and stability--is the uniform and proportionate clause of our constitution. And I know that agricultural land has had a significant change in valuation relative to the other classes of property across the state over the last numbers of years. In 2006, the last year the Legislature addressed or touched the level of value that ag land pays for property tax purposes, the level of...the percentage of value and the percentage of taxes paid from ag land was at about 18 percent, almost 19 percent. It is now, as Dr. Johnson said, at about 29 percent. So the question is, why has that change occurred? Primarily, because the value has changed relative to the other classes of property during this recessionary period. I would argue that over time that again shall change. Markets will change. Values will change. The relationship will change.

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Related to efficiency and effectiveness of the availability of tax resources, sales and income tax systems are more pliable legally, because the principles of equal protection, special legislation, and other constitutional guards against unfair tax treatments are not as restrictive as the uniform and proportionate clause of the Nebraska Constitution. Sales and income tax systems are also very different from the property tax system. It's the economy that drives the revenues. The more economic activity generated by the engine of the economy, the more tax dollars generated from the tax activity. Property taxes are generated by the spending needs of the budget. And except for levy limits, the subdivision will get the tax dollars needed for its budget from the property tax. So in Nebraska, the property tax system is an incredibly stable source of funding for local government. Regarding competitiveness, I would state that our businesses are very mindful of the tax burden that they pay. And our citizens are equally mindful of that. And so taxes, yes, are a very important consideration for all businesses should they choose to expand and grow in Nebraska, as well as whether or not you're going to choose Nebraska as your residence as an individual. And so being mindful of the amount of taxes that we are asking for from our citizens is very important. And so I would argue that one of the most important things we can do is make sure that we have the most effective and efficient forms of delivering those important public services so that those tax dollars that we are asking for, out of either the right or the left pocket of a taxpayer, are efficiently and effectively spent. Related specifically to TEEOSA and the idea that we want to increase the amount of resource that goes into TEEOSA, as it goes out to those school districts, all taxpayers of the district benefit. So if one of the driving interests of the Legislature is to figure out how to offset property taxes paid by ag land, I would argue that doing it through the state aid formula is ineffective because it goes to everybody in the district and it will go to all districts based on their needs, and if that district has no need for state aid, it won't get any. And so you will indirectly, very indirectly, impact the taxes ultimately paid by an ag landowner in a district that is wholly ag land. You'll have some impact in a district that has a mix of property, but everybody in that district will be impacted. Everybody will get the benefit of that increase in state aid to that district. I would argue that if it is about trying to offset the economic impact that ag land has felt over the last five or seven years because of the economic recession, then perhaps it would be better to be more direct about that offset and provide it directly to the ag land property owner through a credit. You can have a direct credit, you can have an income tax circuit breaker, you can do something that is far more direct to that particular property owner than putting it in the TEEOSA formula. I'll relinquish my time to my colleague. [LR332 LR344]

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SENATOR SULLIVAN: Thank you, Ms. Lang. [LR332 LR344]

CATHERINE LANG: I've always wanted to say that. [LR332 LR344]

BOB WICKERSHAM: My name is Bob Wickersham, W-i-c-k-e-r-s-h-a-m. I used to represent the "blue sky" district. I noted when you all introduced yourselves you defined your districts in terms of geography. The geography of my district was so large that we'd still be here. Running through the counties is like a portion of Senator Davis' district now. So I thought it was easier to describe it as the "blue sky" district. I did serve in the Legislature. I did serve on the Education Committee. I did serve as Chair of the Revenue Committee. After I left the Legislature, I served on the Tax Equalization and Review Commission, so I have seen...and before I served in the Legislature I was a deputy county attorney and was substantially involved in assisting our county officials both with budgetary issues and with assessment issues. So I told somebody the other day that I've had almost 50 years of experience in this field, but I started young. That's...it's close. It's not quite 50. I came to the Legislature in 1991 at a...if you think...I'm just going to be candid about it. If you think things are tough now, you should have been there then. In 1991, we were implementing LB1059. Now I was not here for the enactment of LB1059, but we were adopting it; we were implementing LB1059. And LB1059 had a variety of objectives, only one of which was property tax reduction. Another objective of LB1059, quite frankly, was to increase spending in schools. How radical does that sound these days? Our...well, part of the objective of LB1059 was to increase spending in schools because at the time we had a number of school districts that simply weren't able to gather up the resources necessary to offer what anybody would have considered an adequate or even a quality education in their district. They simply didn't have the resources. So one of our efforts was to increase their resources and increase their spending. Now we, of course, we had a...there was a rationale; there was a purpose. And I think that we still need to keep that purpose in mind. We wanted to assure that the students in those districts could receive at least an adequate if not a quality education, and that they had an opportunity that was roughly equivalent to other students in the state based on the amount of spending. Now spending alone doesn't make an education--I think we all understand that--because you can spend money foolishly or you can spend money wisely. But at least you would start with an opportunity for roughly equivalent education. As we continue to talk about funding for schools I think it's important to keep that kind of objective in mind. It isn't just about the

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money, in my opinion. It's about other things, and it's about the students. Now as I said, in 1991, things were a little tumultuous. We were trying to implement LB1059, but at the same time the courts were challenging the basis for property tax use in the state of Nebraska. First, it was the personal property tax was called into question through a series of decisions. Then, ultimately, the court...our Supreme Court raised serious questions--Ms. Lang agrees--about even the real property tax. We were terribly concerned about where the court was going in their rulings. We had special sessions upon special sessions. We had constitutional amendments. We had implementing legislation. We made substantial changes in the tax system, and not just to shift things around and not just to reduce reliance on property taxes, but literally to save the property tax system as a source of revenue for local governments. Now at the same time that the courts...when I say courts, I mean federal and state courts were calling into question how we assessed and collected property taxes. The public had objections to the--let me call them objections--to the use of property tax. There was a widespread perception, not just from the ag sector but from all sectors of the state of Nebraska, that we were relying too heavily on property taxes. The response of the public was to begin circulating initiatives. One of the initiatives would have completely eliminated the use of property taxes in the state of Nebraska. We knew...the members of the Legislature knew and I think, thankfully, in the end people in the state of Nebraska knew that that wasn't going to be feasible. But we did know that we needed to reduce reliance on property taxes. So we initiated a multifront effort to achieve that result. And here again I want to emphasize, it wasn't...our initiatives weren't directed solely at funding for schools. We didn't think that was necessarily the only part of the issue as far as our constituents were concerned. We initiated efforts to review unfunded mandates. Remember that issue? It used to be an issue. Counties, cities, everybody used to complain--the state makes me do it, they don't pay me anything, it costs me money. That creates property tax burdens. Jails are an example. We keep prisoners. It isn't because they violated a county law or because they violated a city ordinance. It's because they violated a state law. But the county pays for it. That's an example of an unfunded mandate. We examined those. We eliminated some. We made efforts to allow local governments to become more efficient and, at the same time, we would have hoped, more effective. We created opportunities for consolidation, statutory frameworks, that is, where counties and municipalities, practically any kind of a political subdivision you could think of could combine or cooperate with others to carry out either all or at least some of their obligations. We created the opportunity for counties to consolidate offices. For example, you've

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seen the opportunities that they've taken in Lancaster and Douglas Counties. That kind of opportunity wasn't available before we changed the laws in the middle '90s. To more directly address property taxes we instituted budget caps or spending limits. Those are still largely in place, although they've been modified. We instituted levy limits. We wanted, at one time, to have aggregate potential levy limits--these are not voted limits--of \$2.13 by 2001. We instituted aid programs because we recognized that if we restricted levies, particularly for some of the political subdivisions, that they would be unable to properly fund services that were needed within their jurisdictions. Some of this we did by guess because we didn't have as much information as you do now; the data simply wasn't available. But we made guesses and by my recollection we didn't do too bad; but, you know, maybe somebody else has a different recollection. I'm hearing chuckling from the staff over there. That means I've misstated something. I told them to throw spitballs at me if I did something wrong. But we did. We were guessing. We didn't have the kind of information that you now have available. We also changed the taxation of motor vehicles. That used to be on an ad valorem basis. We changed that to a schedule with fees. We provided for the partial taxation of governmental property through a constitutional amendment and through implementing legislation. We improved administration of the property tax system; I hope we did. We revised what was in the old State Board of Equalization that had been composed of constitutional officers and the Commissioner of Revenue. We changed that to a more professional format that is now the Tax Equalization Review Commission. We changed equalization time lines. We changed the way in which people could appeal property values, because I have to disagree a little bit with Ms. Lang about whether people know the value of their property. They may know the value of the property, but they certainly disagree with the value that the assessor has placed on it. That used to have to go to the district court. That was extremely expensive, it was burdensome, it was difficult. We changed that to a system where you can now bring your own appeal to a group of people who are dedicated to that issue. The district courts, candidly, I don't think ever liked those kinds of appeals. They went through the courts very slowly and it was very difficult for the courts. We instituted the Office of Property Tax Administrator--Ms. Lang was the first one--because we wanted to make sure that there were...there was a special emphasis on that particular portion of the tax base. We tried to inform the public about the assessment system through published notices that have to run every year advising people about how well their assessing officials have done their job. And we instituted the concept of adjusted value. Now this was done specifically within the state aid formula as an

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incentive for local officials to bring values up to what we perceive to be the appropriate assessment level. I'm going to get to use some of Ms. Lang's time, I think. All this culminated in 1997 and 1998 with LB806, which substantially revised the state aid formula, and an income tax cut. Those initiatives were not well received, necessarily, because in 1998 we faced another initiative from the citizens; that was Initiative 413. It would have essentially, in my analysis, removed the state of the ability to respond in the way we had in the years from 1991 through 1997. Ultimately, many of the things that we did were unsustainable and we had to have a tax increase in 2002 to pay for them. I was asked to comment on the principles of good tax policy. When I was a member of the Revenue Committee we had seven principles that we tried to honor: equity, both vertical and horizontal; economic neutrality; competitiveness; we wanted to maintain both an elastic and a stable tax system; economy of administration; and accountability. As part of the bill summary for every one of the bills that came before the Revenue Committee, those principles were noted in relationship to a bill if they were applicable. We were serious about it. We wanted to be able to...if we made changes to the system, we wanted to make changes as consistent as we could with those principles. I'm not going to suggest to you that we always adhered to them, because that's not possible. But we wanted to consider them and we did. Now within the state aid formula we never published principles to guide us, but the principles that I used individually were...and I've hinted at them already. One of them was that our primary responsibility, in my view, was to provide a quality or adequate educational opportunity for students all across the state. Now in part, that required access. Believe it or not, that used to be an issue. There were people, for example, who said, you can't have a school in Arthur County, for example. Maybe they would have said, you can't have a school in Sioux County. But the reality of the geography in this state is that you do have to have a school in Arthur County, no matter how small it is or no matter how expensive it is, because there's no place else to go. And while that may be received wisdom now, it hasn't always been received wisdom. So that was an issue. And I did believe in the principles of equalization and wanted and extended those through other aid programs, not just the state aid to schools program. We extended the principles of equalization to the county aid program. We extended the principles of equalization to the community colleges. We extended the principles of equalization wherever we could, because equalization, at least in part, is designed to assure that you can deliver services with a given equality of resources. And if we were going to use tax dollars, not just simply to reduce property tax burdens but to make sure that we had services delivered, then equalization was a fit. Now I've

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been asked also to comment on assessment practices. It seems to me that the responsibility of the Legislature with regard to assessment practices is to, if you will, monitor the monitors. Your responsibility is to make sure that the people in the Department of Revenue do their job and monitor the assessment system as a whole. It seems to me the Legislature occasionally has responsibility to enact laws that enable the administrators to do their job or...and occasionally to guide the administrators in what you think is important, not necessarily by legislation always, because I think it's very difficult to legislate specific aspects of the administration of the tax system, but at least to let the administrators know what you think is important and to give them a little bit of guidance. Now I've also been asked to comment on what I would change in the current environment. I think it is very difficult because, as I understand the issue and I think Dr. Johnson alluded to it and Ms. Lang alluded to it, there is a problem within the agricultural sector. There has been a substantial runup...do I have...can I... [LR332 LR344]

SENATOR SULLIVAN: Can you finish up? Yes, that would be fine. [LR332 LR344]

BOB WICKERSHAM: I'll try to be brief. [LR332 LR344]

SENATOR SULLIVAN: Good. [LR332 LR344]

BOB WICKERSHAM: There has been a substantial runup in the burden of property taxes paid in the agricultural sector, primarily due to an unexpected and rapid increase in the value of ag land. It's been astonishing, quite frankly. Now...but to respond to that, through the state aid formula at the current time the state aid formula for K-12 seems to me to be exceptionally difficult because the most rural districts are so far from requiring equalization aid under the current formula that it would require enormous changes to the needs calculation of the state aid formula or very, very large changes to the way you calculate resources for them or, in the alternative, I think Dr. Johnson alluded to something like \$500 million worth of additional monies. It's very, very difficult to reach the issue of taxation of ag land through the TEEOSA formula, at least in my view. I think you can look elsewhere. And the place that I would look is to the community colleges. Now in 1996, we had an objective to have community colleges be at a levy of 4 cents. That was our eventual objective. The current statutory limit for community colleges is 11.25 cents. I think that the aggregate levies or the aggregate amount of taxes

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collected by community colleges is around \$190 million--starting to get the math?--from maybe \$100 million or an \$80 million...something like \$100 million, maybe \$90 million. You can substantially affect the amount of property taxes that are used by community colleges. And community colleges collect taxes in rural Nebraska. Now that isn't the only place they collect taxes, but it is one of the places they collect taxes, and people notice this on their tax list. [LR332 LR344]

SENATOR SULLIVAN: Thank you very much, Senator. I assume that you may have some additional comments that hopefully you'll be able to get out through other questions. So Dr. Johnson, Ms. Lang, Senator Wickersham, thank you for your opening comments. And now, Senators, before we start the questioning, though, there are a couple of you who joined us. Would you like to introduce yourselves? Senator... [LR332 LR344]

SENATOR DAVIS: Al Davis, District 43, which is Bob's old territory and Senator Fischer's put together. [LR332 LR344]

SENATOR HARR: Burke Harr, Legislative District 8, Omaha. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Senators. And as I said, we'll now open it up to questions from the members of the committees. Senator Gloor. [LR332 LR344]

SENATOR GLOOR: Thank you, Senator Sullivan. Dr. Johnson, have increased commodity prices historically resulted in driving up ag land values? Do we have a history of seeing these sort of blips? [LR332 LR344]

BRUCE JOHNSON: Well, a lot of this comes back down to commodity price shifts. And historically with that, farm incomes have followed pretty closely. So, yes, the story does get down to what happens in extreme situations like 2012 and in earlier times, too, that perfect storms come together and away commodity prices go. So, yes, there is a pretty close correlation as you look at historical income and returns. [LR332 LR344]

SENATOR GLOOR: Thank you. [LR332 LR344]

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SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: Senator Wickersham, or any of you, do you think back when you started that in...you were there in 1991 where they had the 20 percent income tax allotment. Did you ever see the day that that would disappear? [LR332 LR344]

BOB WICKERSHAM: Well, that was one of the first adjustments that was made in LB1059. There were a series of them. I was one of the folks who resisted the capping of that component of the state aid formula. But the argument was--and I think it would be proved out if you did now, made the analysis--that that component of the state aid formula was growing so rapidly that it would defeat the equalization objective if we did not modify or cap it. [LR332 LR344]

SENATOR GROENE: Did you ever foresee when you said we wanted to spend more money on education that since 2005 we've spent \$1.9 billion on education, property taxes and state aid, and ten years later we're at \$3.1 billion? Do you foresee that maybe this automatic pilot system we're on, basically where the needs and then the Appropriations Committee has to fill whatever the needs formula says, that maybe that should be altered? [LR332 LR344]

BOB WICKERSHAM: Senator, I don't want to be disrespectful, but you're suggesting the decision that I promoted and made and sustained through a special session of the Legislature was wrong, and it is not. That policy that, as Ms. Lang stated it, you have to fill the bucket is the only way you can do it. There is another way to do it. I'm sorry, I shouldn't say that. There is another way to do it, but you wouldn't like it. The other way to do it is to allow the local effort rate to float and that local property tax burdens are dependent on how much money the Legislature appropriates at any given time to fund K-12. [LR332 LR344]

SENATOR SULLIVAN: Senator Harr. [LR332 LR344]

SENATOR HARR: Thank you, Chairman Sullivan. And thank you, committee, for coming today, I appreciate it. A lot of food for thought here. I guess I would ask, Senator Wickersham-- your last comment about community colleges is intriguing--it's at 11.25 percent right now? [LR332 LR344]

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BOB WICKERSHAM: That's the limit, Senator. [LR332 LR344]

SENATOR HARR: The limit, yep. [LR332 LR344]

BOB WICKERSHAM: I don't know...I don't want to imply and I didn't mean to, I hope I did not, that the community colleges are levying at that rate. That is the maximum levy. [LR332 LR344]

SENATOR HARR: And that's what...that's exactly what I wanted to ask you about is, there are six community colleges, is that correct? [LR332 LR344]

BOB WICKERSHAM: Yes, sir. [LR332 LR344]

SENATOR HARR: Okay. And do you know where they are within that range on the levies? [LR332 LR344]

BOB WICKERSHAM: No, I do not. Their levies were set October 15, but I haven't seen them. [LR332 LR344]

SENATOR HARR: Okay. Do you know, overview, if that would be more likely to help community colleges in rural areas or metropolitan areas, if we were to provide more funding or neither or both? [LR332 LR344]

BOB WICKERSHAM: I think that...okay. Senator, I hate to say it, but that depends. And here's what it depends on. As I understand it, the community colleges are discussing changes to their aid formula. It isn't as complicated as the TEEOSA formula, but there is a formula for the distribution of state monies to community colleges. Again, as I understand it, the community colleges are working to make changes in that formula. The formula that was utilized in the '90s and early 2000s had an interesting equalization component to it. If that component is present, depending on how it is designed, you would affect different property taxpayers. But I would suspect that a substantial amount of the relief would go to ag landowners, simply because of the fact that the community colleges that are...have the lowest resource bases tend to be very rural. [LR332 LR344]

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SENATOR HARR: Though it's somewhat inverse? [LR332 LR344]

BOB WICKERSHAM: Was that ambiguous enough? [LR332 LR344]

SENATOR HARR: No, it's an interesting point because it shows you that it's kind of inverse of K-12 where the resources seem to be in ag and then, vice versa, on community colleges it's the exact opposite. [LR332 LR344]

BOB WICKERSHAM: It may...that may be the case, Senator, but again I want to be careful, because it depends on how you distribute the aid. [LR332 LR344]

SENATOR HARR: All right. Well, thank you for your time, appreciate it. [LR332 LR344]

SENATOR SULLIVAN: Ms. Lang, you mentioned in the...correct me if I didn't understand this accurately, but your final comment seemed to indicate that you felt the best way to provide real relief was to perhaps send it out as a credit, which we currently do to a certain extent. But we've also seen that some taxpayers don't even realize that the credit exists. And then the other thing is, how much of a credit would need to be injected to be perceived as real relief? [LR332 LR344]

CATHERINE LANG: And I agree with you. I think that the property tax credit gets lost in terms of, especially, its impact at the state level. It is a substantial amount of resource being sent out to the property owners based on their share of value across the state. And it is on the tax statement, but it is a number that most people miss. I know some states that actually put their state aid numbers on their tax statement so that you can see...for example, if you just did it for schools you could see how much property tax would otherwise have been levied against you, as the property owner, for K-12 education and how much the state's share of that is, obviously, varying district by district. The difficulty is and many senators over years have tried to provide information to taxpayers so that they understand that, and it just gets lost in the process. It's just another line on the tax statement. But should you take it away, it will feel like and will be a property tax increase. And if you increase it, it will feel good one year. But then it's just there the next year. [LR332 LR344]

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SENATOR SULLIVAN: You also mentioned something about a circuit-breaker approach. Do we run into constitutional issues there? [LR332 LR344]

CATHERINE LANG: Not on the constitution, I don't believe that you would. And that's because there would not be a constitutional prohibition of providing state dollars back through the income tax system as a credit or a refundable credit. Just simply because it's based on the property taxes that you pay does not then make the property tax that was assessed not uniform and proportionate. [LR332 LR344]

SENATOR SULLIVAN: Okay, thank you. Senator Scheer. [LR332 LR344]

SENATOR SCHEER: Either Ms. Lang or Senator Wickersham, neither of you I think were there when they were working on the original TEEOSA plan. But it is...from my recollection, part of if not one of the predominant reasons for that was the wide variation of the local effort rates being charged among, at that point in time, probably a thousand school districts, because we still had Class Is and so forth, so that you had a total cost per district of maybe 30 cents, to some districts maybe even \$3. So it was trying to narrow that wide gap of charged assessment. Do either of you ever believe that the system was set up to cope with what has happened in the last five or six years, inclusive of the large growth in ag values that has not been followed by an appropriate or equal change in residential or commercial values? It seemed to me that when it was set up they were hoping that all these valuations would somewhat mirror each other's, not necessarily on an annual basis but certainly on a three- or a five-year basis, that they would all somewhat stay stagnant with each other, so that you wouldn't be penalizing one area versus another. [LR332 LR344]

CATHERINE LANG: In my opinion, the formula is working as intended. They...we all knew, and those that developed the original TEEOSA formula and all of its subsequent modifications knew that these changes could happen. Has this been extraordinary over the last six years? Yes, it has. But both the property tax system and the TEEOSA formula and the workings of those together have mirrored the intent of what these processes are intended to do. Uniform and proportionate value at market, ag land being at 75 percent, is the intended policy. That

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relationship of giving ag land the 25 percent preference, whatever it is, is part of what that policy is. I don't think anyone ever thought that those would ever move the same. [LR332 LR344]

SENATOR SCHEER: I'm not disputing that, I guess. But my point is more specific to, was there ever the thought that you would have such a wide differentiation between the growth in valuations of the different levels of property, of real property? And I guess... [LR332 LR344]

CATHERINE LANG: You saw it in residential, at times, related to the other classes, or commercial. And so we knew it could move like that. It has been extraordinary over the last numbers of years, but that, too, shall change. Residential will come back relative to the others. [LR332 LR344]

SENATOR SCHEER: Well, I can appreciate that, too, will change. But for those folks that have been paying that on an ongoing basis for the last three or four years...you know, there will be the coming of Christ again, but we aren't exactly sure when. So at some point in time they would like to, perhaps, maybe cut a little less of a check. [LR332 LR344]

CATHERINE LANG: And so my point being, what if you establish...I mean, if the idea is we want to take ag land back to its 18 percent contribution to real property taxes, you can calculate what that number is, based on ag land and maybe ag land for schools only. So let's say that number is \$200 million, which actually it's pretty close to that, \$200 million to \$220 million. Do a property tax credit of \$220 million but, as it changes, reduce that credit over time as ag land goes back towards its 18 percent contribution to the whole. Mathematically, if that's what you want to do, you can do it. [LR332 LR344]

SENATOR SCHEER: What are your thoughts of some type of foundational aid on a per-student basis going to districts? Have either of you or any of you thought of that? [LR332 LR344]

BOB WICKERSHAM: Okay, Senator, if I may, let me. So we've got, I think, two questions now or three maybe. One, while I was a member of the Legislature thinking about these issues, I did not contemplate a 12 percent increase in the contribution of ag to (inaudible). Did not contemplate that. It has been extraordinary and just what we've talked about here. Now we knew

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things would shift around. That's true, as Ms. Lang says. But we just didn't...I don't think anybody sat around with a crystal ball and said we're going to see a 12 percent increase in the last six years. That just didn't happen. Now what I think that is, however, is kind of an opportunity because now we've seen it happen. And if we ignore it, then I think the Legislature and the state (inaudible) not going to be as well off in the future as it might be, I guess, a lesson learned, in a sense, that it can happen in another context. And I think in some sense, and Ms. Lang alluded to it, it is going to happen sometime in the not-too-distant future with residential property. We know that residential property is going to start increasing again. And maybe it's going to be 7 percent, 8 percent, maybe 9 percent, maybe even higher in some specific jurisdictions. There's going to be a shift again. Now I think if that shift happens in residential, it's going to largely occur in the urban areas. The urban areas are now equalized school districts. So I think all other things being constant as the...because I don't expect the rural areas to become equalized. They're just too...unless there's a huge decrease in the value of agricultural property--and I don't think anybody foresees that--or a very, very rapid increase in needs, and I don't think anybody sees that either. Am I qualifying too much? [LR332 LR344]

SENATOR SCHEER: No, that's fair enough. [LR332 LR344]

BOB WICKERSHAM: But I just don't think it's going to work out. So what I think we can all foresee is that residential values will increase and that it will reduce the need for equalization aid to the extent that increase exceeds the rate of growth in needs. And I think it will. So you're going to have, although you won't necessarily see it unless you think about it now, kind of found money. If you're projecting that state aid to schools was going to be a billion dollars, let's say, for the year 2020, when you get to 2020, because of the change in residential values, you might find out it's only \$800 million. Now if you want to think about that in advance, you may have an opportunity to then redirect those dollars. If you thought that there was a fixed pool of dollars that you were willing to commit to those kinds of initiatives, your aid to schools, aid to local political subdivisions somehow, or a credit, somehow you're going to reduce the property taxes, you're not just going to take the money back, you're going to continue to direct that toward the reduction of property taxes. You might be able to work out something. Frankly, Senator Mello, I wouldn't blame you if you asked me to shut up because I think this is a little complicated and it's well beyond what you may find practical. I'm thinking about it in more theoretical and just what

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can you see the future looking like. I think it will shift again, as Ms. Lang had noted, and residential will pick it up. But that doesn't mean that the rural districts will become equalized and realize a property tax reduction because of it. [LR332 LR344]

SENATOR SULLIVAN: Senator Davis, did you have a question? [LR332 LR344]

SENATOR DAVIS: I do. Thank you, all, for coming. I appreciate your testimony. First year I was in the Legislature I introduced a bill to shift the cost of community colleges to the state, which didn't go anywhere. And I've got another one in the Education Committee. In large part, I've got a chunk of three community college districts. And I think I'd probably say universally people are somewhat unhappy with the arrangement of that. But I know in sometime around 2000, I believe, Senator Wickersham, there was a state aid package that was put into the formula to reduce the community college levies. How was that done? [LR332 LR344]

BOB WICKERSHAM: Well, there were a couple of times when we adjusted the aid to the community colleges. There were two years, one year in which we had an additional appropriation. I think it was \$30 million. Was it \$30 million? Twenty (million)? Oh, okay. Anyway, tens of millions (laughter). We did put extra money into the community colleges formula and achieved what we said at the time was a dollar-for-dollar reduction in property taxes. The aid formula at the time was designed in such a way that it was a very efficient use of tax dollars for property tax relief. And it was very...but that was very specific. As I kind of was hinting to Senator Harr, it was very specific to the aid formula that we had at that time. If you can have a need formula that isn't very effective or efficient...isn't very efficient in delivering property tax relief. [LR332 LR344]

SENATOR DAVIS: So was that...was the model or is the model for the TEEOSA formula similar to the one for the community college system? [LR332 LR344]

BOB WICKERSHAM: The current one? [LR332 LR344]

SENATOR DAVIS: Yes. [LR332 LR344]

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BOB WICKERSHAM: I don't think so. Frankly, Senator, I'm not familiar with the current formula for community colleges. And, again, I want to be careful because it's my understanding that the community colleges are discussing amongst themselves--I don't know about members of the Legislature--but there are discussions about changing the aid formula for the community colleges. So if...frankly, my advice would be, if it's going to be changed and if you had any idea that you wanted to use the community colleges aid program to provide...if one of the objectives becomes to provide property tax relief, make sure you're careful about how you design that formula. Get as much as you can out of it. [LR332 LR344]

SENATOR DAVIS: Ms. Lang, I saw you shake your head. Are you able to talk a little bit about the formula as to how it works? [LR332 LR344]

CATHERINE LANG: No. I'm generally agreeing with his recollection. [LR332 LR344]

SENATOR DAVIS: Just agreeing, okay. [LR332 LR344]

CATHERINE LANG: And it is very different...I believe that the formula is very different now than it was then. And, yes, you can design a state aid formula that targets particular objectives, particularly if one of them is property tax relief. We've seen it done in...by governors in terms of large contributions back to local government with a direct offset to property tax. And it was one of the only times, to a large degree, that you ever saw property tax go down in Nebraska, and that was back in 1996 or 1997. [LR332 LR344]

BOB WICKERSHAM: '98. [LR332 LR344]

CATHERINE LANG: Ninety-eight, thank you. It's way, way back. [LR332 LR344]

BOB WICKERSHAM: It was a wonderful year; I remember that year (laugh). [LR332 LR344]

SENATOR SULLIVAN: Senator Krist. [LR332 LR344]

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SENATOR KRIST: Thank you, Chair. First I have two comments, questions--you can call them what you will. One of them is related to the revenue side, which would be...you touched upon the commodities. In the current system, as I understand it, I can raise your taxes today, but it could take up to three years to adjust your taxes and come down on property tax. Is that correct?
[LR332 LR344]

BRUCE JOHNSON: Because of the assessment procedure, it really will be a rolling three-year average. And there's no question that some people will open up their assessment statement come next spring and find that the values of my land have gone up farther, yes. [LR332 LR344]

SENATOR KRIST: So not being an economist, but understanding what my constituents are saying to me who own multiple farms in multiple counties,... [LR332 LR344]

BRUCE JOHNSON: Right. [LR332 LR344]

SENATOR KRIST: ...the biggest complaint is that there is no adjustment. I chair...as the Chairman of the Exec Board, I chair a committee and we'll meet here in just a few days. And we'll see somewhere between \$130 million and \$150 million cut in terms of what the Forecasting Board is giving us. [LR332 LR344]

BRUCE JOHNSON: Yeah, um-hum. [LR332 LR344]

SENATOR KRIST: And that's...and I think Mr. Goss, when we get to Dr. Goss, when he gets up here will probably tell us that's not the end of the reductions, that's simply the beginning of that wave that we'll see. It would seem to me that if we were more responsive about the tax base throughout the state we would be giving tax relief to the ag community based upon something very tangible. If I own a home, it's very difficult to say that the house that sold down the street for \$1.5 million doesn't affect the price of mine. But with, as you described, Mr. Johnson, the turnover of land in ag community, that's not a valid or maybe a responsive way to assess value. So I would suggest that on the revenue side, being more responsive to what we're actually paying in property tax, in real property tax, as Ms. Lang would say, would be a more fair, if you will, and responsive way to assess. Did you have a comment about any of that? [LR332 LR344]

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BRUCE JOHNSON: Well, I would agree with that. Moving it out of the school aid formula to a more general reduction from 75 percent to 65 percent, that has been discussed. And that is an element of some relief here for a major sector in our state economy that would, I think, be a very welcome adjustment. And we have already made an adjustment from 80 percent to 75 percent, it's been done. So the record is there that maybe this is the time. Yes, residential will come back in time. For God sakes, what do we do in the short run for the next few years, and will it ever come... [LR332 LR344]

SENATOR KRIST: Right. Well, I would argue...on the personal property or the residential, I would argue that if the Fed adjusts interest rates,... [LR332 LR344]

BRUCE JOHNSON: Yeah. [LR332 LR344]

SENATOR KRIST: ...we're going to see another variable that's going to affect that. So I don't...my projection or my personal viewpoint is, I don't think residential is going to rise as fast as ag rose in the past few years, for a lot of reasons. [LR332 LR344]

BRUCE JOHNSON: That's right. Right. [LR332 LR344]

SENATOR KRIST: My other comment is on the education side. My time here, I've always been aware of my constitutional duties. And my duty is to make sure that we have an education process and the programs that are in place--and some would argue K through 12--I would argue pretty much 0 through 12 in terms of the way we're going in today's environment in the world with early childhood education programs. That does not include community colleges and colleges. And we fund an incredible amount of money into our land-grant university and other colleges. However, I would say--and this is going to throw a variable on the education side in, I would say, and I'd invite any of you to comment--when I look at what the community colleges and the university and the colleges across the state have done in terms of student performance, based upon where K-12 has gone with student performance I say, where best to spend that money, and there are some situations that I think that that performance bang for your buck may not be there on K-12. And so throwing money at the situation, it would not be my first choice. And I'd also put in the record that there is another choice to education out there, and we're seeing

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it more and more and more. And that's private education in different forms, as well as home schooling, which has been an answer that I think has grown exponentially in the last 20 or 30 years. So that's kind of an open-ended...where I'm at with this. And if anybody would like to comment on that, I welcome you to do that. [LR332 LR344]

SENATOR SULLIVAN: I want to be cognizant of the time frame that we're operating under. And we wanted to take a break at 10:30 or at least fairly close to that. We have, I think, three or four senators that have questions that they would like to ask, so we're going to continue that and hopefully move through them. Senator Kolowski. [LR332 LR344]

SENATOR KOLOWSKI: Thank you, Madam Chair. I'm seeking a clarification on a comment made by Ms. Lang and also Senator Wickersham. The comments on equalization and the TEEOSA comments the senator made to increase the spending within schools, all that context from the 1990s up to the present time is within one area of discussion. Ms. Lang, you talked about and made a comment about the spending issues by the districts, and I'm finding those in conflict, the comment about spending more within districts and then your comment about spending issues in the districts. And I'm trying to sort that out. Would you help give some clarification to that, either one of you? [LR332 LR344]

CATHERINE LANG: So I don't want to speak for Mr. Wickersham directly, but what he was referring to I believe is the state of affairs in the '80s and '90s and the ability of a district to be able to raise its revenue to be able to educate the children in those districts. What I was referring to is much more of a macro perspective. It is the spending of any political subdivision that drives the taxes necessary to support those programs and services that are being provided. And so it is the spending of districts that drive this conversation. And it drives how much property tax will be raised and how much state aid will be raised or needed or distributed to the districts, depending on where you've been in history. And so it, in the end, it is the spending. And so the question is, should there be a conversation about what we are spending and how that spending growth is allowed to continue in terms of if people are worried about the property taxes that we continue to increase over time. It's about that spending. [LR332 LR344]

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SENATOR KOLOWSKI: And that's all separate at this point in time from the standards that we'd like to have students meet in the state, which we haven't had the discussion on at all. It's a separate issue. And, you know, to ask what superintendents have you talked to, what are the spending difficulties or issues that you're seeing, all those are separate questions we'll get into at another time. But I was trying to get a clarification between what I saw as something not matching. [LR332 LR344]

CATHERINE LANG: Well, and if you're going to increase state aid and you want it to offset property taxes, then be very, very clear when you provide that money to any political subdivision that you put in the requisite limiters so that it will offset the property tax, if that's what you want to do. And that's what the number-one recommendation of the Modernization Committee was, was more state aid. But it's got to offset property taxes. You can do that. There are ways to do that. [LR332 LR344]

SENATOR SULLIVAN: Senator Brasch. [LR332 LR344]

SENATOR BRASCH: Thank you, Chairwoman Sullivan. And thank you. All three of you have been very interesting and valuable contributors to this state-of-the-agriculture and state-of-the-state conversation. Catherine, you had mentioned and, yes, we both worked together in the Revenue Department. And I'm trying to think of the...was it in the early '80s...the farmer session, because I lived in Lincoln then. But we saw at the Revenue Department the dramatic detriment the state saw when people were losing farms. And now as a farmer's wife I have town hall meetings as a senator and I'll talk to people who have lost their farms or part of their farm, you know, making an adjustment. That's my major concern right now. As we've seen commodities take a significant drop, taxation has taken a significant rise, and you had mentioned the bucket needs to be filled, that the drop from 75 percent to 65 percent has been in conversation for many sessions, not only...it dates back to Senator Kremer and then Senator Heidemann, then I picked it up. And it's not gaining a lot of momentum, but will that put a hole in the bucket? Or what are we looking at, in your opinion, if we did drop the 10 percent and... [LR332 LR344]

CATHERINE LANG: For state aid purposes only? [LR332 LR344]

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SENATOR BRASCH: Right. [LR332 LR344]

CATHERINE LANG: Not for all calculation, right? [LR332 LR344]

SENATOR BRASCH: Well, you tell me. You were the property tax chief. [LR332 LR344]

CATHERINE LANG: So if you do it only in state aid, you...by district, districts that are heavily ag land, all ag land will go down for every district. Every district will appear poorer. So, therefore, without any other change, you'll have an increase in the overall amount of state aid. That money will go to districts that need it based on needs minus resources equals state aid, therefore, some districts that are off 95 percent ag, still won't get any of that resource. So if the intent is we're going to reduce ag in the formula because we want to do something that gets a tax benefit out to ag, you're doing it so indirectly and some of the most rural, all ag-type districts won't get any of it. And what will those constituents say because you haven't impacted them at all? And if that's your intent, you haven't done it. So be direct, is my point. Be direct about it then. But then again, if it's because you're trying to offset this economic change that has occurred, whether anybody could have ever dreamed it was going to happen, it could happen--it was always possible, mathematically--then you've got to calculate what that number is and just...if that's what you want to do, give it back. [LR332 LR344]

SENATOR SULLIVAN: Okay. And, Senator Johnson, you're...or not Senator Johnson. Would you like to run for (laughter)...Mr. Johnson, I'm sorry. [LR332 LR344]

