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Education Committee
February 10, 2009

[LB364 LB654]

The Committee on Education met at 1:30 p.m. on Tuesday, February 10, 2009, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB364 and LB654. Senators present: Greg Adams, Chairperson; Gwen Howard, Vice Chairperson; Brad Ashford; Abbie Cornett; Robert Giese; Ken Haar; and Kate Sullivan. Senators absent: Bill Avery. [LB364]

SENATOR ADAMS: Despite the fact that we don't have all of our committee members here, we're going to begin this session of the Education Committee. I would ask you to turn your cell phones off if you haven't already so that it doesn't disrupt the hearing or keep someone out in the audience from hearing what needs to be heard. Let me begin by introducing the people who are here and should be here. First of all, Becki Collins is the clerk for the committee, and I would remind all of you that if you choose to come up to testify, that you fill out the proper form and leave it with her before you give testimony. And when you get to the microphone, be sure that you begin your testimony with your name and spell your last name for the record so that we can make sure that we're clear about all of that. Next to her will eventually be Senator Brad Ashford from District 20; Senator Bob Giese from South Sioux City; Abbie Cornett is with us, District 45; Tammy Barry, the legal counsel for the Ed Committee; I'm Greg Adams from York; Senator Gwen Howard, the Vice Chair of the committee from Omaha; Senator Kate Sullivan will be with us in a moment from Cedar Rapids; Senator Bill Avery, we wait to see; Senator Ken Haar from Malcolm; and Kris Valentin, our research analyst. We have two pages today--Sarah McCallister and Brennen Miller. And at any time, if you have things that you'd like to hand out, I'd ask that you give those things to the pages, and they'll see to it that they are handed out. Typically, in this committee, we go by the light system. However, today, given that we have only two bills, and I don't see a whole lot out there in terms of possible testimony; we won't go with the lights. I would still advise you not to get too carried away. Otherwise, I might just have to tell you to be quiet and sit down. (Laughter) But we'll see how...we'll see how this works. All right, let's begin with LB364. Senator Pankonin. [LB364]

SENATOR PANKONIN: Thank you. Good afternoon, Chairman Adams and members of the Education Committee. I am Dave, D-a-v-e, Pankonin, P-a-n-k-o-n-i-n, and I represent the 2nd Legislative District. I am here this afternoon to introduce LB364. And as I'm sitting here, this is the first time in three years that I've been able to testify in person in front of the Education Committee, so that's very nice. The issue addressed by the bill was brought to my attention by a school superintendent from my legislative district. The change proposed by LB364 would be helpful to several school districts in Nebraska. Last year, the Legislature passed LB988 to change provisions relating to school funding. The bill eliminated several budget limit exclusions after the 2007-2008 school fiscal year. One of the eliminated exclusions applied to payments to certified staff that are made in exchange for a voluntary termination of employment. Prior to the

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passage of LB988, schools were able to make those agreements--often with payments made over the course of several years--and to increase school property...property levies, if necessary, to fund the payments. The effect of eliminating exclusions for the costs associated with the voluntary termination agreements varied by school district. For some, the costs were able to be included within the budget limit. For others, the immediacy of the change created budget problems. LB364 would give school districts for which budget problems were created some additional time to adjust to the change. LB364 would create a phase out of the early separation budget exclusion so all districts would be able to meet their obligations to certified staff who agreed to voluntary termination agreements prior to July 1, 2009, and maintain all necessary services for current students. Thank you. [LB364]

SENATOR ADAMS: Thank you, Senator Pankonin. Are there questions for the senator? Senator Giese. [LB364]

SENATOR GIESE: Thank you, Senator Adams. Senator Pankonin, do you know what the other...just for record, what the other budget limit exclusions were? And if you don't, somebody else? [LB364]

SENATOR PANKONIN: I don't, Senator Giese, I don't. Those behind me may know or your legal counsel may know, but I don't know what the other ones are. [LB364]

SENATOR GIESE: Okay. Thank you. Thank you. [LB364]

SENATOR ADAMS: Are there other questions? Thank you, Senator. Are you going to stay around to close? [LB364]

SENATOR PANKONIN: Thank you. No, I'll stay for a little while, and we'll see how long it takes. I've got, obviously, my other hearing as well, so we'll see. [LB364]

CHUCK CHEVALIER: (Exhibit 1) Good afternoon, Senator Adams and members of the Education Committee. My name is Chuck Chevalier, C-h-u-c-k, last name is C-h-e-v-a-l-i-e-r. I bring you greetings from the school board at South Sarpy School District #46 in Sarpy County, obviously. LB364 is about time to adjust to a change in state policy. And I think that's important that you recognize it's a time...it's setting forth an ability to phaseout rather than eliminate the budget exclusion for voluntary separation payments immediately and allow those to phaseout. Ultimately, after the phaseout, we'll be back to the same policy...state policy we're at now. So it's really about time, and it's about the unintended consequences that sometimes happen when things are eliminated right away. In our district--and I want to use that as an example--in January of 2008, we had a voluntary separation policy that allowed for anybody to...with 20 years to file for that and request that and would be granted that. There were no numbers. We had 15 staff members in January of '08 apply for that agreement. Those