BRUCE JOHNSON: No way, thank you. (Laughter) All right. No question about it. Most directly the 75 to 65 across the board, apart from the formula, would be the most direct way. And I really do believe that that's a very necessary step at this point in time in the agricultural dynamic, the economic situation that we are coming out of and moving into. And, yes, in the process, that represents some state aid movement back into the formula, you know, indirectly. But let's deal with property tax relief in a very significant way to what is our major economic driver across most of Nebraska. [LR332 LR344]

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CATHERINE LANG: But if...(laugh) I'm going to comment on that (laughter)...I (inaudible)...
[LR332 LR344]

SENATOR SULLIVAN: Just...okay. Senator Pansing Brooks, question? [LR332 LR344]

SENATOR PANSING BROOKS: Well, I'd like to hear first what Ms. Lang has to say. [LR332 LR344]

CATHERINE LANG: So if--and it was alluded to--if the contribution of ag land to schools is considered unfair at this time, not because of where its relative value is but it shouldn't be at 75 because that's not the right economic contribution for what they get back, then make sure you have that same discussion for every taxing subdivision out there. So, is it possible you could argue--and this is just a thought experiment--is it possible that you could say, well, you know, for schools the contribution of ag land, economically, should be 50? But for counties, the economic argument is that they should be at 100, and for NRDs they should be at 100. And then you set a framework that looks at the economic relative benefit of the taxes being paid to the subdivision benefiting and giving those services back and you set it that way. And so you set it that way for levying purposes and you set it that way for state aid if you have a value component in any state aid formula that you have--community colleges, counties, schools, whatever. You can go through that thought process. And I would argue, as Senator Wickersham said earlier, you have so much more data now to be able to run those kind of macro economic experiments than we did back then. And maybe you would define, you know, a better way of how classes of property are contributing for property tax purposes. [LR332 LR344]

SENATOR SULLIVAN: Senator Pansing Brooks, did you have an additional question? [LR332 LR344]

SENATOR PANSING BROOKS: Thank you. Yes, I do, thanks. I guess, Dr. Johnson,...thank you all for coming. And, Dr. Johnson, I was wondering if you could speak to a little bit about the...you mentioned that 44 percent are owner operated by... [LR332 LR344]

BRUCE JOHNSON: Yes. [LR332 LR344]

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SENATOR PANSING BROOKS: ...or are owned by nonoperator landlords. [LR332 LR344]

BRUCE JOHNSON: That's correct. [LR332 LR344]

SENATOR PANSING BROOKS: So, please help me understand that a little better. Is that like that these are investments for people that are living out of the state and in Lincoln and Omaha, or what is that? And with that knowledge, do we...would looking at gross operator income give us more information or...I'm just interested in that, in a little bit of a discussion on that. [LR332 LR344]

BRUCE JOHNSON: Well, again, who pays the property taxes are the property owners and, of that group, we do have a variety of individuals, and I'm sure very many of those individuals are represented here as heirs to farms in estate settlements and so forth, and it's a wide array of people that own that land. Very few corporate entities are out there and if they are corporate, they're going to be family farm corporations. And, yes, Ted Turner pays his fair share of taxes...property taxes in Nebraska, but he's by far the exception. Most of these are people that own modest-sized ranches. And so, when we're looking at big farming today, we're looking at situations where these big operations are renting from multiple landlords, dozens in many cases, to get to 3,000 to 5,000 acres of cropland or whatnot. That's our pattern. So again, it comes back to I think something like 40,000 nonoperator landlords are out there, entities in the state. And that is a significant difference in how to look at this. Now, your question about...I think your second... [LR332 LR344]

SENATOR PANSING BROOKS: Well, looking at like gross operator income or something like that,... [LR332 LR344]

BRUCE JOHNSON: Yeah. Yeah. [LR332 LR344]

SENATOR PANSING BROOKS: ... because when somebody says net income, there could be a couple of incomes per farmer. I mean, I'm trying to... [LR332 LR344]

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BRUCE JOHNSON: Oh, definitely. In some of these large farms though, those are multifamily farms anymore, not just one operator but generations,... [LR332 LR344]

SENATOR PANSING BROOKS: Right. Right. [LR332 LR344]

BRUCE JOHNSON: ...multigeneration or two generations at least. Yeah, so our dilemma is always, well, what is the farm out here? Good grief, it's a hard thing to define anymore. But the operation of it and the generation of these earnings from the land are basically done through renting, leasing land, as a land base. And, yes, they own some, but not a lot, so. [LR332 LR344]

SENATOR PANSING BROOKS: Okay, and then I'm not sure that clarified it for me but (laugh), I mean, that's the rub is trying to understand... [LR332 LR344]

BRUCE JOHNSON: Yeah Yeah. Yeah. Yeah. [LR332 LR344]

SENATOR PANSING BROOKS: ...what it all is and trying to understand what all these numbers are. That is the difficulty. [LR332 LR344]

BRUCE JOHNSON: Could I...let me just follow up on that. As commodity prices go, so go the rents that come back down to that retired person that owns a quarter section out here. Those rents are coming down. They did lag, but they did go up as incomes generally did. But they, too, turn. And so, you know, there's this commodity response that's out there. [LR332 LR344]

SENATOR PANSING BROOKS: So is there something more responsive than valuing every three years for the ups and downs? Obviously, there was a great windfall prior to the values going back up as they were assessed. [LR332 LR344]

BRUCE JOHNSON: Because they were lagging on the other side? Yes. [LR332 LR344]

SENATOR PANSING BROOKS: Yes, so that...exactly, so if you look at a six-year continuum, hopefully, they're at an even spot, is what my understanding of those valuations is. So is there

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something that's more precise at valuing and looking at commodities and trying to get something more fair for farmers? [LR332 LR344]

BRUCE JOHNSON: Well, you can't have it both ways. It can lag on the upside and it does lag on the downside and that's what we're up against. To be quite honest, I can't see how we would come to a better measure of this relationship here. We basically are going to have to look at, hey, what's the return to that land as a cash rent operator or a cash rent owner? And you could follow that to some extent, but this is...yeah, it takes data. It would take a lot of data. [LR332 LR344]

SENATOR PANSING BROOKS: That's what I'm worried about. Okay, just quickly, you talked about the ability to pay versus the benefits received and I'm just interested from a policy standpoint. We have to look at those things for roads out in the west. [LR332 LR344]

BRUCE JOHNSON: Oh, everything, yeah. [LR332 LR344]

SENATOR PANSING BROOKS: I mean of course that in a state of such extremes as we have, there are things that we pay for that we get no benefit from. That's the whole UPS version of charging people. You know, they have to deliver to some place clear out or they can deliver to Atlanta, Georgia. [LR332 LR344]

BRUCE JOHNSON: Yes, exactly. Yeah. [LR332 LR344]

SENATOR PANSING BROOKS: And that's a lot more efficient. So, I'm just interested in how you think we should be looking at ability to pay versus benefits received. [LR332 LR344]

BRUCE JOHNSON: Well, first of all, ability to pay creates an issue when you're looking at a property tax. When you're heavily investing in your business in land-based assets and those property taxes to be granted are stable, that's great in terms of administration of services, but they don't budge very much except, you know, very slowly, when your income is so volatile as agriculture income is, that that really creates some big issue. And quite frankly, that amount of property tax burden that is out there now is getting to be very, very hard to deal with. So, you know, I think we really have to watch that. [LR332 LR344]

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SENATOR PANSING BROOKS: Is that partly liquidity? [LR332 LR344]

BRUCE JOHNSON: Not really, not at this time. Twenty-five years ago, yes. Right now, we just are not seeing the profit margins that justify. Did we overshoot on land market runups? Yes, we did and we'll have some adjustment there, but we're not falling into a farm crisis. We don't need Willie Nelson to show up in the Memorial Stadium in the near future, but maybe down the road, as they say. Now the whole comment, though, is benefits received and I think as a state body that always is an equity question, benefits received. Yes, agricultural producers will be willing to pay, you know, for schools--that's very important to them--and certainly roads. Maybe they should be taxed or assessed at 100 percent for roads and bridges and that sort of thing. So, maybe there is some adjustment here. But I would say that the farm community and rural citizens are good taxpayers and they're willing to pay their responsible share, but a fairness to it, yeah. And on schools, it's disproportionate as they see this. [LR332 LR344]

SENATOR PANSING BROOKS: Just one last thing. So when you think of the 75 percent or you're...or possibly going to 65 percent,... [LR332 LR344]

BRUCE JOHNSON: Yes. [LR332 LR344]

SENATOR PANSING BROOKS: ...can we think of that in terms of equalization? [LR332 LR344]

BRUCE JOHNSON: It's a step in the right direction to say, look, ag is carrying too much at this point. I would... [LR332 LR344]

SENATOR PANSING BROOKS: But they don't think there's equalization and there is a 25 percent. So I'm just interested. If we do that, I'm not sure that's going to make anybody happy on the whole equalization issue. [LR332 LR344]

BRUCE JOHNSON: Well, we'll get a little ways down the road. [LR332 LR344]

SENATOR PANSING BROOKS: Thank you. Thank you for your time. [LR332 LR344]

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SENATOR SULLIVAN: I believe that I got indication from at least two senators, Senator Schnoor and Senator Schumacher, that they'd still like to ask some questions. I really would like to adjourn or break at 10:45, so to that end, Senator Schnoor. [LR332 LR344]

SENATOR SCHNOOR: Okay. Thank you. My questions are primarily to Dr. Johnson. I do appreciate you pointing out that not all...that 60...you said 40 percent of landowners are not farmers. My research shows it's closer to 60 percent that are not farmers. And a prime example is a retired farmer who has invested in that land over the years and that is...the rent he receives is his retirement income. [LR332 LR344]

BRUCE JOHNSON: Yes, sir. Yes, sir. [LR332 LR344]

SENATOR SCHNOOR: And that is a...I would venture to say that's a large majority of the nonfarmers that own property. There are investors. That's a given, but that is a prime example. Do you see, Dr. Johnson, ag land valuation decreasing, because historically it has never gone down, it has only gone up, even when market values have increased...or excuse me, decreased in the '80s primarily, valuation did not decrease. It stayed the same and, in fact, increased over the years. We are now in uncharted territories, but do you see ag land valuation, you know, not market valuation, not market value, but valuation, taxable valuation, do you envision that decreasing? [LR332 LR344]

BRUCE JOHNSON: To the extent that we're using that rolling three-year average of some metric of market happenings. If land...if the land market out there were to drop 25 percent, which it could, from where its peak was, in time there would be some downward movement of assessed values. But again, a rolling three-year average slows that adjustment and that would, you know, it would be pretty slow in coming, as it's also slow in coming on the upside. [LR332 LR344]

SENATOR SCHNOOR: Well, I guess I'd have to argue with you on the upside increase... [LR332 LR344]

BRUCE JOHNSON: Yeah. [LR332 LR344]

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SENATOR SCHNOOR: ...when it goes up 20 percent every year. And kind of with what Senator Krist was saying, the rapid increase in the ag land valuations compared to residential, some have gone up. I'd venture to say there's a few that have gone down, but it's been a small increase,...
[LR332 LR344]

BRUCE JOHNSON: Very much. [LR332]

SENATOR SCHNOOR: ...you know, roughly 20 percent increase on ag land, give or take, maybe 2 percent on the...in the urban areas. But, you know, a general rule of thumb in the ag sector that we use is a piece of property will come up for sale once in a lifetime. [LR332 LR344]

BRUCE JOHNSON: Yes. Yes. [LR332 LR344]

SENATOR SCHNOOR: So, but yet, I have a piece of property next to mine. You know, we'll just use an arbitrary piece. [LR332 LR344]

BRUCE JOHNSON: Right. [LR332 LR344]

SENATOR SCHNOOR: It may only sell once in my lifetime, but yet the valuation goes up based on the sale of other properties around there and not that particular piece of property that will only sell once every 100 years. [LR332 LR344]

BRUCE JOHNSON: Right. [LR332 LR344]

SENATOR SCHNOOR: So that's assuming I live 100 years. But what...so based on that, what are your thoughts of moving to a valuation based on income? It is in statute that there's three ways to value property. You know, one is market value, one is income, and I just don't recall off the top of my head what the other one is, but what is your thoughts on moving to valuating property based on the income? [LR332 LR344]

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BRUCE JOHNSON: Well, we actually were requested by Nebraska Farm Bureau about four years ago to look at that, look at an income-based valuation method across the state of Nebraska. What we found is that there is so much variation and at that time the...to come to a uniform capitalization rate to use for that income approach, there is not a uniform and standard capitalization rate that would do justice to the variety of land that we are looking at. In some years it would work to the advantage of crop producers and other years it would work to the advantage of ranch and range land because we have that countervailing effect to some extent in this state with those two, you know, working in different ways. It was not considered a very workable approach because, again, your farm, it might be very difficult to come up with what would be a reasonable estimate of earnings off that land in this given time period. And again, if we were going to use a uniform capitalization rate which we divide the income from, by, to get to an assessed value, those capitalization rates would really distort, so not very workable.
[LR332 LR344]

SENATOR SCHNOOR: Okay. [LR332 LR344]

SENATOR SULLIVAN: Okay, one final question goes to Senator Schumacher. Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. Tax policy sometimes has unintended consequences. And, Dr. Johnson, I think you pointed out a couple of issues in your testimony, one, that it's very hard for us to know what land is really worth because of the very limited number of sales. And another part of it I think that Senator Schnoor just touched on with you was that we have a lot of nonoperator owners, typically retired grandma and grandpa in a nursing home, who isn't selling their land, and...but do pay the property taxes. Now I think Senator Wickersham used a word that I liked, "astonishing." We've had an astonishing increase in land values which necessarily correlates to an astonishing increase in the wealth of agricultural estates. The reason grandma is sitting in the nursing home not selling their land, the reason you aren't liquidating land in order to get out from under the unbearable property tax burden is because, if you do while you are alive, you pay up to 20 percent federal capital gains tax on that income and you pay the state of Nebraska 6.84 percent of that income, so you lose a quarter of it right then and there by selling the land. And if you die with that land, your heirs

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virtually pay no tax. They escape the income tax altogether and you transfer astonishing amounts of wealth to your land out to your heirs. What countervailing tax policy could we adopt to neutralize the effect of that deterrence that we have in our present system to liquidating land and putting it on the market so that it reflects its real value better? [LR332 LR344]

BRUCE JOHNSON: Well, you've already done the math and that's awful hard to get over that dilemma. I might as well keep it and the heirs are going to be off scot-free. It's just about the story. I'm not sure how I would even come up with a way of countervailing that. You know, in time, I think, you know, we do have a beginning farmer program in this state and that's the spirit of saying, hey, allow new people to come in and begin to invest in an agricultural career and all of that, but it's minor. And it's not even a significant aspect when it comes to the dollars and cents of the tax situation. So I wish I had an answer, but I don't. [LR332 LR344]

SENATOR SCHUMACHER: Thank you. [LR332 LR344]

SENATOR SULLIVAN: All right, presenters, thank you so much. I presume you will be around if there are some specific questions some of the senators would like to pose to you, but again, our deep appreciation for you taking time and bringing your wealth of knowledge to us. We are going to break. We are running a little bit behind, so in ten minutes we will reconvene and start our advocacy group testimony. Thank you. [LR332 LR344]

BREAK

SENATOR SULLIVAN: (Recorder malfunction)...best we can, deal with everybody at the table. It seems like we've lost a few but hopefully they will return as well. Our intention right now then for the remainder of this morning, as well as then when we reconvene after lunch, is to hear from the advocacy groups whom we have sent letters out ahead of time. And in terms of the order that we'd like to use, we have set it up based on who has RSVPed that they will be coming to testify. However, we've had a couple of entities that, because of some of their scheduling constraints, they have asked to go first and we have honored that. So we will begin. And just to remind everyone of a couple of things: the testimony is limited to three minutes; we will be using the light system. And also it was brought to my attention by a few people during the break that it's

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been difficult for them to hear. I realize that we didn't have three mikes up there for the three testifiers so that was part of the problem. But I would remind a testifier to speak directly into the mike, as well as senators, when you ask questions, grab a mike and make sure that you are speaking into the microphone as well. So with those guidelines, we'd like to ask our first testifier, who would be Mr. Vokal. Welcome. [LR332 LR344]

JIM VOKAL: (Exhibit 1) Welcome, or not welcome, thank you for the opportunity and thank you for the accommodations. My name is Jim Vokal, J-i-m V-o-k-a-l, and I'm the CEO of the Platte Institute for Economic Research. If the committee seeks an end result that sustainably reduces the reliance on the property tax to fund education, it can only be achieved through meaningful spending restraint. Unfortunately, many potential options presented still mostly include tax shifts or state spending that subsidizes local spending growth. Tax shifts are only beneficial if it shifts revenue collection from an unstable, economically destructive tax to a more stable, less destructive tax. Stability does not come from a three-legged stool. Stability comes from collecting the most revenue with the least amount of economic harm. The property tax is great at raising revenue with stability, transparency, and neutrality between different types of taxpayers, but that's exactly why we hate it so much. It makes the real cost of government very evident to us. The pain people feel in Nebraska from property tax is not inherent to the tax itself, but from the financial burden imposed by high tax rates, which are the product of local spending. Even valuations lack meaning until applied against rates. The state can play a role enforcing spending higher as easily as local political subdivisions. Unfunded mandates and state aid provide a signal to school boards that the state expects and invites them to spend more. While state taxpayers can certainly choose to provide more funds to school boards, state aid alone can't solve the problem without a guarantee that school boards will reduce property tax rates or the reliance on property taxes. Without a responsible limitation on school current levy rates, whether in a freeze or a reduction, new aid may only accelerate spending. Current state spending must also be reallocated to increase aid. Otherwise, a state tax increase would be needed, which would only place even greater reliance on less stable, more economically destructive revenue sources to fund education. Even the most substantial commitments to foundation aid, which have been discussed between \$60 to \$200 million, would not benefit average property taxpayers if it comes at the cost of higher taxes. Legislative Fiscal Office reports that equalizing reliance on each revenue source would require over \$900 million in state tax increases without changing

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spending. Consider this in light of the fact that the majority of states providing more state aid per pupil than Nebraska spend less overall. A good example is Idaho. It has a slightly smaller population than Nebraska, but appears to provide twice as much state aid to education than we do on a percentage basis. But in dollars per pupil, Idaho is the lowest spending state in the country. On the other hand, most states spending more on education than Nebraska don't reduce their reliance on local sources of revenue like the property tax; they just spend more than we do from all sources. It's worth keeping in mind that many of the states are among the 11 which are shedding long-term population and revenue growth with prohibitively high taxes. Spending restraint must be the key component to any meaningful property tax plan. Nebraska taxpayers on a whole pay substantial portions of each tax type, and a tax shift will only worsen Nebraska's tax climate, particularly if it fails to reduce property taxes. In closing, the cost of government spending, which is taxation, will reach all of these members...all members of our community, whether on their tax bill, in prices for goods or services, or in lost economic opportunities in their area. Platte Institute recommends to the committee that any increase to state aid to education be matched with local and state spending restraints. Property tax rates must be reduced to account for state aid received, and reforms should be cost neutral to the payers of sales and income taxes. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Vokal. Are there questions for him? Senator Gloor.
[LR332 LR344]

SENATOR GLOOR: Mr. Vokal, you heard the panel this morning. Since we're all about solutions here, hopefully, did you hear anything that caught your interest or fancy? [LR332 LR344]

JIM VOKAL: Well, a couple things caught my interest that if we do increase state aid to the local political subdivisions, it could come in for...unfortunately in the form of potentially more destructive, less reliable property...or tax sources such as the income tax. And the other thing is, I don't like property taxes. They are, indeed, high in the state of Nebraska, but they are the most stable tax as it relates to funding education because you cannot transfer land. And the more we consider options that involve income taxes or sales taxes, we reduce the reliability of the funding to education at the expense of potentially damaging the economy of the state. [LR332 LR344]

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SENATOR GLOOR: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Any other questions for Mr. Vokal? Thank you for your testimony.
[LR332 LR344]

JIM VOKAL: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Mr. Goss. [LR332 LR344]

ERNIE GOSS: (Exhibit 2) Thank you committee members, Revenue Committee and the Education Committee. My name is Ernie Goss. That's E-r-n-i-e G-o-s-s and I'm here as an unpaid consultant with...representing the Chambers of Commerce of Omaha and Lincoln and the Nebraska Chamber with Goss&Associates. And here, once you get the material, you'll see I've computed how much is being spent by Nebraska on K-12 education in 2008 and 2013. And you see that in both cases Nebraska is third in the west north central region. West north central region includes seven states and those are South Dakota, Missouri, Iowa, North Dakota, Nebraska, Kansas, and Minnesota. And you see that Nebraska, if you see in 2013, the chart there, you'll see that Nebraska is above the median in spending per student. Now, these are per student numbers, above the median for the region. It is third in the region. Only Minnesota and North Dakota spent more in 2013 per student. And you see there again that Nebraska is above the median for the region and above the U.S. Now the next chart you'll see is the growth, the growth in per-student spending and taxes for our K-12 education. And this again is for the west north central states. And you see that Nebraska again is third and that would...indicating that between 2008 and 2013--now the reason I use those two years, one is the recession year, and the latest data I could obtain for all the states was 2013--you'll see again that Nebraska ranks, in this case, third again in terms of growth in per-student spending. And you see in terms of property taxes, per student, again, 16.9 percent and that ranks about third as well, third in terms of growth in property taxes per student. And you see also the state formula aid. Now this is the TEEOSA aid and you'll see that Nebraska, the property taxes grew at about twice the rate of the TEEOSA aid, or the formula aid, as I call it formula aid. Now the next chart you'll see that I brought is the growth in property taxes and state formula growth. Now this is TEEOSA's 1996 to 2013. And what you'll gather from this chart is, it doesn't work. State aid to education, state aid to local units does not reduce

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property taxes. It reduces in the year it's delivered, but it always goes back up in future years. And next you'll see the chart...this is amazing. This is...I teach in econometrics. I can't follow this equation, the state aid formula, the TEEOSA formula, and that's really one of the real problems with the TEEOSA formula. It is not transparent. No one...I couldn't find anybody that could explain to me how you compute state aid to education, the TEEOSA formula. Finally, on the conclusions, 2008 to 2013, compared to the region and nation, Nebraska spends more heavily on primary and secondary education. The second conclusion: Nebraska growth in primary to secondary education spending is above that of the nation and region. Number three: In order to grow primary education at an accelerated rate, Nebraska has increased both property taxes and state formula aid at well...rates well above that of regions in the nation. Number four: State equalization aid, TEEOSA, reduces property taxes in the year of increase and the following year, but in two years you're back...you've eliminated the impact in terms of property taxes. Only one-third, only one-third of Nebraska school districts receive equalization aid. Equalization incentivizes raising property taxes, and I think that's important. State aid incentivizes raising property taxes. Shifting taxes from property to income and sales violates sound taxing policy in my judgment and that's because it violates the demand of transparency, simplicity, and stability. And finally, equalization aid meets few of the requirements of a sound taxing system...system of taxing and spending. And it's just not working. I mean the idea...again, state aid to education is not working. It doesn't work in any manner I can see. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Goss. I guess we're not really here to debate the benefits or the weaknesses or advantages of the state aid formula, but I do have to ask a little bit about your information with respect to per-student spending because I think part of your explanation...did you not, or do you not take into account the demographics of Nebraska, the declining enrollment in these small rural schools? And thirdly, and it was a point that Senator Wickersham made in his testimony, a student deserves a school. [LR332 LR344]

ERNIE GOSS: Right. [LR332 LR344]

SENATOR SULLIVAN: And we have such sparsely populated areas in Nebraska that there's no other choice. [LR332 LR344]

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ERNIE GOSS: Well, if you look at the comparison states that I list, they're under the equal burden of sparsely populated areas. So Nebraska, the comparisons that I made are to states that have the similar issues. So again, it is an issue. I do not argue against that. I just think the solutions that have been presented thus far are not working and that's why we're here. In other words, you're asking...and as Senator Gloor began with, what are some solutions? In other words, don't just come here with a problem, tell me a solution. One solution is throw out the equalization...the TEEOSA formula. That's one solution. Another that Senator...that Doctor... [LR332 LR344]

SENATOR SULLIVAN: Well, you have to...if you're going to throw it out, what are you offering in response? [LR332 LR344]

ERNIE GOSS: You'll come up with it. You'll have to get some group to come up with it, a different formula. One third of the districts in Nebraska get all the aid, the TEEOSA aid. Why is that? I mean, in other words, you're talking about...and one of the reasons is, of course, you've got a lot of school districts in a lot of areas, school districts...the property values have escalated so much that they can't meet the 95 cent requirement. They're down at 30 cents per...relative to the 95 cent requirement of the formula. They can't get there. There's no way. In other words, they would have to raise property taxes in...I don't know the number, but you're talking about tripling, quadrupling, quintupling the property taxes just to qualify for the equalization aid. I don't think that's a reasonable solution. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? Senator Hadley. [LR332 LR344]

SENATOR HADLEY: Dr. Goss, just a quick question. You know, you spent a lot of time looking at taxes in Nebraska and such as that. We heard Senator Wickersham talk about there have been a couple, two or three times in the past that we've had initiatives to put some kind of limits on property tax relief. Do you sense people in Nebraska are getting closer to that, or do you have any thoughts on that issue? Because I guess that's a big worry of mine that we end up being a California or a Colorado that have done this to terrible results. [LR332 LR344]

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ERNIE GOSS: Oh, absolutely, absolutely. And as Ms. Lang said, the problem is spending. But you're going to turn to some of these solutions, Proposition 13 in California in the 1980s. Yes, and that's no way in my judgment to attack the problem, yes. In other words, come, provide some initial solutions. For example, again, back to Senator Gloor's call for solutions, what about in terms of agricultural land? And I know Dr. Johnson said it can't be done, I think, or it's difficult to do. It can be done. Have a synthetic form, now synthetic or model form, and have the taxes based upon income. Now again, he said the way it averaged cost to capital, which he said was difficult to compute, yes, but is it any less accurate than what's being done? I mean I disagree with...I think Ms. Lang said property tax rates and property values are fairly accurate. I just don't see how she can make that claim. I'm sure...she knows more about it than I do, obviously, but is that any less accurate than doing it on an income basis, as you were talking about earlier? What about an income tax...income basis for gauging property tax on a farm, agricultural land? Is that any less accurate because this land doesn't turn over? One percent turns over yearly. I mean, that's what we're basing it on, the turnover, the 1 percent in some cases. And our surveys say that next year property tax...property values in Nebraska are going to go down by about 7 percent. That's our estimate, 7 percent. Now the problem is, that's a rolling average. How are you going to catch up? The farmers are right now in pain because their income is coming down yet their expenses are growing, one of those being property taxes, of course. [LR332 LR344]

SENATOR SULLIVAN: Senator...let's see. Senator Groene. Or who...? [LR332 LR344]

SENATOR GROENE: Senator Harr was first. [LR332 LR344]

SENATOR SULLIVAN: Okay, Senator Harr. [LR332 LR344]

SENATOR HARR: Thank you. And thanks for coming, Dr. Goss. Numbers are a funny thing. So you're saying one-third of the school districts get all the revenue from TEEOSA's help? [LR332 LR344]

ERNIE GOSS: The formula aid, correct. Yes. Yes, sir. [LR332 LR344]

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SENATOR HARR: Okay. Let me ask you this because I don't know the answer. What percentage of students receive that money then? [LR332 LR344]

ERNIE GOSS: I'm sorry...how many? I think it's 75 out of 245 number. [LR332 LR344]

SENATOR HARR: Okay, but...okay, so, no, but number of students. [LR332 LR344]

ERNIE GOSS: Oh. [LR332 LR344]

SENATOR HARR: So, you're talking number of school districts. [LR332 LR344]

ERNIE GOSS: Correct. [LR332 LR344]

SENATOR HARR: There are some very small ones; there are some very large ones. So answer, if you can, if you know, what percentage of students receive that equalization money? [LR332 LR344]

ERNIE GOSS: I can't answer that because the ones that are getting the state aid, the TEEOSA aid, the formula-based aid, look to me now, again, to be the largest school districts. So perhaps you're...that you are talking about per student, not a lot, not as large a difference as I'm implying. [LR332 LR344]

SENATOR HARR: And that's exactly the point. And then you go on and say TEEOSA is a little complicated. You said you saw a 7 percent decrease in property tax next year. [LR332 LR344]

ERNIE GOSS: Correct. [LR332 LR344]

SENATOR HARR: What's that based on? [LR332 LR344]

ERNIE GOSS: That's based on our surveys of bank CEOs in rural areas of ten states. [LR332 LR344]

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SENATOR HARR: What goes into those numbers? [LR332 LR344]

ERNIE GOSS: It's just a...it's asking the bank CEOs what they judge as the change in property tax...property values over the next year, yes, because... [LR332 LR344]

SENATOR HARR: Okay, so there's no formula. It's just throw a dart at a wall and say 7 percent. [LR332 LR344]

ERNIE GOSS: Much like the assessments are in some cases. [LR332 LR344]

SENATOR HARR: That's your...well, if that were true, I think that would be legally challenged, but I won't go there. And then I guess my question...TEEOSA is difficult, but it's meant to be so that it is fair and accurate. Would you disagree with that? [LR332 LR344]

ERNIE GOSS: I don't think anyone can agree or disagree. No one...I've called experts in the state. No one seems to know how it works. And that's one of the problems. It's not transparent, it's not simple, and what a lot of decision makers are doing is like back to your dart, throwing a dart, that's what they're doing in many cases. [LR332 LR344]

SENATOR HARR: Okay. I think we'll disagree on that. You know, you do a survey that has economic trends all the time and it's complicated and there are a lot of numbers that go into it, doesn't mean it's accurate or inaccurate just because it's complicated. I don't understand how your economic trend survey works. Doesn't mean it's bad. It's just because I don't understand it. [LR332 LR344]

ERNIE GOSS: But I can show you in about 5 minutes. [LR332 LR344]

SENATOR HARR: What's that? [LR332 LR344]

ERNIE GOSS: I can show you very quickly how it works. It's just... [LR332 LR344]

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SENATOR HARR: But there are assumptions based even on the conclusions within those numbers and so it keeps going... [LR332 LR344]

ERNIE GOSS: Right. [LR332 LR344]

SENATOR HARR: ...wind down further and further. So, just food for thought. [LR332 LR344]

ERNIE GOSS: But my concern is that when I've asked... [LR332 LR344]

SENATOR HARR: I don't think I had a question there.

ERNIE GOSS: Oh, sorry. [LR332 LR344]

SENATOR HARR: Yeah. [LR332 LR344]

SENATOR SULLIVAN: Okay. Senator Groene. [LR332 LR344]

SENATOR GROENE: Sir, right now we have a formula that was supposed to be on needs, but I think it has turned into "you spend to the formula." How do we reverse this that we get back to...we get superintendents at schools or business managers again instead of formula manipulators? That's what seems to be right now. They spend to the formula. Do we go back to...and here's a question for you too. Does any of the other states have a minimum levy that forces school boards to have a minimum levy to have state aid? They take away the decision making of the business management, decisions of the local school board, we do, by saying you have to have a minimum levy to have...to get state aid. Does anybody else do that? I can't get anybody in my district to run for school board because--any businessman--because he has no decision-making authority on the operating of the business end of the school board. So is any...when you did your survey, is that good practices? We don't do it to the counties. We don't do it to the NRDs. We don't put a minimum levy and they seem to do a good job of managing the local business of the people. What's your opinion of minimum levies, I guess? [LR332 LR344]

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ERNIE GOSS: I'm not knowledgeable enough, I don't have enough expertise to answer that question, but it is certainly...I've called one of the experts who makes a fairly good living going around the state providing advice to individuals, to school boards about how to adjust their aid formula. In other words, they've had to call in consultants, and I'm not one of those consultants, but in other words, how do you...and you are raising taxes according to your playing the game of the formula. That's one of the problems, as you're indicating, and that's one of the concerns. But even to do that, you've got to hire a consultant to have you...to do it because as I look at it, and I know some have said it's not that difficult, I...it's not transparent to me and it's not simple to me. And I do teach econometrics and it's not...I couldn't teach to this one. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? Senator Mello. [LR332 LR344]

SENATOR MELLO: Thank you, Chairwoman Sullivan, and thank you, Dr. Goss. I only had a couple of questions, just more points of clarification. On your conclusion section, these are your conclusions, correct? [LR332 LR344]

ERNIE GOSS: They are my conclusions and not necessarily those of the Chamber of Commerce, correct. [LR332 LR344]

SENATOR MELLO: Okay. And your conclusions are based on, to some extent, your economic philosophy in regards to what you determine to be sound taxing policy and sound fiscal policy. Would that be an accurate statement? [LR332 LR344]

ERNIE GOSS: It is. [LR332 LR344]

SENATOR MELLO: Okay. And the only other question I have is, these three charts which I know I appreciate seeing charts and data put into a more user-friendly format, could you provide the committee your sources, your documentation sources, because it's always a bit concerning when you get charts like this with...that allude to data that's being collected in some other state, from some other source that we don't know what that is. So if you could give us, I guess, these

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charts with the data sources, similar to what the Platte Institute actually had given us, copies of the sources that were attributed to some of the points in their testimony, that would be great. [LR332 LR344]

ERNIE GOSS: Certainly. I used the U.S. Census Bureau and I'll provide the spreadsheet to whoever wishes. Should I send it? Who should I send it to? [LR332 LR344]

SENATOR SULLIVAN: To one of our offices, either Education or Revenue. [LR332 LR344]

ERNIE GOSS: I will. [LR332 LR344]

SENATOR MELLO: Thank you. [LR332 LR344]

ERNIE GOSS: I'll certainly do that. Thank you. [LR332 LR344]

SENATOR MELLO: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Very good. Any other questions for Dr. Goss? Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. Dr. Goss, this is kind of an academic question but, as we talked, it strikes me as a question that we at least should have...attempt to think about an answer to. Our constitution was written in a time when, at least state constitution, when we had to populate the plains in order to farm it, to ranch it. Had to have a bunch of kids helping out on the 160 acres of the ranch. And so we required that there be a...state in some way a provision, education in the common schools for all the children. Times have changed. Agricultural efficiencies have exploded, the need for the communities has decreased substantially, and the flow is the other direction now. Is there a study? Do you know how we would go about obtaining a study that shows us or give us a good clue as to what density does it become financially unsustainable, not work, to operate a K through 12 education system? [LR332 LR344]

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ERNIE GOSS: And you've outlined the real challenge. As Senator Sullivan said earlier, we do have a requirement to provide education and the cost of providing it in these less densely populated areas is higher. And when do you reach the point where it's prohibitive? And one of the problems...one of the things you see right now in many parts of the state is transportation. Many students are being transported hours in many cases and in some cases, in some counties, individuals are sent...they're sending their children off to live in another area close to the school and coming back on Fridays after school. I mean it's remarkably...it is...it is a very unusual situation that has come about because of the increasing productivity of the farm. The larger the farms, the older the farm family, the fewer the farm kids, and you have what we've seen. Nebraska has gone from about 550 school districts to 245, I think it is. So we are moving in the right direction in terms of solutions and I would hope that what I'm here to do, and everyone else is, to find some of the solutions because that's a nice...there will have to be. In other words, that is a huge problem, but it's not a problem without solutions and unfortunately that...it may be that Nebraska has to provide the leadership in that because we're not seeing it in South Dakota, we're not seeing it necessarily in Iowa. And those of us who own property in Iowa, we understand the problem in Iowa as well. And you've got Minnesota. North Dakota is different in terms of energy. So the solutions aren't out there right now and I think one of the solutions would be to go to more income-based taxes in terms of property taxes on the farms to get up...but that doesn't solve that problem though. That's still a spending issue, but then you've got the requirement to provide education. I mean, it's an unbelievably difficult balancing act, but technology provides some movement toward a solution in that technology. But, in-home schooling, not what we want to...I think most of us wish to see come about...or demand home schooling, I should say, the requirement where you have to home school because we can't provide you with that in your community. That's not probably a solution that most of us would want to see. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Doctor. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? Senator Pansing Brooks. [LR332 LR344]

SENATOR PANSING BROOKS: Thank you, Chairman Sullivan. Dr. Goss, you mentioned in your conclusion with the Chamber that...the Chambers that there are three points that you...three of the eight points are about equalization aid. And so I'm interested in that regard because

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we've....you've heard all the discussions about going down to 65 percent from the 75 percent valuation. Again, I alluded it to...in my previous question, can we look at that 75 percent valuation as a type of equalization? Because the problem is, if we just go down to 65 percent again, we're still going to have the same issue with everybody complaining about equalization aid. And so I'm just interested in your thoughts. I wasn't here when we went to 75 percent, but clearly the districts that are saying that they do not get equalization, many of those districts are paying taxes at 75 percent. So, in a way, it's equalization really. [LR332 LR344]

ERNIE GOSS: It is, but I don't think that's the way to achieve it because moving that...whether you move down to 75 to 65, it was a problem at 85. It became a problem at 75. It will be a problem at 65 as well, and if you move it to 50... [LR332 LR344]

SENATOR PANSING BROOKS: Right, so moving it to 65 isn't going to have anything to do...nobody is going to think we've done anything as far as the schools in equalization. [LR332 LR344]

ERNIE GOSS: And it's... [LR332 LR344]

SENATOR PANSING BROOKS: Correct? Is that correct? [LR332 LR344]

ERNIE GOSS: I agree with you and it's a temporary remedy. In other words, we can get...you can increase state aid in one year and it's...you get over the hump but it just...it comes back. It just..it's not a long-term solution. [LR332 LR344]

SENATOR PANSING BROOKS: But meanwhile that 75 percent is of some value to farmers. [LR332 LR344]

ERNIE GOSS: Absolutely, it would be. [LR332 LR344]

SENATOR PANSING BROOKS: And so there's an attempt to do something. [LR332 LR344]

ERNIE GOSS: Temporary. [LR332 LR344]

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SENATOR PANSING BROOKS: No, it's an annual isn't it? [LR332 LR344]

ERNIE GOSS: But I mean, but your appraisals, your assessments would rise more dramatically, in my judgment. [LR332 LR344]

SENATOR PANSING BROOKS: But it's all in context of 100 percent versus 75 percent. [LR332 LR344]

ERNIE GOSS: But then the base is going to grow more quickly. I would argue the base will grow more quickly, that would be my argument, the base. [LR332 LR344]

SENATOR PANSING BROOKS: Thank you. [LR332 LR344]

ERNIE GOSS: Even though the rate does come down, the base grows more quickly. That would be my... [LR332 LR344]

SENATOR PANSING BROOKS: Thank you, Dr. Goss. [LR332 LR344]

SENATOR SULLIVAN: Senator Baker. [LR332 LR344]

SENATOR BAKER: Thank you, Chairwoman Sullivan. Thank you, Dr. Goss, for your testimony here today. In your conclusions you note that the spending is increasing at a higher rate than some of the comparable states. Is that correct? [LR332 LR344]

ERNIE GOSS: That's correct. [LR332 LR344]

SENATOR BAKER: Is it your opinion that there's frivolous spending occurring in Nebraska schools? [LR332 LR344]

ERNIE GOSS: I could not...I'm not...don't have the expertise to make that statement. I'm not an educational...expert on education, delivering education. [LR332 LR344]

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SENATOR BAKER: When districts are facing increasing challenges with poverty and, you know, more and more is being asked of schools, and to suggest that spending is going up maybe more than it should be, that doesn't quite balance out for me with the challenges being faced, to suggest that schools' spending could perhaps be reduced. Is that what you're saying, that school spending should be reduced? [LR332 LR344]

ERNIE GOSS: I'm not making that, no. [LR332 LR344]

SENATOR BAKER: Okay. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? [LR332 LR344]

SENATOR SCHNOOR: Senator. [LR332 LR344]

SENATOR SULLIVAN: Senator Schnoor. [LR332 LR344]

SENATOR SCHNOOR: Dr. Goss, you had said your recommendation is to throw out the TEEOSA formula and we can start over. And so that's pretty...a pretty general term. But what is your recommendations for a new formula? [LR332 LR344]

ERNIE GOSS: Well, the formula was produced by people who know a lot more about it than I. The new formula will, likewise, be produced by individuals and groups that know more about it than I. So I don't...my...what I would argue for is transparency in the formula, everyone understands it, simplicity, and it not incentivize raising property taxes as it does now. [LR332 LR344]

SENATOR SCHNOOR: Okay. [LR332 LR344]

SENATOR SULLIVAN: Senator Krist. [LR332 LR344]

SENATOR KRIST: I came back in here after I heard your statement and I guess I just wanted to...in the form of a question because I know you're going to tell me you're not an expert in

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things that would lead towards a replacement for the TEEOSA formula, but talk to me programmatically, systematically. If you were in our chair, do you continue with the TEEOSA formula and start to tweak its foundation in terms of adjusting it, or is it more efficient to, as you would describe, throw it out and start over again? And the reason I'm saying that is that for most of us, and maybe it's rightfully so, maybe not so much, there's this iconic influence of people who preceded us in this term limit or the environment that we shouldn't touch what Senator X put into play because it is Senator X, of course, that owns this formula or has owned the formula. So politics aside, do we start to tweak it and adjust it, as many would say, away from the solid need or away from different factors or do we throw it out, baby, bathwater, and start over?
[LR332 LR344]

ERNIE GOSS: I would throw it out. And as Senator Schumacher was saying earlier, what worked in previous decades doesn't necessarily work. We're in a different environment today, a global agricultural market. So the idea of keeping something around because there was a lot of time spent on it...I don't judge is rational for keeping it. In other words, that would be my recommendation. [LR332 LR344]

SENATOR KRIST: Okay, and then the last part, just for the record in terms of your belief, is there a value in the foundation formula in terms of foundation funding that establishes a per cost per child that starts that process? [LR332 LR344]

ERNIE GOSS: Oh, absolutely. In other words, the formula when you read the...if you call it in my world equation number one, fine, you look at it. The estimation, you know, that looks just fine. It's when you get into the details of this goes up, that goes down. And again, I talked to a lot of folks, just calling them up, experts in the field. Experts could not tell me how it really works and that's distressing when we look for transparency. We economists look for transparency, we look for simplicity--those are two--and stability, stability as well. Now it is stable. I think it is reasonably stable, but it does incentivize raising taxes, as Senator Groene was talking about. It does incentivize raising property tax rates. [LR332 LR344]

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SENATOR KRIST: Well, it...the stability part of it is going to lead us over a billion dollars very quick if we don't hold things in check. So I would argue in terms of not being an economist, but I would argue that this stability is not leading to a good conclusion. [LR332 LR344]

SENATOR SULLIVAN: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. Just a quick question for clarification regarding the graph on property taxes, state formula, aid, and spending. I'm assuming that the property tax are local property taxes. My question is directed at, are we comparing apples and apples when we talk of state formula aid, not paying property taxes? Do some of these states have a state property tax which then becomes a component of their state aid so that some of the state aid is really a property tax? Or are we all Nebraska where we're confined to basically sales and income tax? [LR332 LR344]

ERNIE GOSS: I think they're reasonably comparable but this is U.S. Census data and I can't answer that adequately. [LR332 LR344]

SENATOR SCHUMACHER: Thank you. [LR332 LR344]

ERNIE GOSS: It's a good question. [LR332 LR344]

SENATOR SULLIVAN: Senator Davis. [LR332 LR344]

SENATOR DAVIS: Thank you, Senator Sullivan. I'd like to sort of make a statement first and then I'm going to ask my question. When the property tax was developed as a taxing piece, there was sort of more equalization so, you know, people didn't have other businesses and other profit-making enterprises. They had the farm. If you had two sections and one guy had one section, you probably were worth twice as much as the other guy. No so today. We have a lot of other well intangibles and things which you make a reference to here. But you have talked about income. I think if you were to talk to people from the past, and maybe Senator Wickersham might be one, he might say it's really hard to quantify that within our industry. But do you think that that is

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something that should be considered, an income factor within the formula, to try to bring some equity to the page? [LR332 LR344]

ERNIE GOSS: Certainly, as it applies to farming, there does...the volatility in commodity...agriculture commodity prices is unbelievable. Just this morning, as I'm speaking, commodity prices are dropping this morning, took a real hit. And this...and we're talking...in our surveys, Nebraska faces some challenges because of that and the agricultural sector is going to bear the brunt of that. And if you had some income methodology, at least that would be...it would be like ability to pay, which was another one of the factors you wish to have in your system. And that...yes. [LR332 LR344]

SENATOR DAVIS: And then just to...along the same lines, but you have similar things happening, I'll just say, in the Omaha area. You've got people that don't live in Omaha but generate most of their revenue within the city. Is there a way to bring that in? And I suppose that's what the Learning Community was designed to do is to try to equalize that, but that was still based on property. [LR332 LR344]

ERNIE GOSS: Right, it is, and not income and that's... [LR332 LR344]

SENATOR DAVIS: No income. [LR332 LR344]

ERNIE GOSS: And back to Mr. Vokal's statement about the property and income and sales, those are the three legs of the stool as we talk about it. And the idea that somehow it needs to be one-third and one-third and one-third is probably not...that may have been okay in the '90s and it may have been okay in the 2000s. Is it okay today? I don't know, but certainly ability to pay is another one of those features that we like to see in a tax. But you can't sacrifice that, or you can't sacrifice transparency for necessarily that ability to pay. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Dr. Goss, for your testimony. [LR332 LR344]

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ERNIE GOSS: Thank you, Senators. [LR332 LR344]

SENATOR SULLIVAN: We'll now proceed with the order of testifiers, as I indicated earlier, from which we received response that they'd be coming. So first of all will be Larry Dix, Nebraska Association of County Officials. Welcome. [LR332 LR344]

LARRY DIX: (Exhibits 3 and 4) Good morning. My name is Larry Dix. I'm executive director of the Nebraska Association of County Officials. I appreciate the opportunity to be here this morning. Certainly I want to be candid, brief, touch on some of the topics. [LR332 LR344]

SENATOR SULLIVAN: And could you spell your first name or I guess your last name? [LR332 LR344]

LARRY DIX: The spelling of my first name is L-a-r-r-y; last name is D-i-x. You're going to be receiving two handouts that sort of dig down into examples of property taxes. And we're going to look...those of you who have been on the Revenue Committee have seen these for years. One is showing what's happening with the levies in county government. The other one is giving you an example, a ten-year history of what's going on in one of our counties. And so it, in my mind, it raises a few questions that we should go into. Certainly, Senator Pansing Brooks had asked the question, what happened when we went to 80, to 75? That happened, of course, in 2006 and since that time we've had more and more schools being nonequalized, so we did see that during that point in time. The letter that came out talked about seven different options that, you know, have a brief comment on that. One was increasing the Property Tax Credit Fund. Certainly if the goal is to give money back to property tax owners, that meets the goal. Everybody who is an owner, regardless of an individual, corporation, farmer, whoever, they get that. That doesn't go to all the taxpayers in the state of Nebraska. It goes to the property tax owners. And so today if you have \$100,000 piece of property, you're going to get about \$94 back this upcoming year. The assessment practices for agricultural land, I know we're probably going to get into a little bit of a discussion. Senator Groene may want to talk a little bit about this three-year rolling average. Certainly that's the way the statutes function now. We've talked about sales. We've talked about comparison of sales within counties. We also have to be aware of a concept going on of borrowing sales and that is extending beyond the boundaries of a county to look at borrowed

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sales. So certainly we will want to look at that. The 75-65, we've talked about that. I've given examples before. And later, if somebody has a question on that, I can give examples of in some counties in some areas, it simply does not work. There's nowhere to shift from the 75 to 65. So let's dig in a little bit into the handouts and then we'll go through it. I just want to call out a couple of things that I want to call your attention to. This is Frontier County. The source is, Senator Mello, is the Frontier County Assessor. You'll see pages of valuation. And I looked...let's look first to fire district and look what happened to the valuation in that particular...let's just say Curtis. You can see that the valuation over that period of time has gone up almost three times and you can see what happened to the levy. Their levy actually increased even though their valuation went down. But now if you look at Cambridge, their levy actually drastically decreased even as the valuation increased. If you'll look at...we've been talking a lot about schools. If you look at the sheet on schools, you're going to see some of those same examples which, in my mind, raise some questions and it raises some questions about how the TEEOSA formula works in nonequalized schools. So I'm out of time. I'll...if anyone has any questions in regards to these handouts, I'll be happy to answer those. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Dix. What is your experience working with county officials? Have they worked to lower their levies? [LR332 LR344]

LARRY DIX: Yeah. What you'll look at...if you look at the sheet that's highlighted in yellow, this is...and this information, Senator Mello, comes from Nebraska Department of Revenue. In the last year, between 2013 and 2014, everyone that's highlighted in yellow has shown a decrease in their levy. This is what you would expect all taxing entities would have an opportunity to do in an area, in a rural area where ag land has increased so significantly. So, last year we had 89 out of the 93 counties actually lower their tax rate. And in an increasing valuation model, if spending stays similar, you would logically see a decreased tax rate or levy, and that's what you're seeing here. But when you get into all the taxing entities that show up on a tax statement, you may not see that same model being followed. [LR332 LR344]

SENATOR SULLIVAN: And they...all of these taxing entities have local elected officials? [LR332 LR344]

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LARRY DIX: All of the taxing entities that you typically see on a tax statement will have locally elected...I want to make sure I get that right because we do have some strange taxing entities out there, but for the most part, your NRDs, your school boards, your cities, your counties, those are elected. [LR332 LR344]

SENATOR SULLIVAN: Fire districts? [LR332 LR344]

LARRY DIX: Fire districts, they're elected. Fire districts may be elected in a little bit different manner but they are elected. When you get to your ESUs, not quite so certain on the ESUs. [LR332 LR344]

SENATOR SULLIVAN: Okay. Thank you. Senator Kolowski. [LR332 LR344]

SENATOR KOLOWSKI: Larry, on Sarpy County and Douglas County, you have them both at zero. They're not whited. They're part of the yellow that you have, but is that because of the Learning Community, those areas? [LR332 LR344]

LARRY DIX: They did not increase. They stayed the same. And when you start to look at Sarpy County and Douglas County, when you take a look at those counties, you're not going to see a tremendous amount of agricultural land. You're going to see a lot of residential, commercial property. So the rise in valuation is more due to the valuation from residential and commercial than it is from an agricultural base. So you...and historically, if you look at...and I produce this for the Revenue Committee probably over the past five years. You're going to see those counties more of a flattened levy rate. In fact, some of those counties, that levy rate hasn't hardly changed over the years because the growth has somewhat mirrored the expenditure and it's been very, very gradual. [LR332 LR344]

SENATOR SULLIVAN: Senator Hadley. [LR332 LR344]

SENATOR HADLEY: Yes, Larry, I commend the counties. This is the type of thing I was asking for earlier in the committee. Now what is happening to the levies because we know we have had valuation increases? And I asked for the same thing when we...for school districts to look at what

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school districts have been doing with our levy, especially the ones in the high agricultural areas. So I appreciate this kind of sheet because so often people, at least in my district, they look at the valuation all the time because they get a statement that says, my valuation went up, but they don't look then to see what the levy does. And they need to look at the levy to find out their total tax burden. So, I appreciate that. When then...this year we're in, when will this information...

[LR332 LR344]

LARRY DIX: This information, I will have it before the...right when the session starts. Usually we receive this report, Department of Revenue usually gets this produced sometime in the month of November, late November, December. [LR332 LR344]

SENATOR HADLEY: Okay, I think that will be... [LR332 LR344]

LARRY DIX: And, Senator Hadley, I would tell you, this document...I just look at the counties. The Department of Revenue produces the same information for school districts, for cities, all the taxing entities. That information is available. If you look at, and like I said, I gave an example of Frontier County, when you get to...you can look at that chart and you can easily see the taxing entities, school districts that are receiving funding through TEEOSA and you can see what's happened. Those levies have remained pretty consistent. Now the ones that have fallen out, you'll actually see some of those school districts who are doing exactly the same thing as counties. They're lowering their tax rate. I take a look here at Maywood. If you look...you know, they were hanging around \$1.04, \$1.05. At some point in time, they no longer received state aid and what's happened to their tax rate since then, it's dropped down to 83 cents. Now I don't know what's happened specifically in that school. There could have been something that happened in that school that caused that. But when you look at this, and the perception of the taxpayer in a rural area like this is he owns...agricultural taxpayer owns land probably in these two school districts. So they could have land, a school district could cut down a county road. He could have 160 acres in one tax district and 160 acres in another tax district and what he would find is that there's a vast difference in the amount of taxes that he has on a property. I'll give you an example. Here are two taxpayers in that county. They both have a hundred...this one person has 160 acres in two parcels; 160 acres, 163. One has a value of \$104,000 for that quarter section; one is \$106,000 for that quarter section. Now if you'll visualize that rural area, these are just across the road from

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each other. They look very much the same, all grassland. On one tax statement he receives a bill of \$916; on the other tax statement he receives \$1,334. Two parcels, side by side, 160 acres of grass, just by nature of what school district they're in, there's almost \$400 difference in tax. That's what the taxpayers see. That's what, when you go knocking on doors, that's what these people are saying. They're saying, man, my taxes are way too high. The guy that has \$916 thinks, hey, this isn't too bad because I know what I'm paying across the road. So, perception is reality in this tax deal. It really is when people get that tax statement. [LR332 LR344]

SENATOR SULLIVAN: Senator Pansing Brooks. [LR332 LR344]

SENATOR PANSING BROOKS: Yeah, you basically answered the question I was going to ask. But I really appreciate getting these statistics because too often, you know, if we just bring specific income tax statements of two farmers like that, we don't get the full picture. If I bring to the Legislature two very different people in my district, we cannot create policy on that, so this kind of information is very valuable to help us to make that policy. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Scheer. [LR332 LR344]

SENATOR SCHEER: Thank you, Senator Sullivan. Larry, you know, I'm looking at your numbers and I appreciate them, but they do sort of point out, I think, what has gone on in some of the ag areas to the extent that in 2006...and I'm not trying to pick on anybody, so I'm not going to verbally say who it is, but the valuation on the bottom line in 2006 was \$120 million. And their levy rate was 0.017. And in 2015, the values have over tripled, so they're now at \$381,000,000 and change, but their tax rate is 0.014 and change. So when you look at those folks in more agricultural areas, the values have tripled, but the mill levies haven't gone down by two-thirds, they've gone down by maybe 10 percent. So, I mean, when you start looking about...my point would be, most people don't care about mill levies, they care about the check. And they're writing that check each year and in the last six years when that check has gone from \$1 to \$3 in change, they really don't care if the value is higher or whatever the case might be. They care about that the check is 300 times more than it was literally five or six years ago. And, you know, we can talk about the stool being offset by a little...you know, and Professor Goss's point that, you know, the proportion amount of taxes have gone up from 18 percent to 29 percent. And all

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those are numbers, but it really comes back to checks. And I, like Senator Hadley, I'm concerned if we don't find some type of method to perhaps mediate what's going on, we will end up with a Proposition 13 of some type in Nebraska. And, you know, I see a lot of educational leaders in the audience today and I can appreciate that. But if that happens, I don't think any of us are going to like the end results of that. And so I think it really is imperative to come up with some type of proposal. I mean, you know, there's no solution to it. I don't think anyone has come up with a solution to it, but that doesn't mean that we can't react to it. I think we have to at some point in time and perhaps this is the year to try to do something in terms of trying to mitigate those increases and the check at the end of the year. [LR332 LR344]

LARRY DIX: Senator Scheer, that's really the point that as county officials we hear that because, when you think of the process, the county is going to send up the notice of valuation increase which starts the process and the taxpayer gets it probably not really very, very happy. Then they get an opportunity to protest their value and they come in front of the county board to protest their value, so they're back in the courthouse. They protest it. Either they can appeal it to TERC or not, but the next thing they do is they get a tax statement and that tax statement comes from the county treasurer. And so they're saying, okay, the county has raised my taxes again, and then they pay it to the county treasurer. And so one of the things, and I can't remember what senator I talked to, I said, you know, one possible thing, because county board members are really in tune to the complaining of the taxpayers because they go through the protests, maybe it would be a little different if we had school board members and city council members and NRD members sitting through that same protest process because these county board members just get hammered with this--my property has went up and, county, you're the one--because that's all they really, really interact with. [LR332 LR344]

SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: First a clarification. Do we move these numbers a decimal point? Like McCook, on the last one, I find it hard to believe that at \$1.03 they only collected \$448,000. Is that...that \$43 million is probably more like \$433 million in valuation, isn't it? [LR332 LR344]

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LARRY DIX: I would have to refer...I would go back right to the county assessor. I just copied the spreadsheets she sent me but I can take a look at it. [LR332 LR344]

SENATOR GROENE: Some of those numbers don't look right. But I guess my point earlier makes sense here that people who are mandated to keep a minimum levy get state aid. If you look, their taxes went up a lot faster than the folks who, because they lost equalization aid, were able to put these local decisions on management of their schools. So I guess the point to be made to get rid of the minimum levies is let's get some local management to control cost. But I've ran this by you, but the valuation thing because, as Senator Scheer said, we do not pay our taxes in mill levies and we do not pay them in valuation, we pay them in dollars and everybody in your examples paid more dollars, no matter what the mill levy was or the valuation. To level that off, you know, so you don't get these spikes, would it be better to maybe go a five-year valuation and then throw out the high year because the high year might be the aberration because, as I always give the example, if I offered you 50 cents for that tie you will not sell it to me, but if I offer you fifty bucks you'd probably take it off and everybody in this room would give me their tie unless they go to...but that's the problem with that high year. It distorts everything for three years or...but if you went the longer period...these counties that only have very few sales, you know, you got a Hooker County north of me probably has 100 landowners and only one piece of property or two trades hands every year. If you went a longer period, would that help the county assessors? And throwing out that high year, would that help average this thing so that we don't get these huge valuation spikes? Because we're not getting valuation spikes, we're getting tax dollar spikes; that's what we're getting. We're getting tax dollar spikes where all of a sudden that farmer is getting another \$50,000 bill and he's gotten nothing more for that. His roads aren't any better, his schools aren't any better, and all of a sudden he's getting hit with that. And as to the 65-75, I'm glad you mentioned that, Larry. There's a lot of counties out there it's meaningless. It's all ag land. You go from 65 to 75, everybody raises their mill levy. Nothing changes. But anyway, so what about looking at valuations so we do a better fair market value where we do a little bit longer period of time? You think it might help less tax protests? [LR332 LR344]

LARRY DIX: Well, what will happen over a five-year average, and I'm not a statistician, but when you look at that, it will smooth out your spikes. As you have the years that we had abnormally, it will smooth that out because it makes it a more gradual. Now...which is great

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when you know you're going to be making some people happy as valuations go up. You're not going to make them very happy as valuations come down because they'll come down slower also. But if you throw out the highest year, you may eliminate the highest part of the peak. You may, you know, level it out. So, I think you have two sides to that that you have to be aware of: Will that go up as fast? Will that come down as fast? Well, you're starting to see in counties, like a Hooker County, as we mentioned, Senator Schnoor said, you know, very, very few of these farms actually sell. They only sell once in a lifetime. The assessors are starting to be asked to what we call borrow sales. So Hooker County is going to borrow sales from Thomas County or from Blaine County. The farther out that we start to borrow sales, just to get a pool, a volume of sales to make an analysis, I think we're damaging the quality of what's going on within that county. So the borrowing of the sales, I always want to make sure the local assessor agrees with it. But what you're doing, Senator Groene, is saying, if we take five years, we don't have to go as many counties away to borrow sales to get statistically a pool and what it would do is level it. And I would agree with that. [LR332 LR344]

SENATOR SULLIVAN: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. In looking at these, the chart of the total value and times the county rate, that's just the counties, that's not the school districts or anything else, right? [LR332 LR344]

LARRY DIX: Right. [LR332 LR344]

SENATOR SCHUMACHER: If I take the top one, and I just had time to do the one, multiply the value times the rate, for 2013, 2014, for Adams County, I think I'm coming up with a number of a 13 percent increase in the amount of taxes collected. Why would you have such a huge increase when inflation is at 2 percent? I mean, and I haven't done it on the rest of these numbers, but if that approach is correct, I think that underscores the point that Senator Groene and Senator Scheer were making. The check you've got to write is a whole lot bigger and the tax rate difference, these miniscule numbers, don't reflect an adjustment to hold the spending at a reasonable level. [LR332 LR344]

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LARRY DIX: And I...you know, also in the Department of Revenue numbers, and I don't have that here with me, there's also another report that you're going to want to take a look at because I think it also...and it gets down to, I believe, what Cathy Lang had mentioned, is it...you need to also look at the spending side of that because when you're getting into that spending side, you take the valuation times the rate. And in essence, the way budgeting in most of these political subdivisions work, somebody submits the budget. They say, okay, yes, we're going to agree. You then take the valuation you have available, you back out of it, and get to a rate. But if you see a significant raise in that spending, you may have a situation where valuation is going up faster and you can make the calculation. Your tax rate can actually go down but you end up spending more than 2 or 3 percent. [LR332 LR344]

SENATOR SCHUMACHER: Well, and that's the point if it though. You've got to take spending into account here or this doesn't work. And when you get to spending six times the rate of inflation, unless a tornado went through or a flood washed out a bunch of bridges or something, or a huge growth in population, that looks like a problem rather than the property tax mechanism. [LR332 LR344]

LARRY DIX: Well, I'm not disagreeing with you. [LR332 LR344]

SENATOR SCHUMACHER: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Davis. [LR332 LR344]

SENATOR DAVIS: Thank you, Senator Sullivan. A couple of questions, Larry. The first one is in regard to your sheet with the yellow line and you remember last year when we did the fire district bill, so is that...those districts that were kicked out, those fire districts, are they included in this data? [LR332 LR344]

LARRY DIX: No, those are...that data there is just specifically county. [LR332 LR344]

SENATOR DAVIS: This is only the county. [LR332 LR344]

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LARRY DIX: Only the county. [LR332 LR344]

SENATOR DAVIS: Okay. [LR332 LR344]

LARRY DIX: Only the county. Again, that information is available. You could do the same thing for all the fire districts around the state and the school districts and the community colleges. I think Senator Harr asked about community colleges. Yep. But this is just county. [LR332 LR344]

SENATOR DAVIS: And then I was going to ask you about this document. We do see the valuation for Mid-Plains Community College on there but no tax asking. [LR332 LR344]

LARRY DIX: Oh, it must have just got truncated off. I'll get those. I'll print them off. I'll bring them back for this afternoon. [LR332 LR344]

SENATOR DAVIS: So if you're able to get...I would like to see that. I'm sure the rest of the committee would too. [LR332 LR344]

LARRY DIX: Yep, I will...yeah, because I think there was only one community college in Frontier, one that they would pay into, but I'll get that for you. [LR332 LR344]

SENATOR DAVIS: Yeah. And then this is basically an observation but it's going to lead into a question. So looking at the Maywood situation, what I'm thinking what happened was they fell out of equalization and so, you know, in the span of two years basically, the taxes went up by 33 percent to fund the school system. But in these counties like Frontier County, which is a rural county, when ag valuation goes up, are we seeing an actual reduction in taxes for the commercial and residential property there because of the resource in agriculture? Is that something that your assessors or your treasurer... [LR332 LR344]

LARRY DIX: I would have to go back and ask for sure. I would hate to just answer that off the cuff, but I can go and ask that question for you. [LR332 LR344]

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SENATOR DAVIS: Okay. I think that might helpful to know. Thanks. [LR332 LR344]

LARRY DIX: Okay. [LR332 LR344]

SENATOR SULLIVAN: Senator Baker. [LR332 LR344]

SENATOR BAKER: Thank you. Larry, there was a time when counties received aid from the state, is that right? [LR332 LR344]

LARRY DIX: Correct. [LR332 LR344]

SENATOR BAKER: And when did that end? [LR332 LR344]

LARRY DIX: That ended about three, four years ago. [LR332 LR344]

SENATOR BAKER: Could this be reflected, what you're seeing here, you know, the example of Adams County going up 14 percent in taxes collected, only 2 percent decrease in levy? Could it be there was some pent-up demand they couldn't meet before? [LR332 LR344]

LARRY DIX: Well, there certainly is that. I think we've talked before about unfunded mandates and Senator Crawford actually did a study on that. And you will see, you know, that the services that counties provide are really dictated by the Legislature. We don't have a whole lot of options and the services that counties provide are pretty much...we can't do without. There isn't a whole lot of extra things in there. I mean, we've got to maintain the roads, we've got to provide jails, we've got to have certain things. And so, once you see that, we did notice an increase on our side from spending to overcome some of the loss of state aid, no question about that. Even with that, even with the increase that we had to cover, we still have some examples where they were able to lower that tax rate.

SENATOR SULLIVAN: Any other questions? Thank you, Larry. [LR332 LR344]

LARRY DIX: Thank you. [LR332 LR344]

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SENATOR SULLIVAN: I think since it is 12:10, we will end this session for this morning and start up again. We will start with Mr. Spatz with the Nebraska Association of School Boards and that will be at 1:30. Thank you all. [LR332 LR344]

BREAK

SENATOR GLOOR: We're going to get started. Good afternoon. We're going to continue the hearing on LR332 and LR344. Thank you. I'm Senator Mike Gloor. I'm Chair of the Revenue Committee; Senator Sullivan, Chair of the Education Committee. Those of you who were here this morning know we're doing a bit of a tag team on the hearing today since it's a hearing involving both our committees. We're going to forgo introductions, I think, around the table, but I do want to cover some of the hearing components. Again, we're starting off with invited testifiers that we ended up with and then we'll move to the public later this afternoon. If you're planning to testify, please pick up a blue sheet and leave that over there or with the page. If you have handouts, we need 24 copies of those handouts so that we have copies for all the attendees. Please speak into the microphone so that we can hear you and we'll try and do the best job we can. Give us your name, please, and spell it so that we get that accurately on the record. Wouldn't be a bad idea that if you represent somebody, remind us who you represent. Turn off your cell phones if you haven't done so already. Every testifier will have three minutes and then, of course, we'll go to questions, which frequently means you'll be talking for longer than three minutes. We do have a light system: green until the last minute, then it's yellow, and when it's time for you to wrap things up, it will go to red. We appreciate any and all testifiers, but please remember that if we've heard it before, we appreciate not hearing redundancies. Give us something new that we can hear. And I would also remind you, we know property taxes are high. We're trying to work on that. We're looking for solutions. And to the extent that you've got some solution or some ideas, that would be helpful to us. And with that, we'll go back to our testifier list. John, welcome. [LR332 LR344]

JOHN SPATZ: Hi. Thank you very much, Senator Gloor and Senator Sullivan. My name is John Spatz, S-p-a-t-z, but believe it or not it is pronounced "spots." I really appreciate this opportunity to be here today. I represent the Nebraska Association of School Boards. My membership is the local political subdivision that represents school districts and levies property taxes. And in July

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my legislative committee met. And my legislative committee is very similar to this Legislature in that we have a very diverse representation from urban, rural, equalized, and nonequalized. And we had a very lively discussion about property taxes and school funding, probably very similar to some of the discussions that you've had about the issue. When we left that meeting, I had two directives as the executive director of the Nebraska Association of School Boards. Number one, it is very important for them that I communicate with this Legislature that it's important to all school districts, to school board members, to superintendents that when this body talks about property taxes and school funding that they engage their school districts at the local level. School boards and administrators want to participate in this process. We want to know how any legislative proposals will affect our school district. So I really appreciate this opportunity and I want to communicate that message with you again, that as this process continues, we do want you to have a relationship and a communication with your local school districts in your area. Number two, what they wanted me to do is figure out a way that we as an organization can engage in this issue in property taxes and school funding. And again, my membership is represented probably in the majority, if not all, the groups that you've invited here. I have some relationship with my membership in all of these groups, so I'm all over the place. So looking at this issue, one of the things that I would like to discuss as part of a solution, first, I'd like to caution this group and the Legislature that any short-term solution we've got to look to see what the long-term consequences are. But as a state, as an organization representing school board members, one of the things I think we need to do is look at the long term. We need a vision for the long term because there's probably not a school district in the state that does not want to lower their tax levy. But when we look long term, when we look at the state budget, there are a number of things that we would love to invest in as an organization, as taxpayers, in roads, in property tax relief, in education. We look at those things as investments. But the other side of the budget, there's a demand side that keeps eating up the supply, things like Corrections, things like juvenile justice, Medicaid. The demand for that side of the budget continues to grow, which eats at the supply for things that we want to invest in, like roads and education and property tax relief. One of the solutions that we love to talk about with this group and, quite frankly, with all the groups represented here today and others out there is we think we need a long-term strategic plan to look at the demand side of the state budget. Because if we are lowering demand, that's going to, in fact, impact school budgets, that's going to impact county budgets for the better. And honestly, the thing with its fingerprints on everything on that demand side is poverty. It's not

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completely responsible. But I know none of you ran for the Legislature to say we've got to increase the Corrections budget. I'm sure you didn't run for the Legislature saying we've got to find a way to increase the need in Medicaid. But collaboratively, and I'm pointing the thumb, not so much the finger, to say to this group to say you need to fix it, but I think we've got to work collaboratively to look at that demand side of the budget. The problem with that solution is that doesn't present a short-term solution to the immediate crisis. And I know, Senator Schumacher, you've talked about our taxing system being kind of a twentieth century model on a twentieth century economy. That's similar in our spending side of it. We've got a spending model here that maybe we would do a little bit differently if we could start from scratch. But if we could find a way to collaborate with the groups in this room to come up with a strategic plan to look at that demand, over time we should have more funds available to invest in property tax relief. I see my light is on. [LR332 LR344]

SENATOR GLOOR: Thank you, Mr. Spatz. [LR332 LR344]

JOHN SPATZ: Yep. [LR332 LR344]

SENATOR GLOOR: So let me ask the question. Is there a meeting of whatever this group is convened to move forward with this or...? [LR332 LR344]

JOHN SPATZ: Well, believe it or not, yes. There has been some work behind the scenes and we're trying to come up with a strategy to bring something forward right now. And it's probably not right to talk about at this meeting, but there is working being done. And I'd love to come back to you and Senator Sullivan, as the leadership of this organization or this committee, and talk more in detail about what we're talking. But there's two sides of that. There's one, there's the demand side of the budget, and there's also the growth side in our state government. And it was mentioned earlier, ag drives, is the engine that drives the state from an economic perspective. We're trying to evaluate what is the role of education collaborating with the business world, with the faith world, with the ag community to develop more growth. And we think technology is a great place in terms of infrastructure. But could there be a statewide strategic plan for that growth side of it? And there's some discussion right now that we're having to try to see what is

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the role of education in collaborating with what I'd call maybe nontraditional partners to look at growth and look at demand and be a player in that. [LR332 LR344]

SENATOR GLOOR: It's probably an appropriate time to make mention of the fact that we do have a legislative planning process that hopes to focus also long term on those issues that are important to the state, including education, because of our lack of institutional knowledge, given term limits. And it might be worth you--that group, anyway--trying to sit down with the state Planning Committee or reaching out to see if we can't, in fact, lock those two up. That's not to say that every member of the Legislature has memorized that state planning document, but it is a new process and one that we're also trying to bring to a higher level of maturity, so a point of information. [LR332 LR344]

JOHN SPATZ: It's great. I appreciate that. And I am familiar with that so... [LR332 LR344]

SENATOR GLOOR: Yeah. Questions? Senator Hadley. [LR332 LR344]

SENATOR HADLEY: Just a quick one. John, Senator Sullivan and Senator Friesen and myself met with 35 superintendents out at the ESU 10; and a question I asked them is how many of you...how many people showed up at your budget hearings. [LR332 LR344]

JOHN SPATZ: Yeah. Right. [LR332 LR344]

SENATOR HADLEY: And I think one said they had one, and one said two people stopped by--but they didn't listen--to see them but they didn't live in the district. And all the rest of them, their hands didn't go up. So we have a system where we hear a lot of complaining about the system. Then when I talk to people about do you go to hear what your local school board is doing, nobody shows up. It's like what I said earlier about, you know, the counties and how much they're spending, and people don't show up. So how do we get...I guess my...it's an unanswerable question, you don't have to answer, but how do we get the taxpayer involved not only through us but by going to their local district to find out what the district is doing in the way of a budget? [LR332 LR344]

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JOHN SPATZ: I think that's a great question. And part of that may go back to the strategic plan vision. We've developed a local community engagement initiative and part of that deals with the school district and how are we going to evolve and grow the school district and meet the needs of the kids, but what's come from that is really we're talking about the whole community. We're talking about how do we bring kids back to rural Nebraska after college, how do we invest in economic development. It would be great if an entity or an effort like that could tie into a strategic plan where we said there's a responsibility on all of us to play a part to solve this reliance upon property taxes. And there's more commonality here than I thought there might be because I think most people in this room, I think most people in the Legislature could start from a position where they'd say we'd like to lower reliance upon property taxes and we want adequately funded schools. I think most people would agree to that. The question is how much do we lower reliance and what does "adequately funded" mean. I think there would be some differences there. But there is some commonality and we've got to find a way to bring people together to meet a common goal and lowering demand on things. We don't want to spend money on Corrections; we have to. If we can identify ways to lower the population in Corrections, if we can find a way to lower the need and demand on Medicaid, everybody here benefits. Every one of these organizations represented on this list today will benefit. This Legislature will benefit. Education will benefit. There's got to be some way to maybe collaborate with the Legislature and the planning group to do something like that. [LR332 LR344]

SENATOR GLOOR: Senator Groene. [LR332 LR344]

SENATOR GROENE: You're talking about lowering costs of Corrections, but ten-year period we went from \$1.9 billion to \$3.1 billion spending on public education, a combination of property taxes. You interpolate that out, we're talking in the next ten years \$5 billion. Where is that money going to come from? I would like to see from the school boards, the taxpayers who represent us on school boards, not the administrators, not the employees, where can we make education more efficient and more effective for our tax dollars. I'm not seeing that. I see this automatic, autopilot spending through TEEOSA. So I would like to see a list of how do we make education more basic to what it's supposed to do a 3rd grader can read, instead of...you mentioned economic development. Quite frankly, it's none of the schools' business. Their job is to educate children. So my point is show me how we can slow down this exponential spending process we're in and give

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us some ideas of what we can cut, what mandates we gave to schools that we need to get rid of. That would be a big help for me. My question: Is there any reason in the world we need a minimum levy for averaging adjustment? Or for the school board, are all these people who are on school boards responsible individuals and know what their local needs are and they could set their own mill levy? Is there any need to have that in law? [LR332 LR344]

JOHN SPATZ: Well, I think from a legal perspective there might be a reason to have that when you talk about needs and resources. And the needs part of that TEEOSA formula is based upon...it's not just simply a formula need but there is true need in terms of our population out there. And when you look at a school district, a school district will run a food service department, a transportation department, athletic department. They're accountable to NDE. They're accountable to the taxpayer. They're accountable to this Legislature. They're accountable to the federal government. They're accountable to the court system. And every year there's new things for accreditation, there's new things that come from the court, there's new things that come from the Legislature and the federal world that add to what schools have to do. And schools have to find a way to meet those burdens, to meet those mandates, and yet be responsible to their taxpayer. And that's a very difficult job. [LR332 LR344]

SENATOR GROENE: But I used to go to Senator Hadley, as a taxpayer group that I organized, to the budget hearings at the schools. And after a while I figured out it was meaningless. [LR332 LR344]

JOHN SPATZ: Okay. [LR332 LR344]

SENATOR GROENE: TEEOSA sets the spending. The minimum levy, they levy to the \$1.05. How they spend it, who cares? But as far as trying to promote efficiency in a public school system with the minimum levies, you could not do it. So do we really need a minimum levy or can we trust the elected officials on the school board to set that levy where it needs to be? [LR332 LR344]

JOHN SPATZ: For TEEOSA purposes, I think there could be some problems if there is not a minimum levy like that, from a legal perspective, because we do get very complicated. It does

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get very complicated but it's complicated for a reason. And there's differences and there's apples and oranges. And at the end of the day I agree with you. I think property tax relief is a noble goal for all of us and we'd all like to see that. But a slowdown in spending, honestly, are we really going to provide a substantial property tax relief, whether it be for ag land or for residential or commercial? It's going to be difficult to provide substantive property tax relief even if we do slow down growth in spending. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

JOHN SPATZ: Yep. [LR332 LR344]

SENATOR GLOOR: Senator Sullivan. [LR332 LR344]

SENATOR SULLIVAN: Thank you. Thank you, John. I believe you were here this morning... [LR332 LR344]

JOHN SPATZ: Yep. [LR332 LR344]

SENATOR SULLIVAN: ...and you may have heard Larry Dix's comments about, of course, the commissioners feeling the brunt of it when taxpayers come to protest their taxes. And he made the comment that perhaps since many of those comments revolve around school funding, but the entities involved aren't at the table in that environment. How do you think your association would react to a mechanism where school board officials are more directly connected to taxpayers in that environment of a tax protest? [LR332 LR344]

JOHN SPATZ: Okay. That's a good question. I think the school board really is directly involved with that. We have a very public process that we have to go through to set those levies and to set the budget. [LR332 LR344]

SENATOR SULLIVAN: But we've already heard that nobody comes to the budget hearings. [LR332 LR344]

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JOHN SPATZ: Well, and that could be in some cases, in some cases. That's probably not consistent throughout the whole state but I think, Senator Hadley, I think you're right. I think you'd hear a lot of school districts say that. But there's also that communication we talk over the neighbor's fence and the grocery store where you're hearing school board members are hearing loud and clear about the property tax burden. It's not just through that public process. But as you know as elected officials, school board members are elected officials, too, and that's kind of the front line of the political process--at that school board level. And they're unpaid volunteers that put a tremendous amount of time into this, and they do hear from their constituents, whether it be through the public process or through the private process. [LR332 LR344]

SENATOR SULLIVAN: They do. [LR332 LR344]

JOHN SPATZ: Uh-huh. [LR332 LR344]

SENATOR SULLIVAN: And when you talk about having direct contact with their patrons, I can attest to that. But sometimes it's...there's not a clear path. For example, a school board member stopped me on the street the other day and said he's a member of the school board; said, I wanted to drop that levy; everybody else on the school board are ag land owners as well; I was outvoted. (Laugh) So there's a little bit of disconnect even within the ranks of a school board. [LR332 LR344]

JOHN SPATZ: Yeah. [LR332 LR344]

SENATOR SULLIVAN: So that's why I'm thinking for them to hear firsthand in an environment where other taxpayers are making voices heard, maybe it makes their decision making a little bit easier. [LR332 LR344]

JOHN SPATZ: Well, it may. And it's certainly something we'd entertain and look at. I'd be interested to get some feedback on that. But you know, school board members, just like you, are property taxpayers too. A number of my membership are farmers or ranchers and they're paying a lot in property taxes right now. And they're in a position to look at the needs of that school

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district and the requirements of state and federal law and trying to make all of that work, and it's not an easy thing to do. [LR332 LR344]

SENATOR GLOOR: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Gloor. The situation that we're in, we only have the three revenue sources. We can shift back and forth, cut this, raise that. And you raise the prospect, well, our salvation may be in dealing with the demand side. But realistically, looking at the demand side we know the request/demand on old age assistance... [LR332 LR344]

JOHN SPATZ: Yep. [LR332 LR344]

SENATOR SCHUMACHER: ...is going to go up substantially. We know that we've got a big pension problem, whether it's with the teachers' pension or the city of Omaha, in which they're gambling that they're going to get 7 (percent) to 8 percent return on investment year over year for the next 30 years, and we know that's not going to happen. And the state, in some of those cases, is obligated to step up. The federal government keeps telling us they're going to cut spending, which would have to include aid to state. Whether they do or not is another thing. We know we have nearly a billion dollars in economic incentive programs laying around. Have no idea how much of that's going to be cashed. So how realistically can we say we're going to be able to deal with the demand side? And so that leads us back to just shuffling the cards around. And at what point do we really deceive the people by acting like we can do very much? I mean what's...what do we do? [LR332 LR344]

JOHN SPATZ: That's right. [LR332 LR344]

SENATOR SCHUMACHER: You...education has had that humongous increase in expenses,... [LR332 LR344]

JOHN SPATZ: Yep. [LR332 LR344]

SENATOR SCHUMACHER: ...you know, and... [LR332 LR344]

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JOHN SPATZ: You're right. Everyone is looking for the magic wand right now and the problem is there's not the easy button to push. And it would be easy for me to come here, report to you and say, you need to put more money into state aid, we'll try to get that to the taxpayers with the Property Tax Credit Relief Fund. But if you look at that trajectory, and you mentioned several things, the look of the trajectory, if we don't address that demand in the long term, even if we could find a great short-term solution, we'll be back here five years or ten years from now. If this effort fails, I don't want it to fail because we didn't try. And from an organizational perspective, trying to engage the people in this room, other organizations that aren't represented here, to look at demand and see how do we lower the need for Medicaid--and you're right, a lot of that has to do with people going into nursing homes--but how do we lower the demand on Corrections and juvenile justice and foster care, etcetera, etcetera? Poverty has a lot to do with that. But it's not...there's not one answer to this. And I used to say it's a birth-to-death, actually conception-to-death, concept: What role do we play in education? What is our role and responsibility in playing to a broader strategic plan? What's the role of the business community? What's the role of the ag community? What's the role of the faith community? What are we going to do to contribute to a larger, bigger vision to address that demand? Because I think you're right. I think when you look at this, we can find an efficiency there, we can spend a little money here, but are we going to have substantive property tax relief with that? Are we going to address that demand side substantively unless we are all working from the same script? I think that's going to be very difficult. I agree with you. And we've gotten to the point where we manage by crisis. And the crisis that's right in front of us right now: we've got Corrections issues, we've got property tax issues. We're trying to deal with that. But as we deal with that, we've really got to look at a long-term vision for how do we manage this, not just tomorrow but ten years from now. [LR332 LR344]

SENATOR SCHUMACHER: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Kolowski. [LR332 LR344]

SENATOR KOLOWSKI: Thank you, Chairman Gloor. John, you've...and all the other speakers, have talked a great deal about the end part of what we're dealing with here, and that's paying for the education. We've spent so little time on that script that you described: What do we want our

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schools to look like? We're not spending any additional time or energy trying to define what we want our students to look like and be in the next...in their century, as they're being born to this time and will be ahead of this particular time and in our schools. And that's really frustrating to me because we do some things that look like strategic planning but it's really not quite there. And we don't have a very good focus. We don't have a very good clarity on the script. And we've spent all this time at the other end, talking about how I'm going to pay for what we can't describe very well. That's frustrating. And I hope we have some time or take the time to do a better job clarifying what we want those students to look like and to be able to do in the world they're going to be living in. We're shallow in that and we need to spend the time on that because that's, from a school perspective, that's where the rubber hits the road. That's where kids are taught and become different people over time because of the expectations everyone in this room has for their children and their grandchildren to be what they could be. It's a missing link and it's very frustrating when we have these conversations because we seem to be looking for a magic whatever it is, the wand that you talked about or anything else, and we don't even know what that picture might look like. We don't clarify. We don't define that well enough. Senator Groene and I, you know, we know we differ on some of the things about the 3rd grade reading level when compared to the world that kids need to be prepared for. And that is...that's a conversation that's need to be better clarified for the entire state of Nebraska to have a better idea where we're going. [LR332 LR344]

JOHN SPATZ: And I think... [LR332 LR344]

SENATOR KOLOWSKI: I know I wish we had more time with that. [LR332 LR344]

JOHN SPATZ: I agree and I...but, real quickly, I think we have a wonderful opportunity right now. I also want to say, hey, Nebraska is better off than a lot of states right now. Doesn't mean we can't be better, doesn't mean that there's things we can't do to improve, but this new accountability mechanism, A QuESTT, gives us an opportunity to do things a little differently. We've been modeled on a testing accountability system for a long time. I always thought, well, what good is it if you can pass a writing test but you have a poor work ethic, or you can pass a math test but you're dishonest or your character is low? What we're putting together with A QuESTT gives us an opportunity to collaborate in ways that we hadn't thought of before and I'm

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really excited. Some of the school districts who are here in this room are doing some great things to prepare our kids for the work force over the next ten years and, hopefully, we have a chance over time to talk about that more. [LR332 LR344]

SENATOR KOLOWSKI: I don't think there's an educator in this room that wouldn't stand for improved student performance at the center of the target. [LR332 LR344]

JOHN SPATZ: Yeah. [LR332 LR344]

SENATOR KOLOWSKI: That's what we're here for. We want that to take place and we need to spend the time and energy to define that better so everyone understands that. [LR332 LR344]

SENATOR GLOOR: Senator Davis. [LR332 LR344]

SENATOR DAVIS: Thank you, Senator Gloor. And, John, thank you for coming. [LR332 LR344]

JOHN SPATZ: Uh-huh. [LR332 LR344]

SENATOR DAVIS: A couple of questions which really relate a lot to small schools and also with rules and regulations, because obviously a lot of the agricultural crisis in property taxes is in the more rural districts. Do you think there are overly...are we overly regulated in terms of some of the things that come out of Department of Education? [LR332 LR344]

JOHN SPATZ: Well, I, of course, yeah, everything. But every rule, every law came from some...there's some reason it got there. Something happened; something didn't happen. And at the time, whatever the entity--the Legislature, the Congress--somebody thought it was a good idea to address that. And Senator Chambers used this analogy of a guy walking up a mountain with a backpack, everybody throwing a pebble in there. And at some point, any one pebble is not going to cause a problem but there's a cumulative effect and it's difficult over time to manage all of that. And having all the mandates listed I think would be a good starting point and say, hey look, which one of these are important enough to keep and expect the schools to pay for, which

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ones do we think maybe we can eliminate? And that's a discussion that perhaps could come of this. [LR332 LR344]

SENATOR DAVIS: So is that something that NASB would be participating in or would take on themselves? [LR332 LR344]

JOHN SPATZ: We would be happy to do that, yes. Yeah. [LR332 LR344]

SENATOR DAVIS: And then the other question, which is along somewhat similar lines, I come from probably the most rural district. [LR332 LR344]

JOHN SPATZ: Uh-huh. [LR332 LR344]

SENATOR DAVIS: And in my district, consolidation is really not a realistic thing, so I can be safely...I can safely talk about it... [LR332 LR344]

JOHN SPATZ: Yeah. Okay. [LR332 LR344]

SENATOR DAVIS: ...where other people can't probably. Does it makes sense for the state to incentivize some consolidation? [LR332 LR344]

JOHN SPATZ: We've had some natural consolidation over the last 20 or so years. We've seen that happen over time. Incentives may help sometime. We've had examples of great collaborations between school districts; we've had some that didn't work too well. Providing an incentive might get school districts to talk sooner than they maybe normally would have or would spur that process on a little faster. But also if you look at the big picture, there could be some efficiencies there, there could be some savings. But we're not eliminating kids and we're not...you know,... [LR332 LR344]

SENATOR DAVIS: Right. [LR332 LR344]

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JOHN SPATZ: ...it's not going to be the panacea of savings that maybe some people think that it would be, not to say that we shouldn't look at that. If it's important, if it's necessary there could be some. If the state could lead that effort and provide incentives, I think that would be a good discussion to have. [LR332 LR344]

SENATOR DAVIS: Okay. Thank you. [LR332 LR344]

JOHN SPATZ: Yeah. [LR332 LR344]

SENATOR GLOOR: Seeing no further questions, thank you. [LR332 LR344]

JOHN SPATZ: Thanks again for inviting me. Appreciate it. [LR332 LR344]

SENATOR GLOOR: Mr. Nelson. [LR332 LR344]

STEVE NELSON: (Exhibits 5 and 6) Good afternoon, Senator Sullivan, Senator Gloor. Appreciate the opportunity to be here as well. Thank you to Senator Hadley and Senator Mello for your presence here today, a extremely important issue and really can't say enough about how important it is that we talk about this issue. My name is Steve Nelson. I'm president of the Nebraska Farm Bureau. I'm here to testify on behalf of Nebraska Farm Bureau today but I'm also a farmer from Axtell, Nebraska. I farm with my son there. We raise irrigated corn, soybeans, and hybrid seed corn. I've offered written testimony. Along with that testimony are some suggestions or answers to the questions that you asked that we provide suggestions to, and I'm not really planning on covering those. What I'm going to start with today, and I know that there's been talk about not continuing to describe the problem, but I just want to go over the chart for a little bit because this really lays out the basis for where my members are coming from. So if you look at the chart that's been handed out, and on the left side you see "Farm Household" and on the right side you see a "Non-Farm Household." And what we show here is that when it comes to income tax, the nonfarm household and the farm household essentially pay the same income tax based on whatever their earnings are. When it comes to sales tax, the nonfarm household and the farm and ranch household pay sales tax on the things that they buy as consumers. We're pretty similar on each side at that point. Also, when it comes to property tax, and it's been talked about before

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today, but as you well know, farmers pay 100 percent on their homes, whether it, you know, on the farm, just like people in town pay on 100 percent of the valuation. Farmers also pay 100 percent on the valuation of their farm site, their buildings. And we also have personal property tax on equipment that is on those farms as well. Where the big difference is, and obviously this is not a surprise to you, but we have to talk about where the big difference is and that's the fact that farm...this farm and ranch household pays on their agricultural land, where there's nothing, nothing else that balances that out on the other side. It's not uncommon today for a farm and ranch family to be paying over \$50,000 in property tax where a nonfarm household would be in the \$5,000 or so area. The reason that it's important for me to lay that out is because that really helps us get to where we think the solutions are. And you're absolutely correct that what we need to talk about are solutions. Everyone here wants to have adequate funding for education, maybe even "adequate" isn't the right word but the necessary needed funding for education. Also I think everyone in the room would say that we want a fair and equitable tax system. We want fairness and equity in who pays for that education, the educational system that we have. We do not have that today. We have a huge imbalance in who pays for the education of children in the state of Nebraska. That's what I'm here to talk about. We have...again, attached are some of the ideas that we have related to the questions that you asked. Essentially, those are, in lots of respects, Band-Aid solutions. And what I'd like to talk about maybe when we get into questions is the fact that our organization is in the middle of our process of policy development today. It's going on in Kearney as we speak. And we have a lot of things that we're talking about some changes and I'd like to talk about those in your questions, so I'll respect the time and stop there. [LR332 LR344]

SENATOR GLOOR: Thank you, Steve. And so I'll jump to your caveat at the end of the list: discussing the issues but won't likely be adopting positions until we get into the second week of December. We may be well on our road towards some recommendations by that time, hopefully we are. Are you thinking that there are going to be wide variations from what you've listed here by the time you finish cleaning up your policy considerations? [LR332 LR344]

STEVE NELSON: Here's how I'd answer that question. First of all, I think that a lot of the things that are talked about that you see on the back pages will probably continue to be in our policy. I wouldn't suspect that all of a sudden we would flip on those particularly. I think that what the real important thing to think about is that...and it's been mentioned in a number of different ways

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here, but this is a huge issue. And I know that I...or I believe, in comments that I made before you in the past, that I've maybe been a little overoptimistic in how fast we can address the issue. And as we continue to look at, you know, what it will take to solve the problem that we have here, I think that it's...you know, we can certainly start on it now. I don't expect we're going to finish this overnight. One of the ideas, and I think I've talked about it before, but I appointed a school funding task force two years ago in our organization to really look at this issue in exactly the way we're talking about it today, and this task force struggled to come up with solutions. It's not easy. One of the things that they've just landed on as they've concluded their work--and this isn't part of our policy today but it could be part of our policy by the first part of December--is setting a limit on how much property tax money can be used to fund education. And obviously, to get there would be...I mean that is something that we can't get to overnight. But some of the ideas are to look at 40 percent of the funding for schools can come from property tax; the rest has to come from somewhere else. That's one of the ideas that we're looking at. Again, that's not part of our policy but that's one of the things that's being discussed. I think I need to say, too, that there is a high level of frustration among my members and among farmers and ranchers that I talk to and that talk to me. And you know, I know we want to sit here as kind of a big happy family and come up with a solution to this problem, but a lot of my members feel like the stepchild in this deal. Now you might say that's right or wrong, but they don't believe that they have a good way to communicate with the school district, like you talked about before, that they can go there, they can talk to their school board member, but they really don't think it does much good. And then there's, you know, I could kind of go on and on like that and I...it's not my goal to sit here and complain, because I think what we need to do is to talk about solutions. But it took us a long time to get where we are. This problem didn't just happen five years ago when we had a runup in land prices. This has been, if you want to use the pebble in the backpack deal, I think this started in the '70s when, you know, as soon as we really set up the tax system at that time, is that we started continuing to add back a burden on property, more burden on property. You know, when that burden is unbearable, I can't answer that, but I know that there are people out there who believe that we're there. And you know it's been talked about, well, does this result in a petition drive or something like that? You know that there are people out there talking about that. [LR332 LR344]

SENATOR GLOOR: Senator Sullivan. [LR332 LR344]

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SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you, Mr. Nelson. So when you hear from your members and the farmers and ranchers, what do they think should be the offsetting mechanism to achieve this? Is it reduced spending? Is it broaden the tax base so we are taxing more things, whether it be sales or income tax arenas? Are we wanting to give up some things in order to? What do you hear your members saying? [LR332 LR344]

STEVE NELSON: Yeah. Yeah, it's a good question and I think the answer is probably a little bit all of the above. And I don't think that there's any one thing that they point at...point to, because our members are committed to education. So, I mean, you may have some say, well, let's just cut, cut spending on education and get there. Well, there's not unanimous thinking on that, but certainly efficient spending is something that we would all be for. Broadening the tax base, the sales tax base, you know, could be a piece of that. You know, we talk about whether or not we can tax things that used to be called intangibles or investment instruments, you know, whatever the word you want to use. I hear our members talk about, well, if this...if my land that I use to make a living is also my savings account or my retirement account, which has been talked about before, and yet people on the other side of this picture have investments and savings accounts, they don't pay property tax on that. Now I'm not saying that's workable or a great idea, but that's what I hear from my members, that they say, well, this isn't right, this isn't fair that I'm paying on this land that I intend to live off either by selling it or by renting it to some young farmer getting started or renting it to my family. I intend to use that as my...as how I live in my retirement. And yet on the other side of the equation, that's not there. So that's another piece that I hear from them. So it is kind of an "all above" and I don't think that there is any one way to get there. And you know, it's obviously a shift, but the shift has already...the shift happened already, so we...now you can easily argue that we're going back towards where we were. [LR332 LR344]

SENATOR GLOOR: Questions? Senator Groene. [LR332 LR344]

SENATOR GROENE: As you know, I was against the 65/75 because of what you said earlier--159 districts are not equalized. I mean we've got districts out there that are 95 percent ag so we go 65/75. It just raises the mill levy on them. [LR332 LR344]

STEVE NELSON: Yeah. [LR332 LR344]

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SENATOR GROENE: There's nowhere to shift. But there's 86 districts where the farmers are equalized and they're getting hit with a dollar and a nickel--65/75 helps them. [LR332 LR344]

STEVE NELSON: Uh-huh. [LR332 LR344]

SENATOR GROENE: Could we do a combination in foundation aid for the unequalized districts along with the 65/75 and tie the foundation aid as a resource that would help the unequalized? And then make it mandated that maybe they have to offset their property tax rate by that plus a percentage. You know, you take the foundation aid, you have to offset your property tax asking. But there's no one answer to help the 86...the farmers in 86 districts that are equalized. It's a different answer for the 159 of the farmers in the unequalized districts: 65/75 didn't help them. [LR332 LR344]

STEVE NELSON: Yeah. Yeah. [LR332 LR344]

SENATOR GROENE: So are you looking at a combination of maybe those two issues and instead of increased spending, shift it back, shift it back to where it came from? Because spending ain't going down, hasn't gone down, even though state aid has shifted to certain districts, but that state aid number hasn't gone down. So anyway, are you looking at a combined package when you guys meet? [LR332 LR344]

STEVE NELSON: I think there's more than one way to get there, to get to that idea of somehow capping the amount of property tax that's used to fund education. So there would be multiple ways to get there. I think what's important though to remember is that this is...because of the magnitude of this problem and the difficulty in solving it, it really tells us that we have to come up with a fundamental change. So if we try to add Band-Aid on top of Band-Aid on top of Band-Aid, and I'm not saying that's what you're talking about exactly, but my caution is that if we try to build a system like that, that we may end up with something that's no better than what we have today, so. [LR332 LR344]

SENATOR GROENE: But 65/75 is a Band-Aid. [LR332 LR344]

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STEVE NELSON: Yeah, exactly, and we did support that. But it's not...I think when...and someone mentioned it earlier today, you know, that that like offsets one year of the increases we've seen, at best. And that is just in those districts where it really does create the offset; that it is really a Band-Aid approach. And I think we need to look at something that's...my members tell me, you know, we've got to look at something that's much bigger than that. [LR332 LR344]

SENATOR GLOOR: Other questions? Senator Brasch. [LR332 LR344]

SENATOR BRASCH: Thank you. And this is an excellent chart. It does help I think make things a little more clear for those not familiar with agriculture. And when you just said that we need to look at something bigger than that, I have a difficult time when we can't do a small step. When we can't step, what makes you think we can leap? What would be the change that we could do without, I guess, creating a tax increase? [LR332 LR344]

STEVE NELSON: Yeah. Without, you know, getting overly into specifics about a proposal that we don't even have completely done yet, I would...the one thing that I would say is that I think on many of these kinds of things that we have, part of how we get it done is to come up with some method of phasing it in, because I'm one that says that if we can get to where we need to be over a period of time, I'm happy with that, even though we wish we could make it happen quicker. You know, I don't see a solution to making this all happen very fast. I think a phase-in would be a way to get there. Some of my members don't like to hear that. They want it to happen faster than that. But I think that's one way that we can take a big issue and, you know, it could apply to other areas besides this, but take a big issue and get to where we need to be. If we can figure out a way to phase that in, that starts to make things work. [LR332 LR344]

SENATOR BRASCH: Okay. I don't have any other questions. Thank you. [LR332 LR344]

SENATOR GLOOR: Seeing no further... [LR332 LR344]

SENATOR DAVIS: Well, I've got (inaudible). [LR332 LR344]

SENATOR GLOOR: Senator Davis. [LR332 LR344]

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SENATOR DAVIS: Thank you, Senator Gloor. So, Steve, just want to share this and then I'm going to ask my question. But talk about how farmers have retirement land as their source, and another senator, who's not in this room, one time said to me, so we need to exempt pension income. I said, well, what about the guy on the farm that uses the farm as his retirement? He said, well, if he makes a stupid investment we can't exempt that. So you do have a little bit of...there's people that don't understand... [LR332 LR344]

STEVE NELSON: Yeah. [LR332 LR344]

SENATOR DAVIS: ...and I think that's something that probably people in agriculture need to get to people in urban areas. But my question really is, have you guys looked at the community college piece and the ESU piece and that as a portion of this, or are you zeroing in on K-12 education? [LR332 LR344]

STEVE NELSON: Yeah. We already have policy that supports changing how we fund community colleges and not funding community college with property taxes. We've had that in our policy for some time. [LR332 LR344]

SENATOR DAVIS: And that is to shift it more towards state assistance then? [LR332 LR344]

STEVE NELSON: Yes. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Harr. [LR332 LR344]

SENATOR HARR: Thank you, Chairman Gloor. Thanks, Steve. Yeah, I'm going to take a little different approach on this chart because I think it's good but I think it's a little too simplistic. I think it shouldn't be farm household versus nonfarm household but, rather, business owner versus nonbusiness owner. I have a business. I own property and I pay more than just sales and income tax on there. I pay property tax on that building, except I pay 100 percent. I don't pay 75 percent. We have assets. We pay real property tax on that. And yet here I am a nonfarm household; and if

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I were to believe this, it would show that I don't pay those taxes. And I know for a fact that those taxes are then deducted against my income tax. So if it's...you're talking a wage earner versus a farmer, I think this is probably correct. It's just the issue, unfortunately, is more complex than just farm household versus nonfarm household. So, you know, everyone is trying and I try. You know, we live in a state where we don't get a penny back for every penny we put in, and I don't think we want that state. I tried to get something from Department of Revenue saying, hey, how much is put in gas tax and how much do we get back if you're in a city versus a rural area? And I think you'll...well, I couldn't get any numbers, direct numbers. I don't think anyone would disagree that metropolitan areas pay more in gas tax than get back from the state for funding. And so, you know, you may be paying more in K-12 education and I don't know. I mean this is one of my big frustrations as a policymaker is getting ahold of real strong numbers. We're supposed to make policy but we don't...we have better access to data but I don't think we have the access that...I'm sure you run into the same problems. But it isn't, unfortunately, as...and I hope this doesn't get disseminated too much because it doesn't tell a complete story. It tells a story of business owners versus nonbusiness owners. And you know, you say here two-thirds of schools receive no equalization aid. I don't really care about that. I'll tell you what I care about: what number of students receive equalization. I want to make sure that a kid living in Crawford, Nebraska, in the same similar situation as a kid living in Omaha, gets the same amount of money. I don't care how much money the school district gets. I care how much that kid gets. And so when it says two-thirds don't receive school aid or any equalization, school districts, that may be true. But when we talk about the students--and that's who we're here for, are the students, not the school districts--it's over 85 percent. And so, you know, numbers are magical. We can kind of get them to say what we want them to say, but I think we have to be very careful. And I think, you know, do I think ag has paid more in the last couple years? Heck yes, I do. Do I think ag has done very well in the last couple years? Yes, I do. Are we going through a (inaudible)? Probably, and I think we have to be very careful about chasing the ball and being behind the curve on this issue. I think we can do something on this, but I think we want to be careful when we go forward that all the facts...we have all the facts and we do it in a careful and concise manner and it doesn't just become hyperbole out there and half-truths. So I appreciate the scale but, again, it's...I don't think it tells. Again, it's business versus nonbusiness. If you're a small business owner, you get...you pay all these things and some you pay more than a farm, if that's your small business. So I think everyone has...no one wants to pay taxes, right? And it's all where we are as far as let

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me tell you where I'm wrong, Don (sic). I, as a city dweller, can tell you where I'm wrong. And so I think we just...I appreciate you coming here today. I appreciate everything we're doing and I think we're going to make some changes. But to say that we're...I mean tone deaf I think is careful. We will do something, I promise you that. It's just it may not be everything everybody wants because we just can't. So thank you. [LR332 LR344]

STEVE NELSON: Did you ask me a question? [LR332 LR344]

SENATOR HARR: What's that? (Laughter) [LR332 LR344]

STEVE NELSON: Did you ask me a question? [LR332 LR344]

SENATOR HARR: Well, okay, I'll ask you. Do you feel this chart is accurate? [LR332 LR344]

STEVE NELSON: What I can tell you is that we can put the business piece in, that commercial piece that you talked about. I don't think that it changes significantly the story that this is trying to tell where agriculture is paying an undue burden of the cost of education in the state. Now we may disagree on that, but that's what we believe... [LR332 LR344]

SENATOR HARR: Yeah. [LR332 LR344]

STEVE NELSON: ...is the fact of the matter. And when I talk about having adequate funding for education, I didn't say it was...that school boards had adequate funding for education. It could easily mean kids. When I said...when I said that you can describe that in a lot of different ways, that's what I meant. I mean you can talk about what that means. We want that too. And so I just...I, you know, we can lay this out with the business piece in there, but I still think this tells the true story. And I don't think if we do that it changes it significantly. [LR332 LR344]

SENATOR HARR: Well, yeah, I would agree with you it tells a true story. I just don't think it tells a complete story. And so I think that's probably what I was trying to get at. We got to be careful that we talk about everything because there are different groups out there. Look, ag does run the state, right? It's 40 percent, we heard that, of our budget. When ag does well, the state

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does well. I think we all understand that. And ag has done very well. And I do think that...I won't say...I'll say property taxes do pay for a large portion of our K-12 education. And the question is, is that out of step? Right now, I think you make a strong argument that it does. I'm just saying, you know, we have to be careful that we're not chasing the curve and maybe five years from now we have a different situation. So that's all the point I was trying to make. Thank you. [LR332 LR344]

SENATOR GLOOR: And I would say, I guess as a final comment, I am appreciative of you pointing out we don't want mandates. I've said going back to last session when we were talking about property tax, we need to keep in mind this is probably going to be a game we win with walks and singles. And I still think that's the case. It worked out pretty well for the Royals this year, I think, when you look through it. So let's hope that we can manage it as well as they were managed. Thanks for your testimony, Steve. [LR332 LR344]

STEVE NELSON: Keep the line moving, as the Royals did. [LR332 LR344]

SENATOR GLOOR: Keep, yes, keep the line moving. [LR332 LR344]

STEVE NELSON: Thank you, everyone, appreciate it. [LR332 LR344]

SENATOR GLOOR: And with that, we'll move on to our next testifier, Jon Habben. [LR332 LR344]

SENATOR SCHEER: Senator Gloor, if I might though, just a small correction. You made the analogy to the Royals. Without a home run, the Royals would not be the world champion. So just saying. [LR332 LR344]

SENATOR GLOOR: (Laugh) Yes. One of those home runs came from a Nebraskan, we know that too. Thank you, Senator. Good afternoon. [LR332 LR344]

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JON HABBEN: (Exhibit 7) Good afternoon, Senator Sullivan, Senator Gloor, members of both committees. Appreciate the opportunity to speak to you. I will try to be concise. Obviously, time is running. First of all, I want to point out a couple of things. [LR332 LR344]

SENATOR GLOOR: Jon, could I get you to state... [LR332 LR344]

JON HABBEN: Oh, I'm sorry. [LR332 LR344]

SENATOR GLOOR: ...your name and spell it for us? [LR332 LR344]

JON HABBEN: J-o-n, as J-o-n, Habben, H-a-b-b-e-n. Thank you. The handout that is coming around, the first bullet talks about spending patterns. And I thought this might be kind of important information for everybody to see. We school districts do stay within the boundaries that they're given. And when you look at average spending over the period of time of five years, up to '13-14, because '14-15 AFR data is not available yet, you notice that none of the groups are over 4 percent. That is average. You notice, again, none of the groups are over 4 percent. Now the reason I point that out is not to get into a discussion about, well, some groups are...some school districts are actually down at zero to 1 percent and other districts are on the high side a certain range, but to let you know that sometimes we hear that there's wild and crazy spending going on. But the reason we hear it is because somebody is very upset about their taxes going up. And sometimes you have to keep in mind that in rural Nebraska the spending may only be going up this average; but as equalization aid goes down, those ag land taxes go up further. And so that person getting real excited that, oh my gosh, the school district is spending wildly, it's not the school district spending wildly. There's a combination of factors. The second thing I want to mention, we've heard a lot about reserves filling up and all of these school districts have maxed out their reserves. I want to tell you that if you take that and divide it into quartiles, if you look at having reserves of 75 to 100 percent of the maximum, 73 districts fall into that category. They're in pretty good shape. If you look at the next quartile, 50 to 75 percent of their reserve capacity they have, 57 schools fall into that category. If you look at the next quartile down, 25 to 50 percent--and by the way, these numbers are not in the writing; I just...we just finished these--74 schools are in that 25 to 50 percent of their reserve capacity. Below 25 percent, 45 districts, and this is 2013-14, 45 districts were in that bottom quartile in terms of reserve capacity. Everybody

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isn't out there with full coffers and still trying to tax to the max. I think that's important to understand. I will tell you, minimum levy, time to get rid of it. It's done whatever it was ever intended to do. Time to go back to looking at allocated income tax and foundation aid. In 1990, they were purposeful. We need to go back and take a look at how to put them back. We need to include all of the districts in the state in this process, not leave 158 out and potentially next year 170 of the 245 districts left out. We need to get back and address those factors. I will tell you, in terms of looking for another source of income, and I may have to duck when I say this, but I don't...maybe you have the answer. Sales taxes--a little bit from many, many accumulates into a larger amount that makes a difference. Is it possible in Nebraska that some of the things that we don't levy sales tax on anymore that we could put a 2 percent sales tax on some of those or a 3 percent sales tax on some of those? Why is it 7 percent or nothing? Now maybe there's a legal and constitutional answer for that. I don't know. But something been rolling around in my head for a while. Anyway. [LR332 LR344]

SENATOR GLOOR: Questions? Senator Davis, then Senator Scheer. [LR332 LR344]

SENATOR DAVIS: Thank you. Thank you, Jon, appreciate it. The reserve piece, I'm interested in that. [LR332 LR344]

JON HABBEN: Say again? [LR332 LR344]

SENATOR DAVIS: The reserve piece that you just gave us. [LR332 LR344]

JON HABBEN: Yes. [LR332 LR344]

SENATOR DAVIS: Can you break that down for the committee by class of school from the A-2 on down to...or A to D-2? [LR332 LR344]

JON HABBEN: Well, I don't have that broken down in front of me, but what I will tell you is you might look at that category at the top and say that must be only rural districts because, after all, they have all that valuation to go get. That's not the case. There are A and B schools in that top group. The C and D schools are scattered throughout all four. And quite honestly, there's a lot

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of pieces that go with that. It has to do with valuation per student. It has to do with the last half-dozen years of the issues that they've faced. It has to do with the school board saying, you know what, we are consciously going to make the decision that even though it's 45 percent of our GFOE that's our maximum reserve limit, we're only going to 20 percent. And school boards do that; they do, do that. I think school boards are very conscious about these issues. As John Spatz said, they hear about it. People may not be coming into the formal process, but what I hear from rural superintendents and board members is that they hear about it and they know it because they live it, so. [LR332 LR344]

SENATOR DAVIS: If you could supply that for us, I'd like to see that anyway. [LR332 LR344]

JON HABBEN: I'll try to do that. [LR332 LR344]

SENATOR DAVIS: The other question I have, the A...Class A schools went up 2.54 percent per year and the Class D is at 3.96...D-2s. Is there an explanation for why D-2s increased at a significantly higher rate than the Class A schools? [LR332 LR344]

JON HABBEN: One of the issues that you find, for example, there's one school district, for example, that was over 80 percent. And the issue wasn't that they went crazy spending. The issue was there was a reorganization that occurred and one slightly smaller district went into one larger district. And so...and on the front end you blend those spending authorities because you've got all of those costs from that smaller district that come in to that reorganization and it takes a while for those to play out. Well, if you have a few of those, you know how that skews those averages like this. You also...and keep in mind, as I mention there, enrollment growth certainly allows a school district to spend more: additional federal programs and dollars, reorganization, and emergency insurance spending. You have that circumstance that disaster occurs and you've got to deal with it whether you wanted to or not. There really aren't other categories to just ignore the spending limits. I mean that...I think that's been the struggle that I've run into is I hear this, the wild and crazy spending, but you don't just get to go do that. The rules are the rules. And you work hard to maximize your budgeting opportunities, of course you do. That's business. But the rules are the rules. [LR332 LR344]

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SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Scheer. [LR332 LR344]

SENATOR SCHEER: Jon, you made the comment, and I'm not trying to put words in your mouth, but to the extent that with your foundational aid you're talking about the state having some type of an equal stake in each kid's education, regardless of equalization or location. Is that a fair assessment? [LR332 LR344]

JON HABBEN: Yeah, I think it is, Senator. When we look across the whole state and we talk about the kids of the state, you're exactly right, we're talking about the kids of the whole state. We're not just talking about the kids in some places. Yeah. [LR332 LR344]

SENATOR SCHEER: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Groene, did you have a question? [LR332 LR344]

SENATOR GROENE: Yes, a comment first, of course. I'm a politician. But this ideal that there's 55,000 students, about, get no state aid, equalized state aid, our state constitution says the state shall provide for the free instruction in our common schools. But now you've got 15 children out of a 100, you tell them--comes the state around with a check and said--you're not getting any help from us. Your mom and dad aren't getting any of your income and sales taxes back to help with your education they paid to the state. Do you think that's a fair system? [LR332 LR344]

JON HABBEN: Well, no, I don't. And part of the reason I don't think it is, is because what you do to make sure they have that money is you go back to the property tax, particularly ag land and rural areas, of course. And you say, you've got to pay more in order to balance this system out. And when you take a look at the period of time from '08-09 to '14-15, and you just...if you were to put each year on a column and the amount of equalization aid that went out, and it looks like this, to just keep it at '08-09 levels and fill that up, \$290 million. And so you say to yourself, hmm, well, those school districts are still doing the best they can and if they had zero growth, who paid the \$290 million? Well,... [LR332 LR344]

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SENATOR GROENE: Same people who paid the income and sales tax that they didn't get back. But a question I had, we keep hearing about a 2.5 percent spending cap. There isn't a single one of these classifications under 2.5 percent increase. And we all know money compounds. You start throwing another percent in there compounding,... [LR332 LR344]

JON HABBEN: Yeah. [LR332 LR344]

SENATOR GROENE: ...that creates...we go from \$1.9 billion in 2005 to \$3.1 billion in a hurry. But I also understand there's this 110 percent thing. There's the lesser of 110 percent of what you spent last year and a 2.5 percent cap. Is there really a cap? [LR332 LR344]

JON HABBEN: Three different ways, and those are calculated by the department for each school district. And the way those work, let's say, for example...and I'll kind of take a little bit of a different path. Let's say you've been underspending your budget authority and so you've got a whole lot of unused budget authority and you say to yourself, well, in this given year I'm going to take all of that budget authority and I'm going to put it in there and we're going to take it all in one year. Well, you can't. You're limited to 2 percent growth beyond those spending limits. And so that accumulation of unused budget authority sort of is a little bit of insurance policy in pieces down the line, but it doesn't allow you in one year to just completely ignore. [LR332 LR344]

SENATOR GROENE: But if you're on the bottom half of your array, you're not limited to 2.5 percent, are you? [LR332 LR344]

JON HABBEN: No. No. [LR332 LR344]

SENATOR GROENE: No. You can go up to the mean and then 2.5 percent, can't you? [LR332 LR344]

JON HABBEN: And I'll tell you, and if you'll recall the discussion about the 1990 original bill, the idea...part of the rationale for that first equalization law was to cause districts to spend more on their education to get to a certain point where they were offering more, doing more. There's still a certain amount of that philosophy in the growth factor, because the reality is if you

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decide...and we've done this a couple years in the past. Remember those 1.5 percent lids that everybody dealt with at one time or another? We've had those circumstances. Well, you do that too many times in a row and you've created a paralysis within the educational system school by school by school that you may have held the line but you're never going to catch up. You're just starting a new lower baseline and you're working your way up from there. And I wish...you know, it makes you wonder, for example, Senator, what if we just told every school district, okay, you've got a 3 percent growth; none of the rest of these factors matter; you just have a 3 percent growth? I don't know what impact that would have, I really don't. It sounds extremely simple. That almost makes me worry that maybe it's not the best way to do it because sometimes "extremely simple" is too simple. But I think that's what you're alluding to is, why isn't it something like that that's clearly and easily identifiable? [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Baker. [LR332 LR344]

SENATOR BAKER: Thank you, Senator Gloor. Jon, do you have rough numbers about how many districts in Nebraska are gaining enrollment? [LR332 LR344]

JON HABBEN: No, I don't. [LR332 LR344]

SENATOR BAKER: Okay. [LR332 LR344]

JON HABBEN: I don't. [LR332 LR344]

SENATOR BAKER: It would be no more than, hmm, 20 percent? Does that sound about right, gaining enrollment? [LR332 LR344]

JON HABBEN: Trying to think. Of 245 districts, that could be very close, because I'm thinking about 30 districts might gain and that may be about it. [LR332 LR344]

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SENATOR BAKER: Of the list here, all those numbers are pretty close as far as their total spending increase. [LR332 LR344]

JON HABBEN: Uh-huh. [LR332 LR344]

SENATOR BAKER: Which of those...which of these categories would you expect to see districts that are gaining enrollment? [LR332 LR344]

JON HABBEN: More toward the top, because that's one of the reasons that you can increase your spending authority. [LR332 LR344]

SENATOR BAKER: Yes. [LR332 LR344]

JON HABBEN: Absolutely. [LR332 LR344]

SENATOR BAKER: Thank you. [LR332 LR344]

JON HABBEN: Absolutely. And when a district, especially, for example, when you go to suburban districts that are having that rapid growth, then they are going to show increased spending. There's no question about that. [LR332 LR344]

SENATOR GLOOR: Thank you for your testimony. [LR332 LR344]

JON HABBEN: Thank you. [LR332 LR344]

SENATOR GLOOR: Mr. Fisher. [LR332 LR344]

VERN FISHER: (Exhibit 8) Good afternoon. My name is Vernon Fischer, V-e-r-n-o-n F-i-s-h-e-r. I'm superintendent of South Sioux City Community Schools and I proudly represent the 15 member schools of STANCE. Our mission statement: STANCE supports equitable learning opportunities for all Nebraska children. That defines what we stand for. And our objectives, LEAD--lead, educate, advocate and develop--describes the behaviors that our group has

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committed to in demonstration of promoting Nebraska's public schools. As you become more familiar with our respective group, you quickly find an organization comprised of both equalized and nonequalized schools. Our testimony today, and this testimony has been vetted by all those schools, comes from the perspective to educate folks on the different nature of the task before this particular committee, and respectfully submits to use South Sioux City Community Schools and Wahoo Public Schools as the platform from which decisions are reached that support all of our children. Not an uncommon scenario, this illustration shows two very diverse school districts with a differing outlook on their revenue sources. On behalf of South Sioux City, I can represent the data behind our testimony. And with me today is Galen Boldt, superintendent of Wahoo Public Schools. South Sioux City Community Schools is an equalized school district. Wahoo Public Schools is considered a nonequalized school district. From a revenue perspective, South Sioux City is an equalized school district with approximately 61 percent of its revenues coming from state aid. Wahoo is a nonequalized school district with 10 percent of its revenues coming from state aid. Over the past three years, South Sioux City's revenues from state aid has remained relatively flat. Wahoo recently became a nonequalized school this past year, having realized a continued drop in equalization aid. In terms of expenditures, information taken from the 2014-15 Adjusted General Fund Operating Expenditures Per Formula--that's a long title--Student, submitted by NDE, shows both school districts have been relatively frugal with their spending and illustrate behaviors of low-spending school districts. On that report, South Sioux City is the 17th lowest school district in per-pupil spending, and Wahoo is the 24th lowest school district in per-pupil spending. In terms of total valuation, the last three years South Sioux City's total valuation has gone up 10.8 percent, and Wahoo's total valuation has gone up 36.5 percent. Wahoo has been less reliant on state aid, while South Sioux City remains heavily reliant on state aid. One of the reasons for the difference in growth is the amount of ag land available in each district. In terms of ag land valuation, the last three years South Sioux City Community Schools ag land valuation has gone up \$14.6 million, and Wahoo's ag land valuation has gone up \$150 million. Approximately one-half of Wahoo's total valuation is connected to ag land. When you take a look at each school district, both school districts realized continued growth in the number of students attending their respective school districts; experienced the demands related to the needs of students coming from poverty; recognized the needs of ELL students and focus attention on preparing them for education in Nebraska's public schools; knowledge of the challenges associated with students who experience mental illness, suffer from physical

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handicaps, or other health impairments. We appreciate the expectation that we prepare students for college and career, and each district has been actively engaging our communities in the design of programs that equip students with the skills needed for college and the work force. And we understood the rationale and intent of legislative action and have gone about implementing statute without additional funding. When you speak about public education in the individual communities across the state of Nebraska, it is difficult to find an individual, a business, or an entire community who fails to support public education. In fact, trust in our public schools is high and can be illustrated in a number of societal issues that schools are asked to address, and often asked to do so without additional resources. So when thinking about the difficult task this committee has in terms of funding public education and with the ultimate goal of funding public education that benefits every student in every school district across the state of Nebraska, we suggest the committee consider the following recommendations that include: review the proposals submitted by the Tax Modernization Committee to consider the best strategy and policy to support public education that keeps education whole and provides educational...or equitable learning opportunities for all Nebraska children; create and invest in a review committee for the purpose of funding public education--such a committee would be in a better position to analyze trends, identify fluctuations in the economy, and offer immediate solutions based on accurate data; and three, illustrate a commitment to funding public education and recognize public education as the best investment you can make for the future of Nebraska and ensuring resources are available that keeps education whole and supports equitable learning opportunities for all of Nebraska's children. In closing, the member schools of STANCE continue to volunteer their time and energy to collaborate with the Legislature to ensure the best possible educational opportunities exist for all of Nebraska's children. We've also included in our testimony some graphs in terms of the information we provided today. [LR332 LR344]

SENATOR GLOOR: Thank you, Mr. Fisher. A question for you: Explain to me how somebody would...or define for me, put some meat on the bones on the review committee. I mean if I read the expectations of the review committee, it reads a little bit like the Education Committee of the Legislature. And so I'm curious as to how STANCE sees the review committee or who serves the review committee that can actually be in a position to make a difference with the decisions that they would make. [LR332 LR344]

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VERN FISHER: It was my recollection, and I believe the recollection of STANCE, that during last year's session there was a conversation about the establishment of a committee representing the executive branch, the legislative branch, public schools, and possibly business--I don't remember all the entities--to look at exactly what's going on with public education and the spending related to public education; identify the best data that they can...that they have at that point in time to develop the best policy that addresses the concerns that existed, but that it didn't go away. That it remain intact to continue to analyze those trends. I also believe that at one point--again, this is my recollection--that there was a review committee early in its onset after LB1059, but that that review committee was short-lived and didn't continue. [LR332 LR344]

SENATOR GLOOR: I think...I mean I think I understand the concept behind review committees. The challenge here would be we love our local control. And so if the review committee is going to be successful, it's got to have some degree of authority over at least dollars, if not school boards themselves. And that, in this state, has always proved to be a challenge, because we love our local control. Sometimes we love it to death, but we love our local control. [LR332 LR344]

VERN FISHER: Well, at some point, in different degrees of local control, in terms of the...let me step back for a second. In today's testimony we've heard a variety of different conversations about the amount of data that we have that's available to us, the quality of that data that can be used to make wise decisions, and really struggling with providing an answer to sound practice that promotes property tax relief. And until we put a coalition together to look at what the issues truly are, similar to what exists in South Sioux City and Wahoo, we're going to struggle to find an answer that will best meet the needs of the constituents of Nebraska but also funds public education. [LR332 LR344]

SENATOR GLOOR: Would you be part of the group that Mr. Spatz talked about earlier, that we talked about it? Previously there was a discussion about a group coming together... [LR332 LR344]

VERN FISHER: I have not had... [LR332 LR344]

SENATOR GLOOR: ...to try and come to us with... [LR332 LR344]

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VERN FISHER: I'm sorry, sir. I have not had a personal conversation with John Spatz, although I know that he is speaking with NCSA, our representative. [LR332 LR344]

SENATOR GLOOR: Okay. Senator Krist. [LR332 LR344]

SENATOR KRIST: Hi. Thanks for coming. Thank you, Chair. Can you explain on the back of your chart, your magnifying glass, the bar graphs? Can you explain the cost per student, particularly the Wahoo cost per student? [LR332 LR344]

VERN FISHER: Yes. Yes, I can. In looking at that information--and the superintendent from Wahoo is here if I answer this incorrectly--our growth during that time was about 1.5 percent. He also, in South Sioux City...or in Wahoo, realized 57 students that year, so he grew in terms of overall student enrollment, which I do believe had an additional cost. May I phone a friend? (Laugh) [LR332 LR344]

SENATOR KRIST: So that cost per student with the growth of 57 pupils, individuals, went from \$10,600 to \$11,000--interpolating--\$350? [LR332 LR344]

VERN FISHER: Actually, it dropped from 2012-2013 to 2013-14. I believe that's what it says. [LR332 LR344]

SENATOR KRIST: No, I'm asking why you would...I guess I'm looking for an explanation to see why in '12 it was \$10,600, in '13 it was... [LR332 LR344]

VERN FISHER: Oh. [LR332 LR344]

SENATOR KRIST: ...and then it dropped again. So what explains that kind of acceleration or that kind of increase and then again a return to about what it was before? [LR332 LR344]

GALEN BOLDT: I don't know if it's appropriate for me to jump in. [LR332 LR344]

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SENATOR KRIST: If you're going to answer, you're going to have to come up to a mike.
[LR332 LR344]

SENATOR GLOOR: Yeah, we need to have you on the mike, if you would. [LR332 LR344]

GALEN BOLDT: Galen Boldt, superintendent of Wahoo, G-a-l-e-n B-o-l-d-t. Another set of data would show spending at Wahoo over a five-year period. And much like many schools in Nebraska, our five-year average is 3 percent. This last year it was 1.4 percent. The year you're talking about, our growth was 6.4 percent. That would represent a quarter of a million dollars that we spent going to a one-to-one initiative in technology. So there are those kinds of things that periodically will happen to address student needs. Over the time period, though, and that happened to be part of the data that Vern used to compile this information, but I think you would find that in about all schools. Obviously, the student enrollment affects that and then spending from one year to the next would affect that. [LR332 LR344]

SENATOR KRIST: That's a great explanation, and thank you for that. It's just it looks like a real anomaly... [LR332 LR344]

GALEN BOLDT: Understood. [LR332 LR344]

SENATOR KRIST: ...when, you know... [LR332 LR344]

GALEN BOLDT: Understood. [LR332 LR344]

SENATOR KRIST: Anyway, thank you very much. [LR332 LR344]

SENATOR GLOOR: Other questions? Yes, Senator Brasch. [LR332 LR344]

SENATOR BRASCH: And could... [LR332 LR344]

GALEN BOLDT: To me again? [LR332 LR344]

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SENATOR BRASCH: Yes. [LR332 LR344]

GALEN BOLDT: Sorry. (Laughter) [LR332 LR344]

SENATOR BRASCH: I'm curious, is this reflective of student population growth? Are you gaining students? And is it households or is it enrollment option? What's bringing more children in? Are they coming from other districts or is it that you have had a new company come in, people are increasing? The state of Nebraska itself has grown very, very little in ten years, the population. And as you have had your numbers grow, where did these children come from? [LR332 LR344]

GALEN BOLDT: All of the above. [LR332 LR344]

SENATOR BRASCH: Okay. [LR332 LR344]

GALEN BOLDT: And that is an unusual amount of growth in one year. [LR332 LR344]

SENATOR BRASCH: Okay. [LR332 LR344]

GALEN BOLDT: But over a ten-year period, we grow 1 percent every year. [LR332 LR344]

SENATOR BRASCH: All right. [LR332 LR344]

GALEN BOLDT: Omaha Steel Casting has just relocated to Wahoo. [LR332 LR344]

SENATOR BRASCH: Okay. [LR332 LR344]

GALEN BOLDT: With the bypass just opening up, lots of speculation on development. [LR332 LR344]

SENATOR BRASCH: Very good. [LR332 LR344]

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GALEN BOLDT: There is more development that has been happening, especially in the last two years. The location of Wahoo, you know, it's kind of far enough away but just close enough that we believe that kind of enrollment growth is a trend that will continue and probably get bigger. We have a parochial school within our school district. The last two years we have gained students from our parochial school, two really, very good schools. And those choices sometimes, I mean, you are at the discretion of parents, where they would like to have kids go. But there's no doubt about it, we are a growing school district with growing needs and yet over that same five-year period that I was talking about our growth, 3 percent average, 1.4 percent this last year. [LR332 LR344]

SENATOR BRASCH: I just thought that seemed like a large number of students for... [LR332 LR344]

GALEN BOLDT: In the one-year shot, it sure was. [LR332 LR344]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LR332 LR344]

SENATOR GLOOR: Thank you. Senator Hadley. [LR332 LR344]

SENATOR HADLEY: I just wanted to say you have an outstanding first name (laughter). [LR332 LR344]

GALEN BOLDT: Galen, thank you. [LR332 LR344]

SENATOR HADLEY: That's all I needed to say. [LR332 LR344]

GALEN BOLDT: Not many of us around anymore, are there? [LR332 LR344]

SENATOR HADLEY: There aren't many of us around. [LR332 LR344]

SENATOR GLOOR: Senator Groene. [LR332 LR344]

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SENATOR GROENE: To the superintendent from Sioux City, you've got Sioux City, South Dakota, basically, Sioux City, Iowa, and Sioux City, Nebraska. Which one of those is growing the fastest? [LR332 LR344]

VERN FISHER: There's good growth in South Dakota, right across the border, in Nebraska itself, and in Iowa. [LR332 LR344]

SENATOR GROENE: But I've heard South Dakota is booming. [LR332 LR344]

VERN FISHER: In the area of the tristate region, they're doing quite well. [LR332 LR344]

SENATOR GROENE: Who has the lowest property taxes? [LR332 LR344]

VERN FISHER: I would... [LR332 LR344]

SENATOR GROENE: South Dakota? [LR332 LR344]

VERN FISHER: I think that's accurate, yes. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

SENATOR GLOOR: Thank you for your testimony. Thank you both for your testimony. We will move on to GNSA, Mr. Loeffelholz. [LR332 LR344]

TROY LOEFFELHOLZ: (Exhibits 9 and 10) Good afternoon. My name is Troy Loeffelholz, T-r-o-y L-o-e-f-f-e-l-h-o-l-z, superintendent of Columbus Public Schools, and I'm here to represent the 26 member schools of the Greater Nebraska Schools Association, or the GNSA. The GNSA schools are responsible for the education of over two-thirds, 209,141 of the 307,398 students in the state of Nebraska, public school students. The purpose of the GNSA is to collectively advocate for all Nebraska public school students, and I'm grateful for the opportunity to meet with you today. All school districts in the state of Nebraska receive some form of state aid, all schools. All students in the Greater Nebraska Schools Association school districts and 81 percent

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of Nebraska's public school students rely on equalization aid to provide the essential learning opportunities for students to become college and career ready upon high school graduation. I'm here to discuss three ideas for these committees to consider. First, as everyone here knows, the funding of public school education is the single largest and best investment Nebraska makes in its future. This committee is challenged with that charge, first and foremost. Secondly, the concept of equalization is at the core of effective state funding for education. When defined needs in a school district are greater than the defined resources in a school district, the difference equals equalization need. The purpose of equalization aid is clear and reasonable: to provide resources to school districts that do not have adequate local resources to meet defined needs. Lastly, two problems have occurred over the past five to ten years. First, needs have grown faster than the state-funded equalization portion of the state education funding system. Simply put, students are coming to the public school districts in greater number and with greater needs and fewer supports. Trend line increases over the past decade for the number of students from poverty, ELL, and special education needs are well documented, as well as a shift in the student population from rural areas to city and metropolitan districts. The second problem, unrelated to the first, is the unbridled increase in ag land valuation made worse by the school funding system's historical overreliance on local property taxes. Local property taxes are the only source of funding available to local school districts when state resources are inadequate. We believe that we were asked to come up with a solution to a problem that was not created by TEEOSA. The GNSA suggests that the committee consider the following recommendations: review proposals submitted by the Tax Modernization Committee to consider the best strategy and policy to support public education; the GNSA supports the reestablishment in some form of the School Finance (sic--Financing) Review Commission to provide a yearly report on the changes and needs and resources that form the basis for state funding of schools, such a committee would be in a better position to analyze trends, identify fluctuations in the economy and offer immediate solutions based on accurate data; and to illustrate a commitment to funding public education and recognize public education as the best investment you can make for the future of Nebraska and ensuring calculated allocated resources are available that keeps education whole and supports equitable learning opportunities for all of Nebraska's children. The GNSA recognizes that if the state truly wants to reduce the overreliance on property taxes and continue the principles of equalizing resources and opportunity for K-12 students, more state funding sources will be needed. This is not a school spending issue as the data shows school spending increasing less

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than state spending over the past five years. The system is working the way it is intended, except that the limited state allocation has led to districts raising more from local resources. Equalized districts are already at the maximum levy limit and cannot increase local resources other than increased valuation. And I will stop there since I'm on the red. [LR332 LR344]

SENATOR GLOOR: Thank you. Questions? Senator Scheer. [LR332 LR344]

SENATOR SCHEER: Just one real quickly. Thanks for coming, Troy. Do you...assuming that the state did both, is there a problem with both the foundational aid and equalization aid? [LR332 LR344]

TROY LOEFFELHOLZ: Yes. GNSA believes...and this is one of the paragraphs I didn't get to finish but I will do that. We look at foundation aid as disequalizing, as not a present solution to the issues. Foundation aid would be going to districts who have adequate local resources. [LR332 LR344]

SENATOR SCHEER: Understand, but if they're providing both, what is the difference? What's the rub if you're providing both equalization aid to those districts that need it, as well as providing equalization or foundational aid to all districts, including equalized districts? [LR332 LR344]

TROY LOEFFELHOLZ: Well, I think our fear would be if state budgets got tight once again, that that would...well, the two fears. That might be one of the first things to be taken away from that standpoint. And another fear of ours is foundation aid would have become part of the TEEOSA formula that would also take away from equalization aid. [LR332 LR344]

SENATOR SCHEER: I suppose it depends on how you would... [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR SCHEER: ...develop it. But we would assume that it wouldn't, so. [LR332 LR344]

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TROY LOEFFELHOLZ: I've assumed a lot of things (laughter). [LR332 LR344]

SENATOR SCHEER: Well, it's a hypothetical question, so I get to assume a lot (inaudible).
[LR332 LR344]

TROY LOEFFELHOLZ: Yeah, it is a good question. Until a model has drawn out I don't know if...it all depends on how it fits into or out of the formula and how it affects each school district and I think any changes then would have to be run through the system and through the calculation to determine if those things would be detrimental to equalized schools. [LR332 LR344]

SENATOR SCHEER: Okay, thank you. Thank you, Senator Gloor. [LR332 LR344]

SENATOR GLOOR: Senator Groene, I'm sorry, and then Senator Kolowski. [LR332 LR344]

SENATOR GROENE: You made a statement that local resources, they have adequate local resources, they have local valuations. You're interpreting that into saying that just because you have valuations you have more money, resources. That's not exactly true in a lot of cases. So valuation doesn't mean a person has the ability to pay. But I'm really concerned about why you don't believe the local school board thinks enough of their school district--not Columbus, but somebody--why it's your business why another school board wants to lower their mill levy and they can run their school efficiently and give adequate education without having a minimum levy. Why...I understand it might affect overall the rapid increase because now the raise might drop on spending, which would help the taxpayer. But why do you care what a local school district does and a local school board that you're not a member of that community does with their local levy? [LR332 LR344]

TROY LOEFFELHOLZ: Right. And I think local school boards should have choice on their mill levy. Our concern is those school districts who...and I live in Platte County. We have three school districts. One has a maximum levy of \$1.05. The other one has a levy I think of 67 cents. And the other one is 30 cents. They have the resources, the local resources to meet their spending and their spending needs, whereas Columbus Public Schools at \$1.05, we are at our levy limit and

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we cannot make a choice to go higher because we're already there. And so what we're saying here is reduction of state aid, reduction in the levy limit would water down the state aid to all school districts, even to those who would not be equalized. [LR332 LR344]

SENATOR GROENE: There's very few school districts that drop below the minimum levy because...if they get equalized aid. That's not going to change the dollar amount. It's a very small amount of money if somebody is at 95 mills (sic) and wants to go to 90, that's not going to dilute the pool. They're already getting that equalized aid. [LR332 LR344]

TROY LOEFFELHOLZ: Right. Right. [LR332 LR344]

SENATOR GROENE: What we're saying is, if they can run a more efficient school and get their equalized aid...and then after they do the levy, you know, the levy local resource, if they want to lower it, what's that to anybody else in the state or anybody else's school district? [LR332 LR344]

TROY LOEFFELHOLZ: Right. So what you're saying is they'd go from 95 to 90 and still receive equalization aid. They should. [LR332 LR344]

SENATOR GROENE: And when figured at \$1, what their local effort rate would be. [LR332 LR344]

TROY LOEFFELHOLZ: Their local effort rate at \$1. You know, I'll share an example. Columbus Public Schools back in 2009 was at \$1 with our levy and we were receiving equalization aid because the \$1 was the levy limit at that point in time. It was right after the ARRA funds had went out or had run dry that we took a \$2.8 million reduction in equalization aid. We were told life was too good in Platte County with valuation. Well, it was good around. But in a district like Columbus Public Schools and equalized...and most of the equalized schools, you're really landlocked where you only have...we only have 1 percent with ag valuation. Reduction in equalization aid, we don't have a way to make up those funds. But we did raise our levy to \$1.05. But raising that levy to \$1.05 only gained us another \$625,000 and we lost \$2.8 million. So even though we had a local choice, we still were not able to get to the limits where

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we were. In fact, today we're still not even at the state...the equalization limits we had back in 2008, 2009, and we reduced 23 staff in that time period to make the budget work. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Kolowski. [LR332 LR344]

SENATOR KOLOWSKI: (Inaudible) thank you. [LR332 LR344]

SENATOR GLOOR: Senator Sullivan. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you, Mr. Loeffelholz. So just so I'm sort of clarified in my own mind in terms of the challenge that we have with this resolution, you prefer no changes in TEEOSA; you do not think even if TEEOSA were changed, you were still against foundation aid going out to school districts; and thirdly, you think the solution is found elsewhere. []

TROY LOEFFELHOLZ: It's hard to remember all those three things. The first one being...well, the GNSA believes that foundation aid is disequalizing, even if it's going to equalized school districts, because it's providing state funds outside of a calculation of the regular TEEOSA and state aid, because school districts do receive funding in terms of option enrollment and other allowances and poverty and ELL and special education. So they're receiving those funds. The foundation would be disequalizing because those school districts already have the local resources to raise the funds if they were allowed to increase their spending limit. And one of the things that...and I'll use Humphrey, for example, because... []

SENATOR SULLIVAN: But wait a minute. That is not addressing the problem that we're dealing with right now, right? [LR332 LR344]

TROY LOEFFELHOLZ: Right. That is correct. [LR332 LR344]

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SENATOR SULLIVAN: So in other words, you prefer to have the solution to the problem we're dealing with today solved elsewhere, other than TEEOSA, in any other approach to school funding. [LR332 LR344]

TROY LOEFFELHOLZ: No. We think TEEOSA is working as it's intended. [LR332 LR344]

SENATOR SULLIVAN: That's what I mean. [LR332 LR344]

TROY LOEFFELHOLZ: Yes, ma'am. [LR332 LR344]

SENATOR GLOOR: Senator Davis. [LR332 LR344]

SENATOR DAVIS: Thank you. So in light of that, what suggestions do you have to make? We're just essentially going to stay with TEEOSA as it is. Do you have other ideas? [LR332 LR344]

TROY LOEFFELHOLZ: Well, going back to the recommendation of the TEEOSA review committee, and I think that was your bill and we met in your office last session, somebody to look at the trends. If you go back--and I can't remember and my institutional knowledge is sitting right behind me--but back prior to all the ag land valuation in the recession, there was a review committee in place to predict and look at those fluctuations and make adjustments as necessary. And that...to us, that recommendation to be ahead of the game versus being reactive in that makes more sense to us. [LR332 LR344]

SENATOR DAVIS: And I agree. One thing that I tossed around a lot in my head and have laid before the committee is maybe trying to do more for special education... [LR332 LR344]

TROY LOEFFELHOLZ: Yes. [LR332 LR344]

SENATOR DAVIS: ...which would percolate out to all the districts. Care to comment on that? [LR332 LR344]

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TROY LOEFFELHOLZ: Oh, absolutely. Special education, I spent two and a half hours in a meeting yesterday on mental health of kids. And does that...is that special education? Yes, in terms of other health impaired and some other things, it falls into that category. And for two and a half hours we were trying to decide funding to help students receive the services that they needed. And quite honestly, we didn't have the funding in place or budgeted to do that because it's an unexpected case. Special education funding is something. Poverty funding is something that I think that's distributed throughout all school districts in the state of Nebraska and you do see a growing numbers of kids identified by free and reduced lunch, in poverty, and we also see an increased number of students coming to us with learning disabilities and/or mental health issues. [LR332 LR344]

SENATOR DAVIS: So as I understand, as I remember from my days on school boards, at one time we were about 80 percent reimbursement from the state. Today it's down in the 50s or high 40s. [LR332 LR344]

TROY LOEFFELHOLZ: Forties. [LR332 LR344]

SENATOR KOLOWSKI: Forties in federal. [LR332 LR344]

SENATOR DAVIS: Federal. Thank you. [LR332 LR344]

TROY LOEFFELHOLZ: That is correct. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Krist. [LR332 LR344]

SENATOR KRIST: Thank you, Chairman. Every kid...let me rephrase it. Every school district in the state of Nebraska gets some aid from the state. True statement, right? [LR332 LR344]

TROY LOEFFELHOLZ: Gets some aid from the state, yes. [LR332 LR344]

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SENATOR KRIST: Okay. So I'm going to pose a different hypothetical to you because it seems to me like your idea of foundation is that this would be potentially outside the TEEOSA formula and I don't know where we're going to get that money. [LR332 LR344]

TROY LOEFFELHOLZ: I would agree. [LR332 LR344]

SENATOR KRIST: Okay. So let's agree then that the foundation money would be foundation money and it would be in place of every school district gets money from the state of Nebraska and that would be a cost per student in district... [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR KRIST: ...not the school district but... [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR KRIST: ...as Senator Harr made a point, we care about the cost per student. [LR332 LR344]

TROY LOEFFELHOLZ: Correct. [LR332 LR344]

SENATOR KRIST: If we started out with the foundational funding that said every child in the state of Nebraska is going to get \$2,000 and then we started to, as Dr. Goss said, throw out the baby with the bathwater and redesign the formula so that we look at those school districts, that's a different structure than what you're weighing in on or what your organization is weighing in on. [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR KRIST: Right. [LR332 LR344]

TROY LOEFFELHOLZ: Yeah. [LR332 LR344]

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SENATOR KRIST: So what I'd love to see from your organization, because I think the value here is that you're out there doing the job, you're in the trenches, if you looked at that different construct, that different...those different parameters, now where are we,... [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR KRIST: ...because I think the level playing field might be...we might suggest that that is the foundation. And then we can look at another structure that does not automatically trigger us to continue to drive up a, quote unquote, formula for funding that may or may not be responsive to... [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR KRIST: ...either you or create a tax base necessity for a property tax base that it's unsustainable, let's say. I'd love to see that from you guys. [LR332 LR344]

TROY LOEFFELHOLZ: Okay. Yeah, and let's say there's \$2,000 foundation aid for every student. We blow up TEEOSA, so to speak, like the guy said earlier. [LR332 LR344]

SENATOR KRIST: We're not going to use dynamite, but go ahead. [LR332 LR344]

TROY LOEFFELHOLZ: Yeah, but you know what I'm saying. [LR332 LR344]

SENATOR KRIST: I know. I know. [LR332 LR344]

TROY LOEFFELHOLZ: So every student in the state of Nebraska receives \$2,000. Then what triggers are in place then for school districts who cannot raise enough of local sources to pay for the education of children? Say the education of children is \$11,000. Well, \$2,000 comes from the state. Then the local might only be able to raise another \$2,000, so that's \$4,000. So then the state would have to kick in the \$7,000 to get to that \$11,000 number if I understand that right. [LR332 LR344]

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SENATOR KRIST: Yeah, and you're...and I would refer back to the last testifier and say that they are in two different situations. [LR332 LR344]

TROY LOEFFELHOLZ: Yes. [LR332 LR344]

SENATOR KRIST: In one case, we may have to...and I'm not...when you say blow up TEEOSA, I get it. [LR332 LR344]

TROY LOEFFELHOLZ: Yes. [LR332 LR344]

SENATOR KRIST: But I think there's really very well-thought-out, critical parts, critical components of that formula that could be applied. [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR KRIST: So we're not throwing away the principles. We're saying these are tried and true, time tested. [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR KRIST: But we start with a base and then we go from there. And if that were the case, I'd love to see input from you all telling us what... [LR332 LR344]

TROY LOEFFELHOLZ: Absolutely. [LR332 LR344]

SENATOR KRIST: ...might be those kind of parameters. And then I'd be remiss...Terry Haack would not let me forget if I didn't say, Bennington, look at that, the highest levy in the state and the lowest cost per student. There we go--paid political announcement. [LR332 LR344]

TROY LOEFFELHOLZ: Yeah, and the list you have, the school districts in yellow and gold in 2000...the school districts highlighted in yellow are GNSA schools and in gold are schools who were equalized school districts. And I just went through that down to the state average. So I

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believe we are efficient. I think if you look at the bottom, the overall growth rate is only like 2.2 percent per student per year. So I don't think it's a spending issue. It's the funding and how we fund the school districts from equalized to nonequalized. [LR332 LR344]

SENATOR KRIST: Sure. Thank you. [LR332 LR344]

SENATOR GLOOR: Congratulations, Senator Krist. [LR332 LR344]

SENATOR KRIST: You're welcome. Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Brasch, did you have a question? [LR332 LR344]

SENATOR BRASCH: I do have a question. [LR332 LR344]

SENATOR GLOOR: Okay. [LR332 LR344]

SENATOR BRASCH: Thank you, Chairman. And thank you, as well, for details for us to study over later. When it was brought up about the funding for special education, just for my clarity, is that every student identified with an IEP, an individual education plan? Is that special ed or is that a different funding or are they also students with RTIs, you know, students that are at risk, needing intervention? How are you...what is that pocket of... [LR332 LR344]

TROY LOEFFELHOLZ: Right. Those would be students with a verified disability. [LR332 LR344]

SENATOR BRASCH: A disability, okay. [LR332 LR344]

TROY LOEFFELHOLZ: It could be physical. It could be academic. Typically, with the RTI, if we get in the (Section) 504 plans, some of those things will qualify. We used to have special education flex funding that you would...a little bit more...you'd get a certain percentage of that amount that could be used to help kids at risk that did not qualify for special education. But then part of that also is you have to spend at least a dollar more this year than you did a year ago on

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your maintenance of effort, and that has not been hard, I don't think, for any school district to do because of the growing needs of the students. So it's kids with physical and learning disabilities. [LR332 LR344]

SENATOR BRASCH: Both combined. [LR332 LR344]

TROY LOEFFELHOLZ: Both, yes, um-hum. [LR332 LR344]

SENATOR BRASCH: Okay, that answers my question. Thank you. [LR332 LR344]

TROY LOEFFELHOLZ: Yes, you're welcome. [LR332 LR344]

SENATOR GLOOR: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for coming down and testifying today. [LR332 LR344]

TROY LOEFFELHOLZ: Yes. [LR332 LR344]

SENATOR SCHUMACHER: You know, we talk in terms of local effort rate. And just out of curiosity, have you guys ever run the numbers on what your cost and what the picture would look like in the event the private schools in the Columbus district were to close and you had to assume that burden? And is there any reason that philosophically that somehow shouldn't be part of the calculation of local effort rate? [LR332 LR344]

TROY LOEFFELHOLZ: We have not run the numbers, but we've thought about that. And to be quite honest with you, school space, I don't know what we would do. We'd have to lease back probably their facilities to educate the children just because of no room. We are talking about, if I remember right, 480ish number of kids that would come into our system on top of the 3,700 we already have. So we would jump considerably from that aspect. As far as the local effort rate, they're already included in the local effort rate by their property taxes that they do pay. I don't know if I answered your question. [LR332 LR344]

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SENATOR SCHUMACHER: But the burden isn't figured into what is...that's part of (inaudible)... [LR332 LR344]

TROY LOEFFELHOLZ: Right, we don't have the burden of educating them. That is correct. [LR332 LR344]

SENATOR SCHUMACHER: Right. And so... [LR332 LR344]

TROY LOEFFELHOLZ: But I will...excuse me. We do, however, spend between \$250,000 and \$300,000 for special education services and other services to the private parochial schools in our community as well. So we're spending over \$250,000 supporting students in those facilities. []

SENATOR SCHUMACHER: But you'd have to do that anyway if they were in your facility. [LR332 LR344]

TROY LOEFFELHOLZ: Correct. [LR332 LR344]

SENATOR SCHUMACHER: There's a big element that...of local expenditure and local effort that somehow should deserve credit. [LR332 LR344]

TROY LOEFFELHOLZ: Right. [LR332 LR344]

SENATOR GLOOR: Seeing no further questions, thank you, Mr. Loeffelholz. [LR332 LR344]

TROY LOEFFELHOLZ: Thank you very much. [LR332 LR344]

SENATOR GLOOR: And should that consolidation ever happen, you'd have one heck of a volleyball team, wouldn't they? [LR332 LR344]

TROY LOEFFELHOLZ: (Laughter) We would have a good volleyball team. [LR332 LR344]

SENATOR GLOOR: Mr. Hansen. [LR332 LR344]

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JOHN HANSEN: Good afternoon. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. We're the second largest, second oldest general farm organization in the state. We have members that go across the state. We're in the middle of our policy-setting process as well, as we're having county meetings across the state. We will end up having our convention, hopefully, set our policies as I'm sure they will by December 5. And so then we'll know if we have any changes or wrinkles. But our policy has been fairly consistent in that we support an increase in the income tax and a reduction in the property tax because we believe that it is more fair and reasonable thing to do to tie into the revenue stream after the investment has been made. The risk has been taken and there is a profit. And we are not against paying our fair share of the cost of public education, but the view is widely held that things have drifted for a long enough period of time that we are now well past the center line of fairness on the highway of life and that there needs to be a substantial correction coming back and that that correction cannot be made and develop a more appropriate and balanced way to fund the ongoing and both constitutional as well as the moral obligations to educate our kids by providing a substantial amount of income tax relief at the same time we're doing property tax relief. And so we're very clear that if we have to pick, property tax relief wins. That goes to the top. And it's because we're, as I tried to explain yesterday to a changing arctic impacts on Midwestern agriculture and water conference held at the University of Nebraska...I was there to represent agriculture. And the question came up, well, why doesn't agriculture just do this or that based on the change in climate and weather? And I got out my University of Nebraska cost-of-production numbers and I went through those numbers and explained that on a 1,000-acre corn and soybean farm, half corn, half soybeans, if you use the university numbers at cost of production per bushel times 200 bushel irrigated corn and 50 bushel irrigated soybeans, based on the price of corn and soybeans at the ADM elevator in Newman Grove, Nebraska, you would be the lucky winner of being \$158,500 in the hole so far this year. And so there is the problem, is that you're paying those taxes whether you're making money or not. And so as we look at our tax system as we go forward, to add something new to the consideration, as we go forward it is very clear, based on the conference that I went to yesterday and the national experts that were there, is that we are going to be making changes in how we grow crops, what we grow, the machinery we use, the management systems, and all of that works against the interest of having high fixed costs for property taxes. Thank you, and I'll be glad to answer any questions if I could. [LR332 LR344]

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SENATOR GLOOR: Questions for Mr. Hansen? Senator Hadley. [LR332 LR344]

SENATOR HADLEY: Mr. Hansen, just a quick question. You said a loss of like \$158,000? Is that what...the number you used? [LR332 LR344]

JOHN HANSEN: That was my back-of-the-envelop cash flow numbers without using specifics. [LR332 LR344]

SENATOR HADLEY: What...then help me understand why we're still seeing such huge prices for land. I thought there was a relationship between the value of the land and basically the profitability. Is there not a relationship? [LR332 LR344]

JOHN HANSEN: As my 11-year-old granddaughter and I go back and forth and she asks me questions, my favorite one-word answer to her is, it's complicated. And this is complicated because in my case, in my neighborhood, a mile and a half north of me, for the first time in my lifetime, land sold two years ago. One quarter brought \$12,000 an acre, and the other brought \$11,400. And both were by families that are...I'm a sixth-generation homestead family. And these are comparable families. These are very strong families. They had money. Their kids were coming into the operation. It was land that joined in one case. He's been looking at that quarter of land for 50 years, wanting to buy it. He had the money. He paid for it. And now just recently in the same section a little better quarter came up for sale and it brought \$8,000 an acre and...but you couldn't pay either one of those numbers for that land on these commodity prices and farm it out of it. I mean it's however much margin you had in all of your land and the rest of your operation for the years that you had and you make an incremental buy when it comes up. But it's...but that sale sets the value of all of the rest of the property in the sizable neighborhood because it's not very often that land in my part of the country comes up for sale. So while my valuations keep going up and up, when I looked at what my valuations were, and I've been hit substantially the last three years, and I looked at trying to appeal them, I looked at those sales and I said, I need to keep my mouth shut because, if they're going to fix it, they'd fix it up, not down. So very small number of sales, as you know, set huge impacts and ripples through the community. I mean we support an overhaul of how we get to that value system. [LR332 LR344]

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SENATOR GLOOR: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Gloor. This is not a terribly scientific way to do this, but the instance that you just described about that piece of land that came up for sale that's such a rare thing, was that an estate sale or from...by heirs who recently inherited it? [LR332 LR344]

JOHN HANSEN: Senator, I don't know. It's been absentee. There was a family that originally owned that but they...it's been a rental that the one was a half section that was a rental and had been for at least 65 years. And so there's not been any member of that family that farmed that ground for at least that long. So I don't know whether there...if they finally ran out of kids that could work together and they decided that there was nobody else that wanted it or what. And the other one was...I think that was end-of-life-based sale. [LR332 LR344]

SENATOR SCHUMACHER: So are you familiar enough with either of those cases to know what percentage of those kids still resided in Nebraska, how much that money left the state as part of a stepped-up basis with no tax at all on it? [LR332 LR344]

JOHN HANSEN: I wondered that and I...you know, it's...I used to sell that...two different sets of renters who owned that ground fertilizer, so I used to send them bills. But at that time I sent them to Norfolk. But nobody in our community that I know of, I mean, they didn't ever come to family events and no one seemed to know them. So I can't answer that question. [LR332 LR344]

SENATOR SCHUMACHER: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Groene. [LR332 LR344]

SENATOR GROENE: I just ran the numbers. The last testifier said everybody gets state aid, \$878 million out of \$913 million goes to 86 districts; 6 percent goes to the other districts of the state aid to education, so \$6 out of \$100. Now if you throw in the special education, which is a different line item and is not in TEEOSA, yes, there's a bigger percentage that goes to the rural districts. But, Mr. Hansen, if you were a rural senator and your school districts got no state aid

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basically and 24 school districts get 85 cents out of every additional dollar we spend on state aid, would you be a big supporter of more money to be put in TEEOSA? Is there any rational reason for a rural senator to support putting more money into state aid to education when 24 urban districts get 85 cents of that extra dollar you put in? I can understand why they do not want foundation aid. They do not want to share any of that pot of gold they already get 85 percent of. But do you see any reason why rural Nebraska should support more money into TEEOSA? [LR332 LR344]

JOHN HANSEN: In my humble opinion, I would be skeptical of that whether or not specific changes in the TEEOSA formula. And to me, listening to the panel of experts, who are all friends of mine, who testified first this morning, I've been doing this job for 26 years and so I've spent a lot of time going over these issues with all three of them. The thing that my ears perked up on, Senator, was when Cathy Lang said that you ought...if you want property tax relief, you need to use state aid to specifically offset property taxes and achieve that specific outcome. And if there's a way to do that, that would be a much more direct approach, I would suspect. [LR332 LR344]

SENATOR GROENE: What if you thought of putting foundation aid as a resource? And then if you took foundation aid, you had to lower the local school district, you had to lower their asking by, let's say, 125 or 130 percent of your asking of property taxes. I think every unequalized district would jump on that because you would be getting some state aid, plus the taxpayer would be guaranteed a lower tax rate, something like that where it's guaranteed where the tax rate is lowered. [LR332 LR344]

JOHN HANSEN: Well, Senator, we have supported historically foundation aid. And so using different kinds of qualifiers are...we're open for all of those discussions. But we have been supportive of foundation aid as a starter. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

SENATOR GLOOR: Senator Scheer, did you have a question? [LR332 LR344]

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SENATOR SCHEER: Yes, thank you, Senator Gloor. John, just because I haven't shot back at Senator Schumacher today on his points (laughter), if that family that had the quarter or a half section up around your place, they're paying property taxes on an ever-increasing valuation each year on that investment in that ground, would that be correct? [LR332 LR344]

JOHN HANSEN: Yes. [LR332 LR344]

SENATOR SCHEER: And so if that same family also had three, four, or five shares of Berkshire-Hathaway that they happened to buy at \$800 or \$900 a share 30, 40, 50 years ago, when that person may expire, is there any difference between that ground getting valued up and the stock being valued up from the state purposes? Are any taxes paid on either of them? [LR332 LR344]

JOHN HANSEN: Well, the difference generally between tangible and intangible is that property intangibles get taxed every year and you also tax the income stream indirectly or directly off of it. And intangibles you're not necessarily... [LR332 LR344]

SENATOR SCHEER: So would a person then that has had farm ground, would it be fair to say that they sort of paid their share as it's...as they've owned it, versus somebody that had an intangible, really hasn't paid for the growth of that value in their state? [LR332 LR344]

JOHN HANSEN: I would say...I would tell you that my farm is actually in between Columbus and Norfolk, so I'm reticent to get in the middle of a Senator Schumacher/Scheer... [LR332 LR344]

SENATOR SCHEER: Well, I guess my point, John, is obviously that there's no difference. [LR332 LR344]

JOHN HANSEN: But they are treated very differently for purposes of taxation, and that is a longstanding ag view is that... [LR332 LR344]

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SENATOR SCHEER: But they are different other than at death. At death, land or stock both get a stepped up basis and there's no tax paid. So I just wanted to bring that point forward because Senator Schumacher makes it sound as though those that own ground have this miraculous ability to avoid taxation on an estate basis. But it truly is no difference regardless of what that investment vehicle is, be it stock or a property. You still are able to avoid the step up...you still get the same stepped-up basis. So that's...and I'm not...just because you happen to be sitting there, I bring it up. But Senator Schumacher has brought that up three or four times, so I thought I should at least shoot back once. So I...you just happen to be the one in the chair, so. [LR332 LR344]

JOHN HANSEN: And we'll be discussing that and other nuances of estate planning and intergenerational transfer at our state convention. But these are complicated matters and it makes a lot of difference whether you're dead or alive when property moves (laughter). [LR332 LR344]

SENATOR SCHEER: That's correct. Grandpa, it's complicated. So thank you, Senator Gloor. [LR332 LR344]

SENATOR GLOOR: Thank you. Seeing no further questions, thank you, Mr. Hansen. [LR332 LR344]

JOHN HANSEN: Thank you all very much, and good luck. [LR332 LR344]

SENATOR GLOOR: Thank you. With apologies to Mr. McClymont, we're going to take about a ten-minute break and we'll reconvene at 3:45. I'm all about people stretching their legs. It's my previous healthcare background. I can't help it. [LR332 LR344]

BREAK

SENATOR SULLIVAN: (Recorder malfunction)...public comment that will follow that. So our next testifier is Mr. McClymont. Thank you. [LR332 LR344]

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PETE McClymont: Thank you, Senator Sullivan. Senator Gloor and members of the Education and Revenue Committee, for the record, my name is Pete McClymont, P-e-t-e M-c-C-l-y-m-o-n-t. I'm the executive vice president for the membership of the Nebraska Cattlemen and we appreciate your invitation for us to appear here today. Consistently across the state, property tax is our number-one issue as the membership confronted those farmers and ranchers and their opinion from what we have in terms of policy, feel like they pay a disproportionate share of property tax under our current system. And that is why we have adopted broad policy in support of lowering property tax burden. Whether we have a good year or a bad year in our industry, in the cattle business, land prices are high or low, we still need to pay property tax. That's our duty. Even if we're losing money, we pay. Farmers and ranchers represent, from the U.S. Census, 3 percent of the state's population, yet from the Department of Revenue, approximately 39 percent of property tax comes from this demographic. Owning property in our members' opinion is not a good measurement of wealth or income and is certainly no longer an equitable structure for which to fund education. We appreciate the concepts that are shared here. Obviously, if any new ideas have come up, we're all waiting for them as we try to participate in solving this issue. And even though, as you said, Senator Gloor, the ideas will continue to be worked forward, but our convention is in Kearney in December 2 through 4 and our taxation and education committees will meet to further discuss this. And we did meet a year ago as a membership with task force to come up with some ideas. And even though our membership understands this is daunting, they believe this is a key priority for the upcoming session. We have changed policy in certain areas to reflect that if we need to adapt, we will. For instance, in our inheritance tax, obviously we have always been against taxation on generational transfer. And nobody likes that, but our property tax...or our membership has agreed to policy that, if need be, inheritance tax at the state level, even though we don't like it, that does lower the burden on property tax if it was taken away. I lost my father this summer and so at least I have my sister living in Colorado and brother in Michigan that are contributing to our tax revenues to help these situations. Farmers and ranchers need to see direct and immediate relief from property tax. We support decreasing valuation for ag land valuation for the purposes of the state aid formula. Even though it has been discussed here, and we would agree, lowering valuations from 75 does not solely solve the problem. It helps those who need it most in certain situations with counties of high levies and high valuations. Foundation aid for direct aid for schools, so as long as it considers the resource, and the state aid formula would also provide relief for those schools that are currently unequalized

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and receiving no state aid. Expanding the proportion of state funding to education would lessen the current property tax inequities. Increasing the Property Tax Credit Fund, as this body has done, has been supported by our membership so long as it's packaged with broader efforts. And we appreciate that from this Legislature. The relief is direct and immediate for all property taxpayers in Nebraska, not just ag payers. Nebraska must also find a way to equitably pay for education, which means shifting the reliance away from property tax, and the NC supports better balance between income, sales tax, and property tax. This can be done by changing the incentives in state law and encourage schools to spend money, rather than return it to the property tax base by looking to a broader tax base. We often hear that spending is the problem, that schools are incentivized to spend. Changing the incentives, such as the minimum tax...minimum levy penalty and the maximum levy for school spending is very important part of this conversation. We would support consideration of sales taxes on certain goods and services not currently taxed. And with that, I will conclude my testimony and thank you for the opportunity to testify today, Senator. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. McClymont. Any questions for him? Senator Davis. [LR332 LR344]

SENATOR DAVIS: Just a couple. Thank you, Pete. Good to see you. Have you...do you have policy at all on community college funding the property taxes? [LR332 LR344]

PETE McCLYMONT: Well, I think, to be here and be fair and not be disingenuous and put solutions off to other people, we've got to look at certain things. And so all options like that that you've suggested are options that our membership, given the total solution, that would be something we would consider, yes, Senator. [LR332 LR344]

SENATOR DAVIS: And then the other question: Have...as a part of possible property tax fix, you know, Nebraska could incentivize and do some wind credits. Is that something Nebraska Cattlemen have considered at all? [LR332 LR344]

PETE McCLYMONT: Actually, our policy on wind generation, those that would create it were pretty split. We have those that think it's a great way to increase farm revenue, especially with

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our ranching members. There are some that are very passionate about the pristine ecology of the Sandhills and they don't want that disturbed. So consequently, we don't have definitive policy, but just those that wish to operate their business to have options to create more revenue. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? Thank you for your testimony. [LR332 LR344]

PETE McClymont: Thank you. [LR332 LR344]

SENATOR SULLIVAN: We'll now hear from the Center for Rural Affairs. Welcome. [LR332 LR344]

TRACI BRUCKNER: (Exhibit 11) Good afternoon. Thank you for having me today. My name is Traci Bruckner, T-r-a-c-i B-r-u-c-k-n-e-r, and I'm with the Center for Rural Affairs, based in Lyons, Nebraska. Rooted in rural Nebraska with a 40-year history, we understand the challenges facing farmers and ranchers. In testimony to the Tax Modernization Committee, we agreed that property taxes are too high and local government entities are too reliant on property taxes. While we recognize farmers and ranchers often bear the greatest burden, our mission is not to represent the interests of one group but to support policy that builds strong rural communities and provides opportunity for all rural people. In 1992, our organization conducted a comprehensive study that examined our state's tax system. We identified strengths and weaknesses and made recommendations for improvement. We're disappointed to find that, in 2015, many of those same inadequacies are still in place today. So today, as in 1992, we're putting forward some recommendations that we think will result in more equitable funding for K-12 education. The first one, use targeted relief to reduce reliance on property tax to no more than one-third of K-12 revenue, we need to rebalance the three-legged stool. We think relief should be targeted to those who need it most: modest owner-occupied homes and owner-operated farms of modest means. We could refocus the Property Tax Relief Fund by enacting a maximum reduction or use it for a circuit-breaker tax refund. The second area that I was going to talk about today is the overall tax system, to make it less regressive. This is achieved by reforming individual and corporate

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income tax structures and increasing the share of total revenue which comes from income tax. We recommend continued consideration of the school funding surtax calculated by multiplying a person's state income tax liability by a set percentage. We believe a 5 percent school funding local income surtax results in approximately \$100 million of additional local revenue. And then, as in 1992 and today, we did support broadening the tax base. In a service-oriented economy, it's unrealistic to ignore the sales tax represented by the service sector. Modernizing sales tax to include services purchased by households could create an additional \$194 million of revenue. But we should exclude taxing services that most directly impact low- and moderate-income families or consider offsetting this impact through a low-income credit. And that's all I have for you today. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Ms. Bruckner. Any questions for her? Senator Pansing Brooks. [LR332 LR344]

SENATOR PANSING BROOKS: Thank you, Chairman Sullivan. I just want to thank you, Ms. Bruckner. I like that you've come forward with some concrete ideas that we can grapple with and also, you know, gave some consideration to the fact that we aren't just...that there are some very wealthy farm owners and then there are some who are in some real need that are...that that's really where we should be focusing this discussion. And I think we get confused by the discussions of all farmers when there are some that are of significant wealth that...so we do need to look at all the different issues. But I appreciate the fact that you gave some concrete ideas. Thank you. [LR332 LR344]

TRACI BRUCKNER: Thanks. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? Thank you for your testimony. [LR332 LR344]

TRACI BRUCKNER: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Welcome. [LR332 LR344]

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RENEE FRY: (Exhibits 12-14) Thank you. Good afternoon. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I want to start by talking about school spending. It's come up quite a bit today. LFO found in their report for this committee, on page 7, that a major reason K-12 spending growth has been higher than inflation is because of a shift in enrollment from smaller districts which have fixed costs to larger growing districts which have to add new buildings and staff to account for their growing enrollment. So spending in declining districts is growing at inflation, while spending for growing enrollment districts is growing at inflation-plus-enrollment growth. And I just want to make sure that this point has...seems to have been overlooked today and I think that there's a lot of great information in that report that the Fiscal Office put together for this committee. I also want to mention that, as state taxes have been cut over the last several years, I have a chart for you that looks back at tax cuts since fiscal year '05, that there has been a shift to greater reliance on property taxes. So just looking at the last ten years, the Legislature has significantly cut state taxes, resulting in a cut of almost \$400 million in the current fiscal year, over \$260 million of which were income tax reductions. These cuts, combined with rising ag land values, have caused a shift to greater reliance on property taxes so that our three-legged stool is out of balance in terms of reliance on local and state revenue. Thirty-five percent is coming from property; 30 from sales; 27 from income. State school funding as a share of the economy is below the historic average since implementation of LB1059 and is near an historic low. And I have a chart handing out to you as well. I don't think it can be overlooked that Nebraska ranks 49th in the percentage of K-12 funded by the state. And we are second most reliant on property taxes. Schools, counties, and cities have become more reliant on property taxes. For example, schools, their reliance on property taxes has increased from 44.8 percent of their budget to 49.9 percent of their budget from fiscal year '01 to '14. In terms of options, I would contend that property taxes will continue to be an issue unless we increase state aid. A circuit breaker or other targeted credit does make sense for the near term. As long as we continue to cut state taxes, this will continue to increase or to cause a shift to property taxes. Most states do have some direct aid for all districts, but we need to ensure that this doesn't come at the expense of our equalized districts. It probably does make sense to eliminate the minimum levy adjustment. We have to consider new tax sources to shift away from property taxes, such as taxing services, which is good tax policy, to broaden the base, especially as household spending on services increases. One of the options was to reallocate current state spending. Of course, that will come with a lot of difficulty and we would need to plan for that. If

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we cut Health and Human Services, for example, we'll lose significant federal dollars. Sixty-five percent of Medicaid is spent on people with disabilities and seniors, so we need to plan for how we are going to deal with the aging population. But cutting spending without a plan will lead to a disaster like what we saw with child welfare, BSDC, corrections, ACCESSNebraska, and so on. So we need to continue to focus on efficiencies, but we can't expect those efforts to yield huge amounts of savings. We also really need to think about how we can target resources to improving outcomes for at-risk youth. Last week, we had a speaker who showed really striking disparities in terms of our students in poverty and their outcomes versus students that aren't in poverty. Finally, I would...we would recommend modifying the formula to include income in the resource calculation. And with that, I'd be happy to answer questions. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Ms. Fry. Any questions for her? Senator Gloor. [LR332 LR344]

SENATOR GLOOR: Thank you, Ms. Fry. Has OpenSky looked at all, since we're talking about rankings a little bit, at the Tax Foundation's ranking of Nebraska when it comes to excise tax? We rank 47. So as we're looking for revenue sources, has that been something that you have noticed or looked at? [LR332 LR344]

RENEE FRY: Yes, certainly, particularly in terms of cigarette taxes. We are an outlier there. We are in alcohol taxes as well. That doesn't raise quite as much money as cigarette taxes would. Our one caution, and we think it makes a lot of sense to look at that area, particularly as it relates to healthcare, too, as you're well aware, but we would caution about using that as a specific revenue source for education because ideally, as the cigarette taxes go up, usage comes down. And so it may not be as stable of a revenue source for education but clearly an area where it makes sense to look too. [LR332 LR344]

SENATOR GLOOR: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Scheer. [LR332 LR344]

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SENATOR SCHEER: Thank you, Senator Sullivan. Thanks for coming. Thanks for (inaudible). I'm intrigued at your last item: including income as a resource for state aid calculation. Can you give me an idea of what you were sort of thinking there? [LR332 LR344]

RENEE FRY: Yeah. So we tried to look...we've tried to develop and we're working on developing some sort of index that looks not only at property wealth but also income wealth of a district. What we have in the formula that most closely represents that sort of calculation would be the income tax allocation. But instead we'd like to find and we're working on looking at an index that would...a fiscal capacity index is what we're calling it, so that you could measure the amount of revenue that a district can raise from property but income wealth as well, so it's not just property wealth. And that's one concern of ours is that just looking at property wealth as a resource may not accurately reflect the ability of a district's constituents to support K-12. [LR332 LR344]

SENATOR SCHEER: And how do you propose that the school districts then would get access to that? I mean you say that one district has X amount more income wealth versus another. But are...how do we get that to be part of the resources? [LR332 LR344]

RENEE FRY: You could do that with something where you're redirecting, like an income tax allocation, and maybe that it's not a set amount for every district but better reflects what the district has. Senator Davis had a bill that had an income tax surtax, a local surtax. Some states do factor in income taxes into their K-12 funding formula, not very many. Most of them, what they're doing though is they're generating a lot more state revenue to pay for K-12. And so then that resource component is much smaller. Right? So we're second most reliant...I'm not explaining this very well. But we're second most reliant on property taxes in the country. Right? And so most states are putting significantly more into state aid. But there are some districts that are looking that either have a local option income tax, but they're doing a better job of capturing the resources of a district because they're sending back more income and sales tax to all of the districts. [LR332 LR344]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Sullivan. [LR332 LR344]

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SENATOR SULLIVAN: Senator Davis. [LR332 LR344]

SENATOR DAVIS: Thank you, Senator Sullivan. It's good to see you, Renee. Just a couple of questions, because we always hear that we're 49th or 50 in terms of that. And then we hear that we're 14th here and we're 6th here. Can you tell us, or do you know, is there is a way to find out where we are in terms of the ag percentage of...I guess that contributes to property tax compared to other states in the nation? Are we essentially number one or number two in that category? [LR332 LR344]

RENEE FRY: Yeah. My understanding from some work that Bill Lock had done last year, we're about third. I think our ag property taxes rank about third. [LR332 LR344]

SENATOR DAVIS: Do you know what states are ahead of us? [LR332 LR344]

RENEE FRY: I don't know the answer to that, but I can find that out. [LR332 LR344]

SENATOR DAVIS: And assuming that we have a tier of states here that are somewhat similar--starting at North Dakota and running down to Texas--are we an outlier among those states, as far as you know? [LR332 LR344]

RENEE FRY: In terms of ag taxes or in terms of education funding? [LR332 LR344]

SENATOR DAVIS: Um-hum, ag taxes, ag taxes and distribution. [LR332 LR344]

RENEE FRY: Yeah. I don't know what what those two states are that are above us. My impression is that they may be coastal states, but I'm not sure. I thought...I think California may be one of those. I would have to check though. [LR332 LR344]

SENATOR DAVIS: Okay. [LR332 LR344]

RENEE FRY: Without knowing what those two states are above us, I can't answer that question. [LR332 LR344]

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SENATOR DAVIS: I think somewhere the other day I read that Nebraska was number one in property taxes, ag property taxes collected, above California. Well, you would certainly think California would be, far and away, ahead of us with the types of crops that they grow there, the profitability of those. [LR332 LR344]

RENEE FRY: Yeah. I'll have to look back at that. I'm sorry, I don't know the answer. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. Thank you, Renee, for your testimony. On the issue of when you say we're second lowest reliant on property taxes, is that local property taxes? [LR332 LR344]

RENEE FRY: It's all property taxes. [LR332 LR344]

SENATOR SCHUMACHER: So when we see in some of these charts money coming from the state, state aid to education, in those states that get some of that money from a state property tax, is that computed in there? [LR332 LR344]

RENEE FRY: Yeah. So whether...if it's a property tax, we're comparing apples to apples. So what you're looking at is the distribution side and how that gets distributed back. But we're comparing census data and property taxes collected, whether it's a local property tax or whether it's a state property tax. So we're comparing property tax, whether it's local or state. We're comparing property tax to property tax versus state tax dollars. But I think what you're getting at is those state property taxes may be collected and distributed back much like, you know, sales tax or income taxes. But we're looking at the revenue side. [LR332 LR344]

SENATOR SCHUMACHER: And the other question is, if you could explain it again, looking at your...on your chart, "Tax Cuts Over Last Decade," fiscal year 2015 shows \$538 million in tax

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cuts. Would those tax cuts have been deductible, as a general rule, on the federal income tax return? [LR332 LR344]

RENEE FRY: Income tax cuts would. Income taxes would. They would have. Property would as well. I didn't count property in the \$400 million number, but, yes, income and property. [LR332 LR344]

SENATOR SCHUMACHER: Okay. So this just...the...at the state level income taxes that wouldn't be any of the property tax relief or (inaudible)... [LR332 LR344]

RENEE FRY: Well, so property is that last column, so...but in the \$400 million that I mentioned in my testimony, that would just be the sales and the income taxes. So you're right. I mean we've lowered state taxes at the expense of federal taxes. So those folks are paying more in federal tax, yeah. [LR332 LR344]

SENATOR SCHUMACHER: So base...if we...the \$538 million, fiscal year '15, tax cuts experienced we actually, if you assume a federal tax rate of average 28 percent, we're actually paying the federal government \$150 million more than we would have had we not made those cuts. [LR332 LR344]

RENEE FRY: Yes, that's true, accurate. [LR332 LR344]

SENATOR SULLIVAN: Senator Hadley. [LR332 LR344]

SENATOR HADLEY: Thank you, Senator Sullivan. Thank you, Ms. Fry. I guess this is my seventh year here, so I've heard a lot of the things about this. And I heard it again today. Would you agree with the statement, ultimately, it's going to come down to either finding new revenues or reallocating what we're spending right now? [LR332 LR344]

RENEE FRY: Yes, absolutely. [LR332 LR344]

SENATOR HADLEY: Is the solution one or a mix of those two things? [LR332 LR344]

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RENEE FRY: Yeah. Absolutely. I mean the challenge with reallocation is that unless we have a plan for that, we're going to end up in a bad state of affairs and have a lot of challenges ahead of us, such as, you know, the aging population in Nebraska. So to say that we're going to be able to reallocate from other areas is going to be extremely challenging. It's possible to do, but there would have to be a very difficult conversation about what services would have to be cut. So in order to address the situation at hand, yeah, I think those are...that's ultimately what it comes down to. [LR332 LR344]

SENATOR HADLEY: And if we try to find other revenue sources, does this shift the tax burden from ag to then urban, because if you're going to increase, for example, sales taxes, it's going to go...the people in the population centers are going to be the ones that pay it, the majority of it. Is that a fair statement? [LR332 LR344]

RENEE FRY: It is. We issued a report in January. What we found, if you look at the last ten years, at the beginning of that ten-year period, residents in urban areas, highly urban areas versus highly agricultural areas, we're paying about the same per capita in income and property taxes combined. What we've seen over that last ten years has been a pretty significant shift so that now residents in agricultural areas are paying about 40 percent more. So it would be a shift, but you could make the argument that it would be shift back to where it was ten years ago. But it certainly would be a shift. [LR332 LR344]

SENATOR HADLEY: And lastly, Nebraska is a big geographic state with a relatively small population with residents who want good services. [LR332 LR344]

RENEE FRY: Yeah. No, that's absolutely right. And I think our demographics are really challenging, I mean particularly if you look at the spending side of it and why education spending is growing faster than inflation is, because of our demographics, because you have these small districts that have fixed costs. So as their enrollment goes down, they still have to have a teacher, they still have to have a building. Unless they're able to consolidate and actually get rid of a building, their costs are going down. And then in the urban areas, then they have to build new buildings and they have to add teachers. And so I think this is a real challenge for us. We have an aging population. We're going to have a lot of challenges ahead of us. So I think, you

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know, you, Senator Gloor, I've heard talk quite a bit about, you know, one base at a time, and I think that makes a lot of sense. So, you know, for the immediacy we can do things like a circuit breaker, right, as we sort of untangle a very complicated web here. But yeah, at the end of the day, you know, we've got a lot of challenges, not a lot of people, not a lot of natural resources. You know, we talk a lot about taxes and where we rank, and we rank pretty close to the middle of the country in terms of our taxes. What's interesting is that when you look at spending per capita and spending as a share of the economy, we rank much lower. So not only do we have challenges with our demographics, but we also receive...we rank 35th in the percent of federal funding that we receive per capita. And so then that sort of adds to this challenge too. So in our spending we actually rank even lower. We're in the bottom of the states in terms of spending. So, yeah, there's no real easy answer, but I think you've boiled it down. [LR332 LR344]

SENATOR HADLEY: I note you looked at me when talk about an aging population (laughter). [LR332 LR344]

RENEE FRY: Just because you asked the question. [LR332 LR344]

SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: We keep hearing about the rural cost of education of less students of...but we were told when we closed the K-1 schools that we were going to see this big bump in savings, more efficiency. Can you ever...have you ever pinpointed where we spent less on education because we closed the K-1 schools in rural Nebraska? I never seen it. [LR332 LR344]

RENEE FRY: No. I mean, you know, the LFO report...else... [LR332 LR344]

SENATOR GROENE: Class 1. [LR332 LR344]

RENEE FRY: LFO report also did talk about consolidation. And again, you don't necessarily find much in the way of savings in term...your per-pupil costs are still going up as your total enrollment declines. And so I think what we've got is we...that isn't necessarily a way to save a tremendous amount of money. You can only do so much. [LR332 LR344]

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SENATOR GROENE: Another question on these tax cuts. In any of these years was total spent, total collected by any of the tax entities less? This is a tax...these are cuts in the increases of collections, not a cut in what they received the year before, correct? I mean the state of Nebraska never collected less income taxes or entities collected less property taxes. These were cuts in increases. [LR332 LR344]

RENEE FRY: That's a great question. Actually, during the recession we certainly did see sales and income tax revenues go down. So it would be interesting for us to look at that. But it is not fair to say that these are cuts to increases because there certainly have been periods since fiscal year '05 where we did see reductions in sales and income tax collections. [LR332 LR344]

SENATOR GROENE: But we would have seen that no matter what if this was included in it, in our collections. But isn't this...these tax cuts, isn't democracy at work because the pot boiled over and people said, our income taxes are too high? The property tax, I'm sure that total has the property tax credit in it. I'm sure it has the homestead exemption increases in it. That public finally said enough is enough. I mean we are not dictated, the public, by government; it's supposed to be the other way around. And these cuts came from the people and that's what we have today here. But the agriculture property taxpayer is in the same boat the retired people were with the homestead exemption. The farmers, everybody was with property tax. The income tax people said enough is enough. And that's where we're in the same boat where people are looking for relief from property tax, the same reason we got all these tax cuts. We weren't just Santa Claus down here at the Unicameral saying we're going to give you tax cuts. There was pressure from the public to cut it. So you say don't do this. I represent people who want this. [LR332 LR344]

RENEE FRY: Okay. So I didn't say don't do this and I...and my intent was... [LR332 LR344]

SENATOR GROENE: Yeah, well, didn't your... [LR332 LR344]

RENEE FRY: Well, further...my intent is to... [LR332 LR344]

SENATOR GROENE: Stop cutting state taxes. [LR332 LR344]

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RENEE FRY: If we want to address property taxes, my intent is to illustrate that when we cut state taxes, unless we're cutting the level of service, we have created a shift to property taxes. We have a chart which we call the mirror chart. As we see state support go down for local governments, we see our local taxes go up and vice versa. So we know that there's this direct relationship between state aid. What you saw during the recession, you saw state aid for cities and counties was eliminated. You've seen those increased mandates that we've talked about. And you see in the other chart that we are...have a historically low support of K-12 as a share of the economy. So the direct result of those things, of reducing state aid, is increased property taxes. And so there's this direct correlation which I think is really important for us to talk about...
[LR332 LR344]

SENATOR GROENE: I understand. I agree with you on that. That's... [LR332 LR344]

RENEE FRY: ...and for us to acknowledge as well that there is this direct relationship. [LR332 LR344]

SENATOR GROENE: But there is a reason we did it. The public wanted it done: cut the taxes.
[LR332 LR344]

SENATOR SULLIVAN: Any other questions for Ms. Fry? Thank you for your testimony.
[LR332 LR344]

RENEE FRY: Thank you. [LR332 LR344]

SENATOR SULLIVAN: We are at the point where we are concluding the testimony from the advocacy groups that we expressly invited to testify. And now we are at the point where we're opening it up to the public and other groups. I'd first like to see a show of hands of how many are planning to testify. We do want to get through all who want to testify. Now one other caveat I'd like to mention, we have at least one individual who has traveled a great distance and would very much like to get home tonight and lives at the far western part of the state. So if you don't mind and if there is anyone else in that category, I would ask you to negotiate with some of the people that are sitting in the first row to make sure that that happens. So with that...and as she's coming

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up, Senator Gloor, do you have a couple of things that need to be read into the record? [LR332 LR344]

SENATOR GLOOR: (Exhibits 15-17) Yeah. I'll read into the record some people who have offered some testimony or signed in: Frank Harwood, superintendent of Bellevue Public Schools; Craig Kautz, superintendent of Hastings Public Schools; Al Guenther from Dunbar. And then, Mr. Stuart, do you want me to read in...? [LR332 LR344]

JAMES STUART: I'll be glad to testify. [LR332 LR344]

SENATOR GLOOR: Pardon me. [LR332 LR344]

JAMES STUART: If it's not too late, I'll be glad to come up. [LR332 LR344]

SENATOR GLOOR: You're going to testify? [LR332 LR344]

JAMES STUART: I'll come up and just read it, yeah. [LR332 LR344]

SENATOR GLOOR: Okay. [LR332 LR344]

SENATOR SULLIVAN: Welcome, Dr. Winchester. [LR332 LR344]

CAROLINE WINCHESTER: (Exhibit 18) Okay. Well, thank you very much. I appreciate it. My name is Caroline, C-a-r-o-l-i-n-e, Winchester, W-i-n-c-h-e-s-t-e-r. I'm superintendent at Chadron Public Schools. I would certainly like to thank Senator Gloor and Senator Sullivan and the members of the committee for the opportunity to testify. We've heard many of the things that I'm going to talk about already today. I just will reiterate them. I know we all want to protect our future in Nebraska by providing an equitable education opportunities across our state. In my opinion, in order to bring about real property tax relief, there is going to need to be another source of dollars to take that place. I think also, as we heard Senator Wickersham testify earlier, we all know it's a complicated issue. When LB1059 was done, they looked at a combination of things. And I think the committee as well will probably need to consider a number of things to

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make the adjustment happen because we have a lot of moving parts in the state with state aid formula and revenue and so forth. I know you've heard testimony or one consideration that the committee has looked at is direct aid. People talk about foundation aid. I would urge the committee to make sure that that funding mechanism, it's outside of TEEOSA. And sitting here in the conversation, I think maybe we need to have a little language change and understand we have equalization aid but then there's lots of other pots of state aid that we have with special...you know, special ed, state allocation monies. There's a lot of other state monies that do come in. Maybe we need to talk, when we talk about state aid, we need to understand it includes equalization aid as well as a lot of other pots. Given the desire to provide assistance to all districts, one area I'd like you to consider is special education. It does include all districts. Currently the allocation is outside of the TEEOSA formula. It's a very audited method because it's not only audited by your local auditor but it's also audited by the state as far as the funds are. Originally reimbursement was to be at 80 percent. I think costs right now are at 52 to 53...reimbursement is 52 to 53 percent. And I do want to thank...we have had some recent increases and certainly we appreciated those increases. But that does help relieve your local tax obligation and that's a consideration to look at. A number of people have addressed the issue of spending. I just want to put in there that spending in the Chadron Public School district has been less than 1 percent a year. At the same time, our state aid decreased at 1.25 percent. Our total revenues declined in that same period, 0.32 percent. And we're at \$1.05. We have no other place to go. If we have to cut further, it's going to be either jobs or programs for kids. And unfortunately, that will hit our most vulnerable and at-risk students. I think we all know the real question is where the money is going to come from. I don't have a silver bullet for that. I can just tell you we have a very active legislative committee at Chadron and they've thrown out lots of things. They've talked about sales tax, eliminating exemptions. They've talked about taxes on stocks and bonds. They've talked about a local surcharge on income tax. Whatever your recommendation is, we just hope it involves a more equitable distribution of tax responsibility. All citizens benefit from public education, which is economic development both in the short and the long term. I just encourage you to be bold, to examine the data, and consider the Education Committee's vision of every Nebraskan educated for success. Thank you very much, and thank you for letting me go early. [LR332 LR344]

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SENATOR SULLIVAN: Sure. Thank you, Dr. Winchester. If we were to go the route of putting more dollars into special education, what would you recommend would be the offset to realize real property tax relief? [LR332 LR344]

CAROLINE WINCHESTER: Well, I...you know, perhaps what Cathy Lang talked about earlier. I think if you're going to...if you intend for an increase in special ed to go to offset property tax, I think that's going to have to be designated that way and it's a one to one. In a bill submitted last year that used the local surcharge, that was the premise behind that, that the local surcharge would be a one-on-one replacement for the property tax. []

SENATOR SULLIVAN: Okay. Thank you. Any other questions for Dr. Winchester? Thank you for your testimony. [LR332 LR344]

CAROLINE WINCHESTER: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Welcome. [LR332 LR344]

STEVE JOEL: (Exhibit 19) Good afternoon, Senator Sullivan and members of the committee. My name is Steve Joel, S-t-e-v-e J-o-e-l. I'm superintendent for Lincoln Public Schools. Our district is a growing district serving more than 39,000 students and in 38 elementary, 11 middle, and 6 high schools. Over the last ten years, our average annual enrollment growth in LPS is about 700 students. The three-year annual average is nearly 1,000 students a year. Even with this growth we spend less than the state average and we rank 234th in spending per student in the state. Lincoln's students rely on equalization aid. The purpose of equalization aid is clear and reasonable: to provide resources to school districts that do not have adequate local resources to meet increasing demands. Our poverty rate, student free and reduced rate has grown dramatically as well in the last 10 or 15 years from 25 percent to more than 40 percent. But the adoption of research-based programs and the development of additional supports has led to an increase in LPS graduation rate to nearly 90 percent when including students who finish their high school diploma by the end of their fifth year of high school. We're also a refugee resettlement center. This designation brings a wide range of refugees from all over the world to Lincoln Public Schools. LPS serves nearly 2,500 English language learner students speaking more than 95

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languages. In addition to the many different languages and cultures represented by these new students, many times they come to Lincoln fleeing war or a natural disaster that has disrupted their family both before and during the process of immigrating to the United States. It's often said by Lincoln's leaders that whenever we hear and learn about refugee crises occurring around the world, as we are right now, we'll expect...we can expect families within 18 months. And in fact, that's proving to be true with what's happening in the Middle East today. This is a tough issue. And I realize and many of my colleagues realize that the committees are facing some difficult challenges. LPS supports comments made earlier by the president of GNSA, Superintendent Troy Loeffelholz from Columbus, in asking you to remain steadfast in your commitment to public education. It is one of the most impactful investments the state can make to build a capacity of the citizenry and our economy. And as a state, we're doing very well. Review the proposal submitted by the Tax Modernization Committee to consider the best strategy and policy to support public education and ensure calculated, not allocated, resources are available that keeps education whole and supports equitable learning opportunities for all of Nebraska children. Conduct regular analysis by a collaborative body to analyze trends, identify fluctuations in the economy, and offer immediate solutions based on accurate data. We firmly underscore and understand what's happening politically in our state right now. We're hearing that in Lincoln as well. But the solution, as Ms. Fry and others have mentioned, is not reallocation, but it is additional resources for state aid. We have some momentum built into the system right now with regard to student success. Our challenges are more severe than they've ever been and the expectations in Nebraska for educational excellence are, appropriately, very high. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Dr. Joel. There have been several comments made today, and this sort of flies in the face of what, as you indicated, GNSA has indicated they support. But one of them is the elimination of the minimum levy adjustment. In addition to that, there's been some discussion of eliminating the levy criteria for averaging adjustment, which pertains to larger schools such as LPS. Would you be in favor of eliminating that? [LR332 LR344]

STEVE JOEL: Personally, I'd want to study that a little bit further. But one of the things that we would say is that anything that, as it gets modeled out, that pulls resources away from a growing district that's highly reliant on equalization aid is, in fact, going to be disequalizing. So, you

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know, we'd want to see exactly what that would look like for a district of our size. [LR332 LR344]

SENATOR SULLIVAN: But along with that, then it basically says remove some of the flexibility that your local board would have in terms of deciding what that local levy should be. Am I right in terms of not showing support for getting rid of the levy criteria for averaging adjustment? [LR332 LR344]

STEVE JOEL: Yeah, I'm not...I don't know that I'm tracking your question. [LR332 LR344]

SENATOR SULLIVAN: What I'm saying is that if you're not in favor of it, admittedly, you'd like to see what the modeling does and the impact does, but along with that, that is one tool that you're saying let's not give that tool to your local boards to make some changes in the levy. [LR332 LR344]

STEVE JOEL: We would say, Senator Sullivan, that the system as it exists right now fits as well as any system that we could think of, we could imagine, or would look at. But we understand that there is going to be discussion along those lines. [LR332 LR344]

SENATOR SULLIVAN: And then, as you said, you support any additional resources from the state that would go toward education. But am I understanding that you want those solely to go through the equalization formula? [LR332 LR344]

STEVE JOEL: Yes. [LR332 LR344]

SENATOR SULLIVAN: Which does not help our situation and the challenge that we're dealing with in this resolution, in these two resolutions. [LR332 LR344]

STEVE JOEL: Right. And I want to underscore and recognize again that I under...we understand the challenge. But right now TEEOSA and the way it's being distributed, based on need, is the fairest and the most equitable way to distribute those funds. [LR332 LR344]

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SENATOR SULLIVAN: So do you have any other solutions and recommendations on how to respond to these two resolutions we're dealing with? [LR332 LR344]

STEVE JOEL: Specifically, no, other than to say that, you know, as we look at this, all discussion is open. And what we merely wanted to say is that...and, you know, I've been doing...I've been in this state for a number of years and a previous state before that. This has been a constant conversation in many states and at all levels that has produced some very uncomfortable times for districts and policymakers. And there really isn't a simple answer to this because conditions do change with regard to the economy, in regard to student need. So it's a very difficult...I understand that. It's very, very difficult on your part. So in terms of a magic bullet or a solution that would be responsive to everybody, I don't know other than when I look at the needs of Lincoln Public Schools' rapidly growing, changing demographics, the distribution formula that's currently in place works for us. [LR332 LR344]

SENATOR SULLIVAN: Thank you. Senator Gloor. [LR332 LR344]

SENATOR GLOOR: You asked my question. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Okay. All right. Senator Groene. []

SENATOR GROENE: But as far as local control, you're an employee of that school district, that school board. Why...isn't it your job to convince that school board that you need \$1.04 to keep your...that you want to run your school? Why wouldn't you have enough faith in your ability to do that? Why wouldn't you give the freedom to that school board to say, no, we don't want to be \$1.04 to keep our averaging adjustment, we want to go to 95 mills? But why wouldn't you allow that school board to say, yes, at this LER, at \$1 we can fund this school but we think we've had huge growth in the city of Lincoln in property that we can lower the mill levy? If you believe, as the administrator, highly paid, that you need more money to run that school, isn't it your job to convince that school board? Why hide behind a minimum levy? [LR332 LR344]

STEVE JOEL: Senator, my job is to advocate for the needs of the students in the Lincoln Public Schools so that every single one of them has an equal and equitable opportunity to be successful.

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And with regard to the cost of that, I don't believe that I have the control over that. I believe that my job is to advocate for the students of our district. [LR332 LR344]

SENATOR GROENE: And that's my point. You go to your school board and say, we need to be \$1.04. The school board says, no, we've had huge growth, the business community says we've had huge property growth, we want to be at 95. It's your job to convince them that you need \$1.04. Why should we give the ability for administrators to hide behind \$1.04 or 95 cents when the community thinks no? [LR332 LR344]

STEVE JOEL: I don't believe that that...first of all, I don't believe our community thinks no. I don't believe we're hiding behind any levy. I think our board... [LR332 LR344]

SENATOR GROENE: So you won't mind if we move it? [LR332 LR344]

STEVE JOEL: I think our board... [LR332 LR344]

SENATOR GROENE: And you don't mind if we move that limited...minimum levy. [LR332 LR344]

STEVE JOEL: Well, with regard to what I said earlier, I don't...I think that that would have a devastating effect on our ability to educate kids to a level that you would expect. [LR332 LR344]

SENATOR GROENE: Now, I've looked at pay scales in the unequalized districts; top pay scale is \$65 (thousand), yours is \$80,000. The administrators are paid a lot better than rural districts even at the high school level and stuff. Now I don't know how that translates into needs in Lincoln versus a rural school that's unequalized and their top teacher pay is \$60,000 versus yours at \$80,000. So we look at that and say, wait a minute, maybe you could lower your mill level to the local taxpayers because you seem to have a lot of money and pay at a pay scale that most school districts can't. Even OPS can't match you. Nobody can match you. So you've done quite well. So as a taxpayer and a representative taxpayer, I'm sitting there going, well, maybe you don't need that minimum levy to hide behind; maybe the taxpayer should have an avenue to

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come to you and say we don't want to pay that tax. But anyway, that's...I think we need to get rid of it. [LR332 LR344]

SENATOR SULLIVAN: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. Just quickly, your testimony mentions Lincoln is a refugee resettlement center. Is that an official designation? Who gives the designation? Does it come with any money? [LR332 LR344]

STEVE JOEL: I believe it is, Senator. I think there are about 20 to a couple of dozen cities around the country that have that designation that we are a refugee resettlement community. I did not know what that was when I arrived in Lincoln six years ago. But we certainly see it in terms of how it plays out. Which means that we have groups that work with governmental agencies to bring refugees from difficult situations around the world to places like Lincoln, Minneapolis, Denver. There's a number of other cities. [LR332 LR344]

SENATOR SCHUMACHER: Does that come with any money? I mean does the federal government give you (inaudible)? [LR332 LR344]

STEVE JOEL: I don't believe so. [LR332 LR344]

SENATOR SCHUMACHER: No? [LR332 LR344]

STEVE JOEL: I mean, other than what we're able to attract through title dollars in the federal government which are tied to poverty, which most of the families that are coming, of course, would be eligible for. [LR332 LR344]

SENATOR SCHUMACHER: Why would anybody volunteer for this designation? [LR332 LR344]

STEVE JOEL: I don't believe I have an answer to that question. [LR332 LR344]

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SENATOR SCHUMACHER: All right. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Davis. [LR332 LR344]

SENATOR DAVIS: Just to follow up on that for a minute, is that something that the city makes that decision or is the school district consulted about becoming an official city like that? [LR332 LR344]

STEVE JOEL: Truth be told, we don't ask the question. And, you know, whenever a student shows up in our school district, we don't really ask where they're from, we don't...we just don't ask any of that. We just bring them in; we welcome them. We consider diversity to be a gift and we educate them. [LR332 LR344]

SENATOR DAVIS: Well, I understand. I understand that, but my question really is, is it the city that makes that decision or is it the school district that makes that decision? [LR332 LR344]

STEVE JOEL: Well, my understanding would be...and I'm not...I don't proclaim that this is accurate that there are various groups that work with various groups to make that happen, to make a better life for refugees. [LR332 LR344]

SENATOR DAVIS: So you don't know the answer. Is that right? [LR332 LR344]

STEVE JOEL: I don't know the answer. [LR332 LR344]

SENATOR DAVIS: Okay. One thing that hasn't been touched on but it does affect Lincoln in a significant manner is tax increment financing and the fact that the state has to make up resources for that. Would you care to comment on that at all? [LR332 LR344]

STEVE JOEL: That's another one of those issues that, you know, and I don't know that there's an answer to. I think you can...I could argue both sides of that. I think in Lincoln the system that Lincoln is deploying works. I think it has enabled some of the growth to occur in terms of our

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property tax base over a period of time--which would be several decades. But I mean that's a discussion that takes place in Lincoln, I think, on a regular basis. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Thank you for your testimony. [LR332 LR344]

DENNIS BAACK: Good afternoon, Senator Sullivan, Senator Gloor. For the record my name is Dennis Baack, D-e-n-n-i-s B-a-a-c-k. I'm the executive director of the Nebraska Community College Association. I wasn't necessarily planning on testifying today, but after I listened this morning to some of the discussions about community colleges, I thought maybe I could answer a few of the questions because I think I do have some of the answers. It's really interesting to watch this whole process. It reminds me of the hearings for (LB)1059; before we did that then the 3-R Committee after that. And so this has been going on for a number of years. And when we did (LB)1059, those were some tough decisions to make. I will tell you, you know, in coming from a very rural part of the state and stuff, we had to make some tough decisions with (LB)1059. And the only way we could fund it was to raise both sales tax and income tax. We raised both rates. And that then went to a vote of the people and the people voted it in place. So it must have been...the timing must have been just right for those kind of things to occur. So we were able to do that. As to the questions this morning, one of the questions was the levy rates for community colleges. Right now, the maximum levy is 11.25. The operational levy rates vary from 8 cents down to 6 cents. And then we have a 2-cent capital levy and most of them take advantage of that 2-cent capital levy, some at varying degree. They don't necessarily take all 2 cents. So it basically is about 10 cents to a 7.5 cents among the six community colleges is what the rate is. The other thing that came up this morning was the infusion of funds put in by Governor Johanns into the community colleges to lower property tax rates. That occurred in...I think it was '99 and 2000. I don't remember the exact years, but what happened was is that there was...the state had some extra dollars. They put \$30 million in each year of those two years of the biennium. And that lowered the rates. That lowered the...the rates at that time were running about 6 to 7 cents and it lowered the rates down to about 2 to 3 cents. So it lowered the rates fairly dramatically within the community college system for those two years is what happened. We were able to do that because our formula at that time had a trigger in it and that was...Senator

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Warner had asked Tom Vickers and I to come up with some way of saying if the state at some point gets through this...at that time it was discussed that the community college ought to be funded 40 percent by the state, 40 percent by property tax, and 20 percent by tuition. And if the state ever got to the position where they were funding 40 percent of our operation with state aid, then any dollars that they would put in over that 40 percent would automatically go to property tax reduction. And that's how that occurred. And the property tax reductions were all across the state because it was based on your proportion of the valuation of the state. Each college was proportion of the valuation of the state. That's how they did that. So all of the areas got equal relief. And that's what happened with that process. The formula today does not have that in. It was discussed this morning and mentioned that we are working on a new formula. We have talked about possibly putting something like that in our new formula. If that's something the Legislature is interested in, you need to let me know that and we would certainly consider that. It does create some problems when they had the \$30 million for the two years. We had that in there. And then when that went away, the boards all had to raise their property tax to make up for that loss. And that caused them a little bit of grief, but they got through that. So they're a little skeptical of it. But I think we could probably work with you to get that done again if we could come up with some kind of trigger within our formula that would automatically then promote property tax relief. With that, I'll just stop because I... [LR332 LR344]

SENATOR SULLIVAN: Okay, thank you, Mister...oh, sorry. Am I on or are you on? [LR332 LR344]

SENATOR GLOOR: I don't know. [LR332 LR344]

SENATOR SULLIVAN: I kind of lost track of this. Thank you, Mr. Baack. Where are we right now in terms of that percentage the state putting in? [LR332 LR344]

DENNIS BAACK: I think that right now we're funded about closer to 52 percent probably comes from property tax and we're about 34 percent state aid. [LR332 LR344]

SENATOR SULLIVAN: Okay. All right. Senator Davis. [LR332 LR344]

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SENATOR DAVIS: Thank you, Senator Sullivan. So you and I have talked about some of this in the past. [LR332 LR344]

DENNIS BAACK: Yes, we have. [LR332 LR344]

SENATOR DAVIS: We have more than once. And I was thinking that you had told me that one of the districts, essentially, had...and I thought it was Central, maybe, had so many resources that it was out of the formula. [LR332 LR344]

DENNIS BAACK: No, they still receive some state aid. They receive about \$6 million worth of state aid. But that's, you know, in comparison when you look with the...that the others are receiving, I mean, that's almost less than half of what Western receives, so. And those resources have grown substantially in the last couple of years. [LR332 LR344]

SENATOR DAVIS: So how does the formula, as it is, work for the community colleges? I know it's... [LR332 LR344]

DENNIS BAACK: Well, right now it's an interesting formula. Right now the first \$88 million is divided by percentages. The statute says this area gets this percent, this area gets this percent, and that's the way it's divided right now. [LR332 LR344]

SENATOR DAVIS: So each of the six colleges gets a percentage? [LR332 LR344]

DENNIS BAACK: That was part of the settlement with Metro Community College. That's how we decided to divide it up. Now there is a basis for those percentages. We know it did come from FTEs and REUs and other things that were generated over the years. So those percentages do have a basis. But that's how we settled that argument and got a lawsuit dismissed and all kinds of other stuff with the Metro situation. Now, anything that's over the \$88 million, which there are dollars going in over the \$88 million, that's divided according to a formula. And that formula is 25 percent of the money is divided equally among the six; 45 percent is divided based on REU, which is reimbursable education units, and that has to do with the weighting of the courses with the...higher technical courses receiving more dollars than the transfer education; and then the

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other 30 percent is based on full-time equivalent students. So that's how the...anything over the \$87 million (sic) and that...this year...in this year that we're in now, that's about \$10 million more. In the next year of the biennium it will be about 12 (million). That's how it's divided. Now we...you know, and we're in the process. We've been meeting way too often to discuss this formula. And we're in that process, but we're not there yet. And we...our plan is that we will not bring anything until we have consensus of all six. Metro is fully engaged in this process and the six presidents are fully engaged and we're working on it, but we're not there yet. We're getting close, but we're not there. [LR332 LR344]

SENATOR DAVIS: I know you have some partnerships with high schools and things and some career academy things. [LR332 LR344]

DENNIS BAACK: Uh-huh. [LR332 LR344]

SENATOR DAVIS: How is that paid? Is that paid through the local school district or is that something that community colleges... [LR332 LR344]

DENNIS BAACK: It varies. When we do dual credit and stuff and those partnerships, it varies a lot. Some of the school districts pay it. Some of it we pay. It just varies as to what kind of a relationship they have with those schools and their ability to pay and our ability to do that. There is no standard for it. [LR332 LR344]

SENATOR DAVIS: So there's no...you have no policy or the community colleges have no policy as to how to... [LR332 LR344]

DENNIS BAACK: No. [LR332 LR344]

SENATOR DAVIS: So it could be done differently in Western as opposed to Mid-Plains? [LR332 LR344]

DENNIS BAACK: It can be different. And those are negotiated strictly on the local level. They negotiate those things, yes. [LR332 LR344]

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SENATOR DAVIS: Thank you. [LR332 LR344]

DENNIS BAACK: Um-hum. [LR332 LR344]

SENATOR SULLIVAN: Senator Kolowski. [LR332 LR344]

SENATOR KOLOWSKI: Thank you, ma'am. Dennis, thank you for being here today. And we are certainly in a different discussion as far as community colleges in the country right now with some of the proposals by people at the federal level talking about tuition handling and all sorts of opportunities because of what the community colleges do for the states throughout this country. Coming from the state where the junior college was founded, in Illinois, and well over half of those students in Illinois go to a community college. They don't go to Eastern or University of Illinois or Northern Illinois; they go to community colleges. And they start there and the transferability makes everything else work. I hope we don't lose sight of the potential beyond our responsibilities for K-12 education for the connectivity of inception, as has been mentioned here today, all the way through the college experience for students. That would be a detriment to our discussions and for the overall effect of what we are trying to do for the state of Nebraska. So I hope we keep that in mind as we move on. You're a very integral part of what we need to be looking at and what we should be doing. And that ties into everything we believe in with college and career readiness, moving through the community college system or even around it, in some cases, students going directly to the university or to the state colleges or the private colleges we have in our state. [LR332 LR344]

DENNIS BAACK: Yeah. [LR332 LR344]

SENATOR KOLOWSKI: And we have potentials to help every one of them to make this better for our citizens. Thank you. [LR332 LR344]

DENNIS BAACK: Well, you know, the trend across the country is that a lot of community colleges are becoming four-year institutions. That's kind of the trend that's going on. And we have absolutely no interest in that whatsoever. We still feel that our main part of our mission is still the career and technical education. That is the main thing that we do. [LR332 LR344]

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SENATOR KOLOWSKI: Agreed. [LR332 LR344]

DENNIS BAACK: And the majority of our students are still in those kinds of programs that lead to that. And as for the talk on the national level of free tuition and all this sort of thing, you know, I'm probably just old and cynical, but I...you know, when I see that I always...my first question is, I wonder what strings are going to come attached to that. And I think we don't want to get involved in something like that unless we know what those strings that are going to be attached to that. [LR332 LR344]

SENATOR KOLOWSKI: Sure. [LR332 LR344]

DENNIS BAACK: Because the federal government doesn't do stuff like that without strings attached. And I don't necessarily want them running our business. And so we're going to be very cautious about getting involved in that process. [LR332 LR344]

SENATOR KOLOWSKI: Keep up your good work. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: Across the state valuations are way up, especially in rural areas. Did all of your community colleges drop their mill levies this year? [LR332 LR344]

DENNIS BAACK: They did this time. [LR332 LR344]

SENATOR GROENE: Could I get a list of that... [LR332 LR344]

DENNIS BAACK: Yes. [LR332 LR344]

SENATOR GROENE: And their asking and how much they've increased? I suppose that Senator Davis would like to see that too. He asked that earlier. [LR332 LR344]

DENNIS BAACK: Yeah. Yeah, they did. They did it... [LR332 LR344]

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SENATOR GROENE: Not only the mill levy but the valuation, the asking, the amount they took, and then the mill levies? [LR332 LR344]

DENNIS BAACK: They did decrease their mill levies. In most cases, though, they still took in more money. But they did decrease their mill levies. [LR332 LR344]

SENATOR GROENE: Yeah. And the tuition, is that set by each community college or is it pretty...? [LR332 LR344]

DENNIS BAACK: Each community college sets their own tuition. It's not a real wide range. The range is about a hundred...I think that Western Community College, their tuition and fees is about \$117 a credit hour. And I think the lowest is Southeast and maybe Metro in there at about \$100. So there isn't a big broad range, but in Western's case, that's pretty important for them to be able to do that. [LR332 LR344]

SENATOR GROENE: Thanks. [LR332 LR344]

DENNIS BAACK: Uh-huh. [LR332 LR344]

SENATOR SULLIVAN: Mr. Baack, can you get that information to either Senator Gloor or myself and then we'll distribute it to the rest of the committee? [LR332 LR344]

DENNIS BAACK: Sure, we can do that. [LR332 LR344]

SENATOR SULLIVAN: Okay. Very good. Thank you. [LR332 LR344]

DENNIS BAACK: I will do that. [LR332 LR344]

SENATOR SULLIVAN: Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. Thank you, Senator Baack, for your testimony here today. It's pretty apparent that we've either got to find new revenue sources if

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we're going to try and make any changes or we're going to have to run government more efficiently. The university has got a distance learning program. The state colleges have got a distance learning program. Each of the six community colleges have got a distance learning program. All of those distant learning programs have accompanied...are accompanied with heavy overhead and are essentially duplicative in nature. Why shouldn't we consolidate them under one distance learning program and one set of overhead? [LR332 LR344]

DENNIS BAACK: Well, I don't know that they're duplicative in the sense that...I mean, a lot of our stuff is in the career and technical fields that the others do not have any distance education in. We do a lot of that now. A lot of the technical stuff now can be done, you know, distance education. [LR332 LR344]

SENATOR SCHUMACHER: Right. And it's all...the same physical overhead is associated with it. Separate out for a moment the university, and why do all six of the community colleges need to be duplicating each other and competing with each other on the technical type of education? [LR332 LR344]

DENNIS BAACK: Well, in a lot of cases we don't compete with one another in the technical side especially. One of the schools will develop the technical side of that distance education and all the rest of them use it. [LR332 LR344]

SENATOR SCHUMACHER: What coordination is done to make sure there is no duplication? [LR332 LR344]

DENNIS BAACK: Oh, we have the academic officers...the chief academic officers of the community colleges meet monthly and they are the group that really works to make sure that that happens. [LR332 LR344]

SENATOR SCHUMACHER: So there is no duplication between the schools? [LR332 LR344]

DENNIS BAACK: Well, there's probably some, sure. There's going to be some, I would guess. But I think it's...you know, most of it is serving their areas of the state. [LR332 LR344]

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SENATOR SCHUMACHER: But distance learning is distance learning. [LR332 LR344]

DENNIS BAACK: Yeah, that's true, it is. And they'll have students from all over. [LR332 LR344]

SENATOR SCHUMACHER: Could you provide the committee with the distance learning opportunities or classes, whatever we call them, among the six community colleges so we can look at what duplication there is? [LR332 LR344]

DENNIS BAACK: Yeah, I can get a list of those and what all of them do, yeah. [LR332 LR344]

SENATOR SCHUMACHER: And also what duplication there is in facilities: staff and technical gurus that make it all happen. [LR332 LR344]

DENNIS BAACK: Sure, I mean I can get the information as to what each of the schools have, yeah. [LR332 LR344]

SENATOR SCHUMACHER: Thank you. [LR332 LR344]

DENNIS BAACK: Um-hum. [LR332 LR344]

SENATOR SULLIVAN: Thank you for your testimony. [LR332 LR344]

SENATOR DAVIS: I've got one other question. [LR332 LR344]

SENATOR SULLIVAN: Oh, all right. [LR332 LR344]

SENATOR DAVIS: So, Mr. Baack, can you tell me again about the levies. You can levy up to how many cents and then you can do a capital piece on top of that? Is that the way it works? [LR332 LR344]

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DENNIS BAACK: No. We can levy up to a 11.25 cents total. And 2 cents of that can be capital...
[LR332 LR344]

SENATOR DAVIS: Okay. [LR332 LR344]

DENNIS BAACK: ...of that 11.25 (cents); 11.25 is the max. [LR332 LR344]

SENATOR DAVIS: Because there has been an extensive amount of building in the last few years. [LR332 LR344]

DENNIS BAACK: Um-hum. Yeah. And, quite frankly, the facilities are aging and stuff at the community colleges and a lot of that is just repair and maintenance of the facilities they have. Those costs are going up. [LR332 LR344]

SENATOR DAVIS: There has been, you know, new construction in Broken Bow and some talk of Ainsworth, Valentine. It used to be we would use the high schools for those classes. Why are we not doing that today? [LR332 LR344]

DENNIS BAACK: That's...those decisions are made by the...each of the local colleges and stuff. And I think they work with the communities involved. And in most cases, those communities want a separate facility. And they help raise the money to put them in place. [LR332 LR344]

SENATOR DAVIS: So I know in Valentine, it's a large part of the funding that's coming from the community and I understand that. [LR332 LR344]

DENNIS BAACK: That's correct. [LR332 LR344]

SENATOR DAVIS: But it still is such that we have buildings that sit there empty a good portion of the time, which isn't really an efficient use of resources. [LR332 LR344]

DENNIS BAACK: But I also think that there...you know, the colleges serve very broad areas in their districts. And one of the things that they feel like they need to do is they need to make sure

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that the taxpayers in other parts of their district are getting more services. And that's what they do through these facilities. [LR332 LR344]

SENATOR DAVIS: And I think... [LR332 LR344]

DENNIS BAACK: Southeast has been only in three communities for a long time: Beatrice and Milford and Lincoln. But they're going to put...they're going to...they're not going to put facilities in these right away. They're going to see what the need is in some of these other communities like Plattsmouth and Geneva and those kind of places to see if there's enough interest there to have courses and stuff in those communities, because those communities are also paying taxes. [LR332 LR344]

SENATOR DAVIS: And I understand that. But, you know, you talk about buildings aging and needing maintenance. So new construction today, 10 or 15 years from now is going to need the maintenance. And in a lot of our communities, I wonder if it's a good use of capital resources when there are other buildings that are available and are empty. [LR332 LR344]

DENNIS BAACK: And in some cases they have used buildings that were already available and remodeled and used for...buildings that were there. If you look at Ogallala and Imperial, both of those places used existing facilities to do that in. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

DENNIS BAACK: If there's one that works, they'll use it. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Baack. [LR332 LR344]

DENNIS BAACK: Uh-huh. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Welcome. [LR332 LR344]

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MICHEAL DWYER: (Exhibit 20) Welcome, thank you. Thank you, Senator Campbell (sic-Sullivan) and Senator Gloor and to my senator, Senator Brasch, the rest of the committee. My name is Micheal Dwyer, M-i-c-h-e-a-l D-w-y-e-r. I'm president of the board of education in Arlington, Nebraska. I'm also a member of the Nebraska Associations Legislative Committee. I would...want to mention that I'm not here on behalf of either of those entities today. I'm simply testifying in the hopes that perhaps I could be a resource for a couple of points and questions that have come up earlier in the day. I'm passing out...or the page is passing out a list of...kind of a product of some of the research that I have done with respect to the mandates that federal, state, and local agencies expect local school districts and their taxpayers to provide. I would certainly want to be honest that this is not necessarily a scientific list, but I do believe it to be very honest and very accurate and the result of very extensive research. As part of the conversation, and we have certainly heard a lot of good conversation today with respect to reducing spending at the local district level, I would reiterate that part of that conversation about that spending reduction has to include conversations about the mandates and has to include conversations about how those mandates are or are not funded. So I would hope to answer any questions. And I didn't come today...I didn't, frankly, wake up this morning intending to testify. I was watching the hearings on NET and there seemed to be a number of conversations and questions about mandates. So, again, I thought I would offer myself as a resource and be happy to take any questions. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Dwyer. Any questions for him regarding this list that he's just passed out. I guess not. [LR332 LR344]

MICHEAL DWYER: I get off the hook. Thank you. [LR332 LR344]

SENATOR SULLIVAN: All right. Thank you. Welcome. [LR332 LR344]

NANCY FULTON: (Exhibit 21) Thank you. Good afternoon, I guess, this afternoon. Chairman Sullivan and Chairman Gloor and the members of the joint committee, I'm Nancy Fulton, N-a-n-c-y F-u-l-t-o-n. I'm a 34-year school teacher and now president of the 28,000-member Nebraska State Education Association. I want to applaud you and the members of the Legislature at taking a look at this complex issue and looking at how you can adequately fund our public schools. As

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a teacher, I have seen firsthand how school financing issues can wreak havoc with the day-to-day learning in the classroom. Whether it leads to schools cutting back on education programs or eliminating teachers, causing class sizes to expand, these financial decisions significantly impact the classroom learning environment and the teacher's ability to focus on their most important function--providing the best instruction possible to the Nebraska children. Although the issue surrounding school finance and the state-aid formula are complex, we believe it can be simplified to this extent. If the state does not provide adequate levels of financing to support K-12 public education, then local school districts will have no choice but to rely even more heavily on revenue derived from local resources. The fact is that Nebraska ranks 49th in the level of state aid to education provided by the state to local school districts. You've heard that a couple times today. This is the primary reason property taxes in Nebraska are so high when compared to other states. To address this disparity, NSEA asks the joint committee that it recommends, in addition to general state revenues, a dedicated source of revenue be directed into the state aid formula. The additional revenue could come from expanding the sales tax to include pop and candy, increasing the tobacco tax, eliminating certain sales tax exemptions, tagging a portion of all Internet sales tax revenues, or directing that a quarter cent of sales tax goes toward state aid. Regardless of the source, an increase in state funding would reduce the high reliance by the public schools on the local property taxes. NSEA believes changing the rate at which agricultural land is valued does not address the core issue, which is that local property taxes alone, without adequate levels of state aid, are insufficient in meeting the educational costs incurred by local public schools. By increasing state aid, the Legislature can begin the process of reducing local school districts' reliance on local property taxes, thereby reducing those taxes or slowing their overall growth. And thank you for the opportunity to come today. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Ms. Fulton. Are there questions for her? Thank you for your testimony. [LR332 LR344]

NANCY FULTON: Okay. And I did provide a chart that's available for you. [LR332 LR344]

SENATOR SULLIVAN: Yes. Very good. Thank you very much. [LR332 LR344]

NANCY FULTON: Thank you. [LR332 LR344]

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SHIRLEY BARTELS: Good afternoon. Thank you for giving me the opportunity to express my opinion. I am a grandma who lives on farm income. My husband and I purchased land as an investment... [LR332 LR344]

SENATOR SULLIVAN: Excuse me, ma'am. Could you first give us your name and spell it? [LR332 LR344]

SHIRLEY BARTELS: Oh, I'm sorry. [LR332 LR344]

SENATOR SULLIVAN: That's all right. [LR332 LR344]

SHIRLEY BARTELS: Shirley Bartels, S-h-i-r-l-e-y B-a-r-t-e-l-s. We purchased land as an investment. We consider that our 401(k). But yet, every year I get taxed on my 401(k). Have you ever thought about taxing other people's 401(k)? I know they wouldn't like it. Another thing, if you want to have fair property tax, what do we all have in common? We all live in a house. Tax houses, period--no land, no businesses, just houses. Farmers are not exempt from paying income tax. I pay income tax; I pay property tax. Do away with the property tax and the farmers will be paying more income tax. So to me that would be a wash. Only problem is, more people would be paying. And some senators have said we can talk all day about how we're going to generate this income, but we have to spend it more effectively. I think there is some things that could be cut out. Any questions? [LR332 LR344]

SENATOR SULLIVAN: All right. Thank you so much for your testimony. [LR332 LR344]

MATTHEW EASH: Senator Gloor and Senator Sullivan and all the senators on the committee, thank you for this late evening's opportunity to address you all. My name is Matthew Eash, that's spelled M-a-t-t-h-e-w, and last name E-a-s-h. And I represent my company today, Nebraska School Finance Strategies Incorporated. And I appear today to offer my expertise on mathematical modeling of the TEEOSA state aid formula in support of the stated objectives of LR332 and LR344. With regard to K-12 finance, my expertise extends both to the aggregate cost to the state, as well as the specific fiscal impact to each individual school district. In other words, for any reform that would be proposed out of these hearings, I can precisely predict the overall

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price tag and the redistribution of those benefits to any school district. In consideration of the time, I just wanted to focus on three things. I don't want to offer you other great ideas. You got lots of great ideas to consider over the next several months. But I just wanted to talk about three of what I thought were the most popular that I saw in the media. One is being foundation aid, we talked about that today quite a bit, or fixed dollars per student. I've heard a lot of discussion about keeping it outside the formula or putting it inside the formula. And I don't know...and correct me if I'm wrong if somebody can think of one, I don't know of any state aid program outside of the formula that isn't counted as a resource against the formula for equalization purposes. If there is one, I just can't think of it off the top of my head. So to do...to put out foundation aid outside the formula completely and pay every school district based on the number of kids in their school, that would be, I think Senator Mello had said, \$150 per kid. I think I read that in the paper. That would be about \$45 million that you'd have to come up with. On the other hand, if you treated it like a separate aid program it came out of equalization from the TEEOSA formula, it would probably only cost about \$8.5 million and it would only go to those school districts that are currently nonequalized or just barely equalized. To kind of give you an idea of...so I just wanted to make that point. I just...I didn't think that was being made very clear in today's testimony. Allocated income tax, or the income tax rebate as it's sometimes called, is another idea. It's returning, maybe, towards the levels of the 20 percent of income tax per...based on those taxes collected at the district level. Once an integral part of school finance, we heard a lot of great history lesson on that today, but, ultimately, the Legislature decided that it needed the money so it took it away. In 1998-99, it was added back into TEEOSA and capped at the amount payable only at the 1992-93 level. And I don't really know why that was. I wasn't around for that. But in that amount is \$102.3 million which is distributed then through the TEEOSA formula. Not all of that gets distributed, though, because only equalized school districts...or nonequalized school districts receive any benefit from those funds. So, for instance, Omaha and Lincoln don't really get any benefit from the income tax rebate or allocated income tax, only those nonequalized school districts. So, but there is a...and the other one I wanted to talk about, and this hasn't been really been discussed, we've talked about the minimum levy that's been in a lot of issues. The nonequalized minimum levy adjustment is something that hardly anyone knows about. It's actually a duplicative penalty in the state aid formula, not just the minimum levy adjustment or the LER making people charge at least...or considering they charge a dollar, but it actually is a penalty that comes after equalization that takes away any income tax rebate that you

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get up to the amount of that penalty. So it's a third penalty for not charging 95 cents. You get it for not charging a dollar. You get it for not charging 95 cents. And then you get it again for not charging 95 cents. So it's a three-time penalty in the formula. So if I were to make any recommendations today, I would say get rid of one or both of the minimum levy penalties from the formula because they're duplicative. And with that I'll answer any questions you have.

[LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Eash. Any questions for him? Thank you for your testimony. Excuse me, Paul...Senator Schumacher. [LR332 LR344]

SENATOR SCHUMACHER: Thank you, Senator Sullivan. Since we have all been confused or reconfused and reconfused over the issue of how this formula works, and even Senator...or Senator (laugh), Professor Goss this morning said he can't get straight answers, from your perspective--maybe a different perspective is good--do you have some documents, some "TEEOSA for Dummies" paper, outline, flow chart, something that maybe you could bounce off us? And maybe that pieced together with all the other scraps of information we have on the operation of this thing will bring us to the age of enlightenment. [LR332 LR344]

MATTHEW EASH: The short answer is I've tried for six years and no. But I will say that for me what helped me the most, other than having great teachers in the formula, is the document from the Department of Education they put out. It's, oh, about a 26-page document. It's a narrative on how TEEOSA works. If you read that, I mean you have to probably read it three or four or a hundred times, but eventually it sinks in. It's very accurate and it's very step by step. It just...you know, you really have to read it several times for it to sink in, but it is a good document. [LR332 LR344]

SENATOR SCHUMACHER: And it's entitled "Twenty-Six Pages to Enlightenment"? (Laughter)
[LR332 LR344]

MATTHEW EASH: It should be. But it's the shortest and most concise and most accurate. And it's referenced really well. I mean, it can tell you where the statutes are and everything. So it's actually a pretty good document. And I use it to refer to all the time. [LR332 LR344]

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SENATOR SCHUMACHER: Thank you. [LR332 LR344]

SENATOR GROENE: Just quick, one question. [LR332 LR344]

SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: Isn't special ed...the \$214 million special ed outside the formula? [LR332 LR344]

MATTHEW EASH: It's paid outside the formula, but it's considered a resource. So, for instance, a school district like Omaha that is heavily equalized, doesn't get any benefit from those funds. So when we put money into special ed, we're really giving money to nonequalized districts, because they're the only ones who get benefit from it overall. Because it comes out of what...like a school like Omaha would otherwise get in their equalization aid, it comes out of it. It's deducted from that amount so they get no net benefit from it. And that's every state...every separate state aid program that I can think off the top of my head. I don't think there's a single one that is exempt from calculating against the formula; except the two that are actually paid in TEEOSA which is the income tax rebate and net option funding. Those are considered part of the TEEOSA aid payment. That's the part that people get, that if they're nonequalized they still get a check every month or for ten months a year. That's the portion that they get is the amount of net option funding vis-a-vis the income tax rebate...or the allocated income tax is the correct term. So those are the only two that are actually in the formula. Everything else is paid outside. [LR332 LR344]

SENATOR GROENE: So \$214 million goes to 159 districts and 55,000 students? That's how many students, 55,000 or 56,000, that are nonequalized. [LR332 LR344]

MATTHEW EASH: No. No, you have to understand. The payment goes out to all the districts, so, as a separate payment. But they don't get as much as they would otherwise get in the TEEOSA formula, in the TEEOSA check. So if, say, Omaha, through this SPED payment gets, I don't know, \$50 million out of the \$200 (million) and some, then they don't get 50... [LR332 LR344]

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SENATOR GROENE: But the nonequalized aren't splitting up \$214 million. All right. I didn't (inaudible.) [LR332 LR344]

MATTHEW EASH: ...then they don't get \$50 million. Then they lose \$55 million or whatever it is outside the formula. [LR332 LR344]

SENATOR GROENE: All right, thank you. [LR332 LR344]

SENATOR SULLIVAN: And just by way of background, the document that Mr. Eash referred to, I think we can easily make available to members of the committee. Also, we have "State Aid Made Easy" that is generated from my office that we can provide you as well. So anything else? Thank you for your testimony. Welcome. [LR332 LR344]

TIM HRUZA: (Exhibit 22) Good afternoon. Thank you, Senators, for allowing me to testify here this morning (sic). My name is Tim Hruza. That last name is H-r-u-z-a. And I'm the director of Policy and Research for the Lincoln Independent Business Association. I'm here today to offer one simple but important suggestion for improving our situation related to state aid for schools and how we might be able to allow local school boards to take some strain off of our property taxes. Under the current state aid formula, public school districts have found themselves faced with an incentive to levy at the maximum statutory amount to ensure they receive as much state aid as possible. It's our understanding that the current formula adjusts state aid in response to differences between the district's levy and the statutory maximum of \$1.05. This has resulted in some districts maintaining their levy even if the tax revenue is not needed in that current year. As a member organization that works directly with Lincoln Public Schools, we've experienced the pressure this formula places on districts to maintain their levy. This year for example, we saw LPS place \$10 million of property taxes, that were levied but were not needed in the current fiscal year, into a savings account. Under the current statutory mechanism for determining state aid amounts using the TEEOSA formula, were LPS to levy at less than the statutory cap, state aid funding in future years would be jeopardized. LPS officials have told us that even a minor reduction in the LPS levy from \$1.05 to \$1.035, a 1.5 cent reduction, would have resulted in a loss of approximately \$325,000 in state aid money. What we would ask this committee to consider bringing before the Legislature is some sort of proposal that would allow a little more

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leeway to school districts in their ability to adjust their levy to be responsive to such things as the large valuation increases seen throughout Lincoln this year. Providing districts with leeway to reduce their levy by a mere 5 cents without the threat of lost funding would be of great benefit to property taxpayers. With regard to specifics about how that might work or what it might mean in terms of the impact on the state aid amounts or the overall TEEOSA formula, I'll be the first to admit that we are not experts at LIBA. We offer this idea broadly as a way of addressing an issue related to what we believe to be a bit of a backward result--incentivizing unnecessarily high property taxes to the detriment of Nebraska taxpayers. Many of you and your colleagues in the Legislature have acknowledged the need to address issues related to our state's heavy reliance on property taxes to sustain our public institutions, including our schools. If we can find even small opportunities to loosen restrictions on our local school boards in an effort to provide them the ability to afford property tax relief when possible, we believe such opportunities should be considered seriously. Allowing school districts to lower their levies and still maintain full eligibility for state aid is one possibility we believe warrants some in-depth study. And with that, I would be willing to take some questions. I think that this was partially addressed earlier in Senator Sullivan's question to Superintendent Joel. And kind of from our experience this past year, we have sort of seen the state aid money as a bit of an excuse used by school districts to continue to maintain their levy even in years such as this where we saw a large valuation increase and the money wasn't directly needed. So I'd be happy to take questions if you have them. Otherwise, thank you again for allowing me to testify. [LR332 LR344]

SENATOR SULLIVAN: All right. Thank you for your testimony. Any...Senator Davis. [LR332 LR344]

SENATOR DAVIS: Just one. I just want to be clear. And I'm aware of this story about LIBA and Lincoln Public Schools. They left the levy at \$1.05 in order to secure that \$10 million, which they put in the cash reserve. Is that correct? [LR332 LR344]

TIM HRUZA: That's correct. [LR332 LR344]

SENATOR DAVIS: So what is their cash reserve as a percent of the total? Do you know? [LR332 LR344]

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TIM HRUZA: I'm not sure. I apologize for that, Senator Davis. I just...I don't know the answer.
[LR332 LR344]

SENATOR DAVIS: If you're able to find that out, or maybe Connie might know that. And so then the reduction to \$1.03.5, is that what you were suggesting? [LR332 LR344]

TIM HRUZA: Well, we had asked LPS for full reduction of 3 cents, I believe. We had, in a separate e-mail that we had sent to school staff, we had asked for an example of how the TEEOSA formula might affect the total amount of state aid. The example we got was that it...with a 1.5 cent reduction, they would lose \$325,000. I don't think that that equates a one for one, so if I were to go 3 cents, it would be \$650,000. But that's the example we were given.
[LR332 LR344]

SENATOR DAVIS: So do you know what that would amount to then in terms of dollars of property taxes that had to come out of the taxpayers in the Lincoln Public School system to save that \$325,000? [LR332 LR344]

TIM HRUZA: For the 1.5 cent reduction, I believe, was something like \$23 on an average household that's...or average home worth 150,000 bucks in their total property tax. [LR332 LR344]

SENATOR DAVIS: But do you have a total figure for that? So it's not...is it like \$2 million or...
[LR332 LR344]

TIM HRUZA: Oh, in terms of the total impact across the system? [LR332 LR344]

SENATOR DAVIS: Yes. [LR332 LR344]

TIM HRUZA: I'm not 100 percent sure. I think the 3 cents was almost that full \$10 million. It would have taken the savings and, rather than putting it into a savings cash reserve account, it would have been a tax reduction. [LR332 LR344]

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SENATOR DAVIS: So can we sort of speculate that maybe it would be, if it's 1.5, it might be \$5 million in additional property tax? [LR332 LR344]

TIM HRUZA: I wouldn't want to commit to that, but my recollection is that that would be pretty close. [LR332 LR344]

SENATOR DAVIS: So that seems like a fairly poor return on your revenue, doesn't it: \$5 million earns \$325,000? [LR332 LR344]

TIM HRUZA: That would be our position, yes. I wouldn't be able to speak to the long-term implications of how the TEEOSA formula impacts, just that one example of what it would affect in the coming year. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: Well, I believe what they're telling you is they received \$3.5 million in averaging adjustments. And to get the averaging adjustment, you got to be at \$1.04 or above. So really, they could have went to \$1.04 and not lost the \$300,000 and some. To lose state aid equalization, you got...you can go as low as 95 (cents). It's all about this averaging adjustment. There's two minimum levies. There's one at 95 (cents) for equalization aid and then there's \$1.04 for the averaging adjustment. So that one really needs to go away. But there's two minimum levies. And there's only 20 schools that get the averaging adjustment money. [LR332 LR344]

TIM HRUZA: Sure. And just to clarify, I don't think what we're talking about here is anything that would mean they would completely jeopardize their eligibility, I suppose. What we're asking for is a little bit more leeway in terms of how...like I said, reducing it by 1 cent or 1.5 cents even jeopardizes the amount of state aid they get and it may jeopardize it in the long term too. What we've had difficulty doing...and like I said, we're not experts on TEEOSA. We've got a number of members that have spent a lot of time studying it. The best we can do is rely on the information that we're given when we ask questions. One of the things that we were repeatedly

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told during our campaign and our appeals at numerous school board meetings this year was that it would jeopardize the amount of state aid funding available in the future. Particularly, the other thing that was cited was the growth that was seen this year at LPS. [LR332 LR344]

SENATOR GROENE: What was the valuation increase for LPS? [LR332 LR344]

TIM HRUZA: Ooh, I don't remember LPS's. I would tell you that it's...if I remember right, it's somewhere around 6 percent. [LR332 LR344]

SENATOR GROENE: For the county? [LR332 LR344]

TIM HRUZA: That's the city, 6 or 6.5. The county's was 5, 5.5. I don't remember LPS's was, but I can get you that number. I'm sure I have it in my office. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

SENATOR SULLIVAN: All right. Thank you for your testimony. [LR332 LR344]

TIM HRUZA: Thank you, Senators. [LR332 LR344]

SENATOR SULLIVAN: Um-hum. Welcome. [LR332 LR344]

JAMES STUART: (Exhibit 23) Hi. Good late afternoon. It's a pleasure to meet and get to see you folks there, Senator Gloor and Sullivan, and the rest of the committee. I feel honored, actually, to be able to be in front of you. I'm a landowner. [LR332 LR344]

SENATOR SULLIVAN: And your name? [LR332 LR344]

JAMES STUART: My name is James Stuart, J-a-m-e-s S-t-u-a-r-t. Okay. I'm here because I care. I have seen a tremendous change. I have purchased my place, it's an acreage out east in Lincoln. I did have a home in Lincoln. I'm zoned in Lincoln. I'm just right outside of Lancaster County. So I've seen a change from about \$2,200 in taxes to \$5,800 in my property taxes, so a huge

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change. I have six acres that's tillable. Okay. I'm just going to go ahead and just read what I sent in earlier. And with all due respect, this was written with some emotion. Okay? So Nebraska only has 1.8 million in population to pay the bills. Okay? We also don't have a lot of tourism. There's really not that many of us as taxpayers to pay for funding of our operations and entities. Nebraska has a serious problem with taxation, overspending, and proper fund allocation that's not getting addressed by our leaders and elected officials. Kansas to the south of us has, for example, 2.9 million. Nebraska has to be different. We have to be smarter and better with our taxpayers' money. We have a great state, but the state motto should not be the "The Good Life"; and I put "We Just Like to Tax You." I'm kind of being factious here. Growth of the city should continue to support our General Fund and funding, but it's overwhelmed. We're overtaxed, meaning we're over budget and spending too much trying to figure out what to tax next instead of controlling the budget and certain entities along the way with proper fund allocation. Our legislation should have addressed this a long time ago. I'm sensing this...15 years ago is when I really started to see a big change, folks, in my taxes. Everyone should pay something; i.e., the Homestead Act--pay nothing? State aid is a million dollars already there. Nebraska has to be different. We have to be smarter and better with the taxpayers' money. The customer has to pay something and please get the tax burden and blunder fixed. For the last 15 years--outlandish taxation increases. Acreage owners, rural landowners and farmers have endured this tremendous tax burden and blunder for too long. Have you attempted to gouge any city dwellers with double, triple, and even quadruple taxes with the untamed blunder? You're stealing from the customers. As you know, most of this is going to the schools, and I guess that depends on what district you're in and in what county. So much, the school districts are even putting some of it in reserve. We'd like some back. Projected burden on the General Fund 10- to even 20-year forecast, and this is my perception, is going to be overwhelming due to the retention program and support expense. And I'm looking...talking schools here, basically, is my perception. This is all very serious. Please fix it. With the list of concepts that you guys have already had on your...that you're familiar with, I put no on increasing the Property Tax Credit Fund. I think we should eliminate that and fix the taxation issue. And I know you guys are trying to do that. But I think 15 years is too long. It should have been much sooner than this. Assessment practice for agriculture land--yes. I put possibly, for decreasing the valuation for agricultural land for purposes of the state aid formula. I don't have enough knowledge to grasp that to give you a yes or no on that. Possibility of direct aid for school district? I say possibly to yes. direct aid from the

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state for schools pending on what I'll get into in some other concepts. Yes, to decrease in school district levy limits. Modifying school district budget limits, I put yes. Possibly eliminating reductions in the state aid to school districts for the levies? I don't have enough knowledge there. Reallocating current state spending--possibly. [LR332 LR344]

SENATOR SULLIVAN: Mr. Stuart,... [LR332 LR344]

JAMES STUART: Yes, ma'am. [LR332 LR344]

SENATOR SULLIVAN: ...the red light is on. Can you kind of summarize? [LR332 LR344]

JAMES STUART: Where I'm going with this is I think the concepts on your previous list, I want to make sure that the schools...and I'm just going to read this real quick. Schools are, as you know, the major part. They're a runaway team of horses, in my perspective. We need controllers, not spending. If I go a little further, I think we need to...I'm hoping we're looking at the schools reviewing all the current positions and salaries--executives, administration, and district support. Okay? Find unnecessary positions and restructure. Everyone should also question the approved \$356,000 salary and benefits of the LPS superintendent and the salaries for executives, etcetera. They got him for a good deal. He took the job. He stays, he'll like it, or move on. But then the Lincoln Board of Education went crazy in the retention program again and it's costing us a fortune. Stop competing with districts and unions. Spending is out of control and needs immediate attention. We need to be smarter and better with taxpayer money. Review and make necessary changes to the overwhelming retention program. This isn't just necessarily for schools. I don't know what the city is doing with this: personal time off, healthcare, early retirement, pension plans. [LR332 LR344]

SENATOR SULLIVAN: Okay. [LR332 LR344]

JAMES STUART: Okay? Yes, reduce or eliminate the DMV motor vehicle tax. I don't know how many people even know that 60 percent of that, at least in this county, goes to the schools, 60 percent. Another, it's additional funding to support out-of-control spending, in my mind. We all love to go shopping. [LR332 LR344]

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SENATOR SULLIVAN: If it helps at all, Mr. Stuart,... [LR332 LR344]

JAMES STUART: Yes, ma'am. [LR332 LR344]

SENATOR SULLIVAN: ...we will be glad to disseminate this to all members of the committee, because I don't think you had copies of it for distribution, did you? [LR332 LR344]

JAMES STUART: No, I didn't know... [LR332 LR344]

SENATOR SULLIVAN: Okay. [LR332 LR344]

JAMES STUART: ...if I was going to distribute it or not. [LR332 LR344]

SENATOR SULLIVAN: Okay. So we'll make sure that every member of the committee gets these. [LR332 LR344]

JAMES STUART: Okay. [LR332 LR344]

SENATOR SULLIVAN: So do you have any final comments before we... [LR332 LR344]

JAMES STUART: I guess the only thing I really wanted to point out was as all the entities and effective communication. I was...in 2014, I was shocked that...if I just may read this last paragraph for everybody, okay? [LR332 LR344]

SENATOR SULLIVAN: It's a long one. I think you better summarize it. [LR332 LR344]

JAMES STUART: Okay. Well, I guess I won't read it. I was just...this pointed out to me that there's no communication. Why was the school...the board of ed allowed to just throw...put out \$153 million and spend it? I think there should have been proactive feedback from everybody to possibly be able to give some back. And even if they didn't, we needed fire stations, 911 call center, I think we should have done something better if we were all working together, being smarter and better for the taxpayers' money. [LR332 LR344]

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SENATOR SULLIVAN: Thank you, Mr. Stuart. Any questions for him? [LR332 LR344]

SENATOR GROENE: Just a quick one. [LR332 LR344]

SENATOR SULLIVAN: Yes. [LR332 LR344]

JAMES STUART: Yes, sir. [LR332 LR344]

SENATOR GROENE: You said you're a landlord? [LR332 LR344]

JAMES STUART: No. [LR332 LR344]

SENATOR GROENE: Oh, I thought you...or landowner you said. [LR332 LR344]

JAMES STUART: I'm a landowner, yes, sir. Yes, Senator. [LR332 LR344]

SENATOR GROENE: All right. Misheard you. [LR332 LR344]

SENATOR SULLIVAN: Thank you for your testimony. [LR332 LR344]

JAMES STUART: Thank you very much, folks. It's been a pleasure. [LR332 LR344]

SENATOR SULLIVAN: You bet. Welcome. [LR332 LR344]

DAVID WRIGHT: Hello. Thank you, Senator Gloor and Senator Sullivan and joint committee. My name is David Wright, D-a-v-i-d W-r-i-g-h-t. I'm a rancher. I'm the president of Independent Cattlemen of Nebraska. I'm also on the Cattlemen's beef board. I am also the president of the Neligh school board and I also own the local newspaper. I own three newspapers and print ten. In 2006, my real estate taxes on my ranch, which is a 400-head cow ranch, was 17 percent of my gross income, 17 percent. I come out when...so you...and my real estate taxes, 70 percent of that goes to the school, 70 percent of that goes to the salaries to run the school. So in essence, 9 percent of my gross income went to pay the salaries of the school. The newspaper generates the

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same revenue as a 600-head cow ranch. That's 200 more cows than I actually got. It paid 0.12 percent of the gross income to real estate taxes, 0.12 percent. So here we are, cattle prices went up, of course valuations went up, you know? Cattle prices are crashing because the funds are all pulling out. It looks like this year I'm going to pay 10 percent of my gross income to real estate taxes. By the time I figure it all out, 5 percent of my gross income on that ranch is going to pay for the salaries in the school. Newspaper is now up to 0.13 percent. Huge disparity there. So this has been on my mind for a long time, long time. Senator Pahls, back in 2010, put out this piece of paper that shows funds that are not acquired through tax exemptions on sales tax. And it comes up to \$2.9 billion. That's almost \$3 billion of exemptions the Legislature has set. I also...that was in 2010. In 2011, I approached Ernie Goss and I asked him, I said, what would it look like if we were to run this entire state on a sales tax system? Ernie, give me a back of the envelope little short study: 2.3 percent sales tax would get rid of income tax, sales tax...current sales tax, and real estate taxes, 2.3 percent. That's it. Not 7 percent; 2.3 (percent). But all the exemptions have to be gone. Two point six percent would get rid of tire tax, alcohol tax, tobacco tax, and get rid of all of them, 2.6. Now you look at the people who live in the towns and urban areas, they pay real estate, they pay sales tax, they pay income tax. Whether they rent their home or not, they're still paying real estate tax. Just think what would happen if you could drive their tax burden down to 2.6 percent. There would be a lot of extra money. Can you imagine if there was no real estate tax in the state of Nebraska, no income tax in the state of Nebraska, only a 2.6 percent sales tax. What would happen to the economy in this state? It would probably explode. So there is a disparity. So I would like to ask this question. I know you don't ask the committee questions, but I would like to contemplate this one: What if we just got rid of the TEEOSA formula? What if we just got rid of state aid, got rid of it, and we got rid of the lid at \$1.04, \$1.05, whatever it is, and let it go? How quickly would those school districts that you keep talking about that receive most of that money, how quickly would they squeal? How high would their real estate taxes become? What would their mill levy be? Two, three, four bucks? What would it be? So you have an opportunity here to really make some changes. A very small, simple one that I see, as president of the school board, simply make the certified employees state employees. That would instantly relieve my real estate tax of 5 percent...or my gross, relieve my gross at 5 percent. We don't have negotiating power with certified employees. On the school board, I can't control the electricity. I can't control the gas. I can't control what it's going to cost to put a new roof on the building. I can't even control the salaries that we pay, because we have a

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thing called an array. An array is based upon the number of students and the number...how far apart you are. Has nothing to do with valuation; has nothing to do with mill levy; has nothing to do with the money that comes in. So therefore, we've established teachers...or I should say certified staff at a set rate across the state with that number of people. So with that said, I would like to thank you. And I'd entertain any questions if you have any. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Mr. Wright. Any questions for him? Senator Davis.
[LR332 LR344]

SENATOR DAVIS: I just have one. And maybe you don't know the answer because I know you're just new at your school board position. But what percentage of your budget is insurance for staff? Do you have any idea? [LR332 LR344]

DAVID WRIGHT: I know it went up extremely high. Obamacare took one heck of a jump this year. But I cannot tell you percentagewise what it is. I can tell you we lost \$300,000 in state aid and we got an extra \$300,000, it must have been in benefits and salaries. So we had a \$600,000 swing in just this year. [LR332 LR344]

SENATOR DAVIS: You lost \$300,000 in state aid and had an additional \$300,000 expenditure?
[LR332 LR344]

DAVID WRIGHT: Yes. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: Since Obamacare, most of us in free enterprise, we got huge deductions, our rates have gone up. Has anything changed in the benefits of your employees or just the amount of money...I mean, is there higher deductibles, is there higher copays, or is everything just the way it was? [LR332 LR344]

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DAVID WRIGHT: We don't have enough employees. When we bought the newspaper, we gave everybody a stipend. [LR332 LR344]

SENATOR GROENE: I'm talking about at school, at the school board. [LR332 LR344]

DAVID WRIGHT: Oh, the school? All I can tell you is that the rate went up. [LR332 LR344]

SENATOR GROENE: Nothing changed in negotiations about... [LR332 LR344]

DAVID WRIGHT: No. No. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Schnoor. [LR332 LR344]

SENATOR SCHNOOR: The rate this year for...through the Education Health Alliance went up 4.9 percent. So that's a huge budget increase that every school district is going to have to deal with. Has no choice but... [LR332 LR344]

DAVID WRIGHT: So I think it would be a great idea if the state would take on that idea that the teachers, our certified staff, were to become state employees, kind of like the State Patrol is. You would instantly relieve...you would have instant real estate tax relief, and we don't have a premise to negotiate the salaries and benefits anyway. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? Thank you, Mr. Wright. [LR332 LR344]

DAVID WRIGHT: Thank you. [LR332 LR344]

CONNIE KNOCHE: (Exhibits 23 and 24) Senator Sullivan and Senator Gloor, members of the Education Committee and members of the Revenue Committee, my name is Connie Knoche and I'm the chief financial officer for Omaha Public Schools. I've been involved in school finance issues for more than 20 years and I'd like to provide you with some...a summary of why I think

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it's important to have an equalization component in the state aid formula. In general, school finance formulas should achieve two simultaneous objectives--accounting for differences in the costs of providing equal education opportunities and also accounting for the differences in the ability of school districts to cover those costs. Equalization aid is intended to allow districts, regardless of their property wealth, to raise the revenues they need to make sure that high need/low value districts aren't forced to tax themselves at high rates. Then I wanted to tell you a little bit about what's going on in Omaha Public Schools. In 2014-15, our total levy was \$1.20. And in '15-16, it's a \$1.23. That difference, or the increase in the levy, is because of the bond issue that we just had to pay for \$141 million bond issue. Our General Fund budget of expenditures for 2015-16 increased by about 4 percent from '14-15. And our actual expenditures for '13-14 compared to '14-15 also increased by 4 percent. So it's 4 percent each year. Our General Fund actual...excuse me. Since 1994-95, our student population has increased by 8,448 students, which is a 19.4 percent increase. And our total student population right now is 52,000 students, which is about one-fourth of the total state population of students. During the last five years, our graduation rate for all student populations increased by 6.9 percent. And then when you compare OPS to other urban districts of similar size, similar demographics and within 700 miles, we're in the top two. Our current graduation rate is 80.7 percent, and the next closest or the one that has the higher one than we do is Des Moines Public Schools at 81.7 percent. In 2000-2001, our English language learner population increased by 397 percent, which is about 13,600 students. From 2009-10 through '14-15, the number of refugee students increased by 110 percent, which is 1,091. Our free lunch...free and reduced-price lunch participation from '97-98 to '14-15 has increased by 23 percent. In general, our math proficiency rates between the state and OPS have increased steadily. OPS is closing the proficiency gap between the district and the state. Sixty-three percent of students in the state were proficient in math, while only 41 percent of the students were proficient in math in 2010-11. This 22 percent gap in proficiency has been reduced to 18 percent in 2014-15 with the proficiency rate of 72 percent for the state and 54 percent for OPS. The...okay, I was going to talk about our reading and our science. Those have also increased. We're closing the achievement gap during that time also. [LR332 LR344]

SENATOR SULLIVAN: Thank you, Ms. Knoche. Any questions for her? Senator Schumacher.
[LR332 LR344]

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SENATOR SCHUMACHER: Thank you, Senator Sullivan. As I understand it, the state is on the hook for shortfalls in the teachers pension fund. [LR332 LR344]

CONNIE KNOCHE: Yes. [LR332 LR344]

SENATOR SCHUMACHER: Okay. And that that pension fund, in order to (inaudible) the state (inaudible) have to think of a bill, would have to do 7 to 8 percent year over year return for the next 30 years. We all know that's not realistic. Realistic number may be somewhere closer to 4 or 5 percent. We looked what aid we've got to give to education out of the state purse. Have you run the numbers for your district, assuming a 4 percent return on that fund, how much the state will have to come up with in the shortfall and when that shortfall would hit us? Because when we start talking about putting out money and more money for education, somehow that's money for education we've got to raise from somewhere. Do you have those numbers? Could you get those numbers and say, look it, this is what our teachers are going to be expecting out of the state, assuming the 4 percent return. [LR332 LR344]

CONNIE KNOCHE: I don't have those numbers right now, but I can get those for you. [LR332 LR344]

SENATOR SCHUMACHER: I would like to see those, because that thing is looming out there and it's big. And it may not be tomorrow, but it's there. [LR332 LR344]

CONNIE KNOCHE: It's scary, yeah. [LR332 LR344]

SENATOR SCHUMACHER: It is. Thank you. [LR332 LR344]

SENATOR SULLIVAN: Senator Groene. [LR332 LR344]

SENATOR GROENE: A little bit of a different topic. You're the financial? [LR332 LR344]

CONNIE KNOCHE: Yes. [LR332 LR344]

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SENATOR GROENE: If we got rid of the common levy, would it affect your bottom line and how many dollars you got at all? [LR332 LR344]

CONNIE KNOCHE: Ninety-six point four four percent (96.44) of the revenue that we receive in the district is from property tax and state aid. That's all we have. [LR332 LR344]

SENATOR GROENE: But if we got rid of the common levy, wouldn't state aid fill in the little bit that you would miss from being in the...but using Springfield's levy authority? [LR332 LR344]

CONNIE KNOCHE: Well, if we're already...if we're already at \$1.23 and you got rid of the levy limit and you reduced state aid then... [LR332 LR344]

SENATOR GROENE: No, not the levy limit. I'm talking about the common levy in the... [LR332 LR344]

CONNIE KNOCHE: Oh, the 95-cent common levy? [LR332 LR344]

SENATOR GROENE: Yeah. [LR332 LR344]

CONNIE KNOCHE: That would be pretty devastating for our district unless the state was able to come back in and increase state aid. [LR332 LR344]

SENATOR GROENE: But if you were put back in TEEOSA, it would come back in, right, the \$3 million that you're missing now? [LR332 LR344]

CONNIE KNOCHE: Yes. Well, it's not...well, yeah. [LR332 LR344]

SENATOR GROENE: For every...for the whole. [LR332 LR344]

CONNIE KNOCHE: Yes. [LR332 LR344]

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SENATOR GROENE: It's not that much for you. But when you're penciling it out, it would not affect you if you were put back in TEEOSA, about the pool of money you would have to run the school system. [LR332 LR344]

CONNIE KNOCHE: If the state were able to fully fund the state aid formula, we would be all right. But over the last, I don't know, ten years or so, it's not been fully funded because there's shortfalls. Like this year there will be \$150 million shortfall and they're talking about reducing state aid again. So it really impacts us, because we don't have anywhere else to go. [LR332 LR344]

SENATOR GROENE: I guess I'm confused. [LR332 LR344]

SENATOR SULLIVAN: I'm not quite sure. You indicated there's going to be \$150 million shortfall? [LR332 LR344]

CONNIE KNOCHE: Well, based on the... [LR332 LR344]

SENATOR SULLIVAN: We fully fund TEEOSA every year. [LR332 LR344]

CONNIE KNOCHE: But the formula changes to kind of adjust for what the circumstances are. Like the... [LR332 LR344]

SENATOR SULLIVAN: You're reflecting on what was before the recession and then trying to make up for that? Is that what you're saying? [LR332 LR344]

CONNIE KNOCHE: Yes. [LR332 LR344]

SENATOR SULLIVAN: Because, as I said, we fully fund it every year. [LR332 LR344]

CONNIE KNOCHE: Well, for one year you may change the local effort rate from \$1 to \$1.05 or another year allocated income tax might be reduced to pay for, you know, some other shortfalls. So it's...if it were fully funded as it is now without being amended... [LR332 LR344]

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SENATOR SULLIVAN: Fully funded compared to what? I mean, that's what I'm trying to figure out. [LR332 LR344]

CONNIE KNOCHE: Well, compared to what we end up with. (Laugh) [LR332 LR344]

SENATOR SULLIVAN: Okay. Any other questions? Thank you. Welcome. [LR332 LR344]

MIKE PIETZYK: Thank you. Thank you, committee. My name is Mike Pietzyk, P-i-e-t-z-y-k. I'm a farmer/rancher just southeast here of Lincoln. Just thank you for the opportunity to be able to speak today to you. I usually don't take these opportunities. I don't know, there's a lot of apathy out in the country. Senator Sullivan, you made a couple two or three comments this morning about why don't people show up to hearings, budget hearings and stuff. I was on a school board for a short time and stuff. We try. As a farmer, we do pay a majority of our tax. We're a small school district. Ag, we don't have a whole lot of businesses and stuff, so the ag does pay the majority of the budget for the school districts. But we don't have...we don't have...we're a minority in number and so we don't have any vote. We have went to our local school boards. We have tried to...tried to control the spending and have kind of influence, but we don't have that on a local level. And I guess that's why...that's a lot of our frustration of we're just taxed and we do not have...you know, the votes for when it comes to making good decisions about how our money is being spent. It gets down to a big thing is the spending, guys. You're a legislative body. You spend our tax dollars. And I just...I want...you know, we...all the school districts were here represented today and it's interesting. (Laugh) They didn't have a lot of solutions. They're here to protect their interests. Well, yeah, I'm here to protect my interest also today and stuff. And at the core, whether we're all frustrated with our local governments all the way up to Washington, D.C., we need to stop spending so much money, more than what we have, more than what we take in. So again, you know, Senator Groene, you have great comments today and stuff and I appreciate you talking and questioning those people because, like you said, if they have the authority they're going to do it and stuff. And I don't know if there's any way, you know, that we can force the education...we're just feel like the spending is out of control. And my solution is, too, is we need to broaden the tax base. It needs to go more...I would like to see more of a sales tax and the income tax be able to fund our school districts and stuff, because you find a minority of people that are having to fund our school districts and stuff. So that's

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probably the biggest deal is what I'm trying to get across to you all is that we do need to slow down our spending. And, you know, we don't have enough. We keep talking about all the things that are coming up and...excuse me, I'm sorry. I'm just a simple farmer. I'm trying to get my...
[LR332 LR344]

SENATOR SULLIVAN: You're doing fine. You're doing fine. [LR332 LR344]

MIKE PIETZYK: ...trying to get my point across. We need to slow down on our spending. That's the only way. If we do not have enough assets to take care of our bills, we have to slow down on our spending. So I appreciate the opportunity. Sorry to keep you here so late. [LR332 LR344]

SENATOR SULLIVAN: No, no problem. [LR332 LR344]

MIKE PIETZYK: Thank you for all that you do. [LR332 LR344]

SENATOR SULLIVAN: Thank you for your testimony. Senator Davis. [LR332 LR344]

SENATOR DAVIS: Thank you. Is it Pitchick (phonetically)? [LR332 LR344]

MIKE PIETZYK: Pitesic (phonetically). [LR332 LR344]

SENATOR DAVIS: Piecheck (phonetically). [LR332 LR344]

MIKE PIETZYK: Pitesic (phonetically). [LR332 LR344]

SENATOR DAVIS: What is your school district? [LR332 LR344]

MIKE PIETZYK: District thirty...Sterling School District. I think it's 33. [LR332 LR344]

SENATOR DAVIS: Sterling. Sterling. And you served on the board one time there? [LR332 LR344]

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MIKE PIETZYK: Yes, I did. [LR332 LR344]

SENATOR DAVIS: So you were equalized or nonequalized? [LR332 LR344]

MIKE PIETZYK: I don't know that. I don't know that, sir. I don't know that for sure. We live...we have a...live on a...grew up on a family farm. I'm third generation. We have two school districts seven miles away. There's a Sterling school district and then there's another school district seven miles away. We both had budget problems when I was on the school board. We both needed building projects. We tried to get...we had different...several meetings and stuff to try and get the two school districts...well, our school district to figure out where we're going to do the financing. Are we going to have an over...a levy override, election, and all this and stuff. And so we...you know, we're two school districts seven miles away. But we could not get the two small towns, seven miles away, most people work and stuff, you cannot get two groups of people to come together. They didn't want to sit down and look at the numbers and run the numbers to see if...can we operate one school district cheaper than the two? A lot of it comes down to my little Johnny. See, if we merge these two school districts, it's about sports, and he's not going to be able to play on the...be the starter on the football team or the basketball team and stuff. And it comes down to those things instead of being...using our heads and saying, hey, can we give...can we merge these two school districts and give the kids more opportunities to have educational, extracurricular or whatever and stuff. And so, I don't know, we're just frustrated. We're frustrated that we sit, we do not have a voice. Like I said again, we're a minority. And so that's why I come. I felt so convicted to spend a day up here. Was very educational listening to all of you and to hear about different people. But just thank you again for the opportunity. [LR332 LR344]

SENATOR DAVIS: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Any other questions? Senator Groene. [LR332 LR344]

SENATOR GROENE: I want to thank you for making that point that there have been senators who need to know. Even in small towns, the farmers are often outnumbered by the employees and their spouses and children in the school system that work there, county courthouse and in

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town. And so when you build a new gym, you pay for it, but you're outvoted, even in small communities, that you are a minority and you do need some kind of protection. [LR332 LR344]

MIKE PIETZYK: Yes. Yes. [LR332 LR344]

SENATOR GROENE: Thank you. [LR332 LR344]

MIKE PIETZYK: Yeah. [LR332 LR344]

SENATOR SULLIVAN: Senator Gloor. [LR332 LR344]

SENATOR GLOOR: I'm actually going to not ask a question as much as just point out something for the record. I've been waiting all day to make these comments. And I want to thank you for giving me the opportunity to say a few things. (Laugh) I also want to thank you for your willingness to serve, because it is...you're right, there is a degree of apathy out there that makes all this that much harder. The challenge we have with property tax is that it is locally collected, locally assessed, and locally controlled. [LR332 LR344]

MIKE PIETZYK: Yep. [LR332 LR344]

SENATOR GLOOR: And in laymen's term, what that means is the county collects the property tax and it distributes it to the different entities that have a levying authority based upon budgets that are put together by local boards that we vote for. And legislatively we then try and get our arms around this massive amount of local control that extends not just to school districts but to the NRDs and the fairs and the community colleges and all these different levying entities. And sometimes legislatively, this has been my experience down here in seven years, when we try and pull back some of that control, (slaps hand) we get our hands slapped because we love our local control. So that doesn't mean that we can't do things. It's just that it is difficult for us to get our arm around it, because we love our local control and, at the same time, we would like our taxes to be controlled. And it's a challenge for us. I would say, to the extent that the state and the Governor's Office for that matter have tried to control expenses for those components of the state budget we do control, spending that is built into the budget this past year is, I think I'm correct at

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this--Senator Mello would straighten me out if I'm not but I'm pretty sure I'm correct--I think the rate of increase is the fifth lowest in the past 30 years. So we, to the extent that we have our finger on the button and can control it, are trying to do the best we can. But the local control issue is a tougher issue for us to get our hands around, which is why we're having all of these meetings and spending all this time looking for a way that we can get a little relief. [LR332 LR344]

MIKE PIETZYK: Yeah. I appreciate that and stuff. Like you said, it is hard because... [LR332 LR344]

SENATOR GLOOR: You know. [LR332 LR344]

MIKE PIETZYK: I do. I don't want your government on you and that's some of the problems that we're having with this country is too much control. But that at the same time, yeah, look at things that you can do to force people for the good...for the greater good, you know. Asking, you know, speak on my behalf because I am...we don't have it. We don't have the voice. So I appreciate that. [LR332 LR344]

SENATOR GLOOR: I understand. And by the way, given the industry that you're in, you can't be simple. (Laughter) [LR332 LR344]

MIKE PIETZYK: Yeah, yeah. It's not anymore. [LR332 LR344]

SENATOR SULLIVAN: No, you aren't. You aren't. You aren't. Any other questions? Thank you so much for your testimony. [LR332 LR344]

MIKE PIETZYK: Thank you. [LR332 LR344]

SENATOR SULLIVAN: Anyone else? Again, I appreciate everyone's input today. Unless Senator Gloor has any other comments, this concludes this hearing on the two legislative resolutions. Thank you very much. [LR332 LR344]

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SENATOR GLOOR: Thank you. [LR332 LR344]