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agreements were approved based on the policy at the time and that increased our budget from \$135,000 for those payments to roughly \$335,000 for those payments. In March and April, we hired people to replace those 15 people. And then in May of 2008, LB988 was passed and the rules were changed. That sent us into a tizzy obviously because of the increase in the budget and our inability to increase our budget because of the limit changes in LB988--the budget limit changes, as well as we were very close to the budget limit. This probably didn't affect all districts in the same way. But there is an example of how it affected ours. We were a district that requested that we have time to phase those out. Unfortunately, our policy calls for a five-year payment. Some districts may have one-year payment; other districts may have three. It's varied. But for us, it's five years of payment. So we know we have that budget amount for five years from now. So we requested that we look at a phaseout just to give us time. And again, I think this bill is about time. As I talked to other superintendents about this issue, I'll be honest with you and tell you that some superintendents didn't even know that that budget exclusion went away. And for some of those superintendents, they would probably like a fuller debate on the state policy of whether you're, as a body, going to support voluntary separation payments with a levy and a budget exclusion or not. This bill is not about that debate and maybe some other day we'll hold that debate. It is about time and about exclusions. I appreciate your understanding on this issue. For our district, it would make a huge difference, and I know there are other districts out there that would be in the same position. And I would answer any questions that you have. [LB364]

SENATOR ADAMS: Thank you, Chuck. Are there questions for Mr. Chevalier? Senator Howard. [LB364]

SENATOR HOWARD: Thank you, Mr. Chairman. What is the average amount that these teachers--you said there's 15 teachers--what's the average amount that the teacher would be paid in taking this? [LB364]

CHUCK CHEVALIER: Well, again, every district is different. I can give you two district examples. In Auburn, our policy allowed for \$600 times the years that they served. And so that varied based on the years served obviously. But we did have a very generous policy in South Sarpy. We provided 110 percent of their last year's salary divided into those five yearly payments. Every policy is different though in each district. [LB364]

SENATOR HOWARD: Okay. Well, that's helpful though. Thank you. [LB364]

SENATOR ADAMS: Senator Sullivan. [LB364]

SENATOR SULLIVAN: Thank you. Do most districts have a voluntary termination policy? [LB364]

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CHUCK CHEVALIER: What you are seeing is about, I would say, seven years ago and maybe even earlier, we began to see districts that put those policies in place as a cost cutting measure. And certainly it is a short-term cost costing measure, and those policies became in force. I think there was a feeling that that was the panacea to cut costs and as districts have realized that it's a short-term savings and not necessarily long-term, you're seeing some districts drop those policies. But it really varies and I don't have the exact statistics on that. But I have seen and talked to superintendents of districts that have recently dropped their policy or cut it off where they limit the number that can take it, which is one thing we did to adjust to the change in state policy. Instead of allowing all of the teachers to take it, we did limit it to two teachers per year, which becomes a budget...you know, covering for that. [LB364]

SENATOR ADAMS: Senator Haar. [LB364]

SENATOR HAAR: Thank you. Does this affect how you come out of TEEOSA at all or is this simply a... [LB364]

CHUCK CHEVALIER: For us, no, because what it actually does; we don't get any equalization aid, first of all. However, as we go into the learning community, we will get equalization aid and that's a whole another series of debates. But bottom line is it doesn't affect us on state aid at all. Where it does affect...and the exclusion to the levy limit is still there. So if we don't have enough revenue to pay for these, we can add on to the levy to have those paid for. And we haven't had to use that, but we might in the last few years of this situation. So the levy exclusion is still there, with approval of the board. So it doesn't affect us in our district on TEEOSA. [LB364]

SENATOR HAAR: In this room, TEEOSA is always the elephant in the room. You can't see it, but it's here. (Laughter) [LB364]

CHUCK CHEVALIER: Oh, I can see it even, Senator. (Laughter) [LB364]

SENATOR ADAMS: Are there other questions? Senator Howard. [LB364]

SENATOR HOWARD: Thank you, Mr. Chairman. Just a quick question. This doesn't in any way enter into the contract, labor contract negotiations? [LB364]

CHUCK CHEVALIER: Three years ago, we took...this policy was actually in our negotiated agreement, and we took it out three years ago and made it a policy instead. [LB364]

SENATOR HOWARD: Okay. Thank you. [LB364]

SENATOR ADAMS: Are there other questions? Senator Giese. [LB364]

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SENATOR GIESE: I'll try the budget exclusion limits one more time. If you could elaborate on that a little bit? [LB364]

CHUCK CHEVALIER: The budget exclusion, and basically what that is, the first limit that was out there in a historical context, and I always try to have people remember Ed Jaxa (phonetic) because he was the one that limited budgets based on percentage of increase. That limit is still there to some degree and has been adjusted. Over the years, this body has decided certain things should not be within that limit. They can be excluded. Voluntary separation plans were one of those originally...well, that has been placed as an exclusion. Interlocal agreements is probably the second one that is an exclusion. And that probably was a big one for a lot of districts. Many districts had interlocal agreements. Those were excluded from the budget, and those were eliminated in LB988 as well. So that's probably the biggest one. Some budget exclusions still exist out there: voluntary separation agreement, budget exclusion if you consolidate is still there, if...I think there is some budget exclusions in lawsuits or payments of lawsuits or things like that. There are some of those that are out there. And I don't remember LB988 exactly, but I remember interlocal agreements was probably the next biggest one. [LB364]

SENATOR GIESE: Thank you. [LB364]

SENATOR ADAMS: Are there other questions? Seeing none, thank you, Chuck. [LB364]

CHUCK CHEVALIER: Thank you for considering the bill. [LB364]

SENATOR ADAMS: Are there other proponents? [LB364]

JOHN BONAIUTO: Senator Adams, members of the committee. John Bonaiuto, John with an H, B-o-n-a-i-u-t-o. The short version of my testimony would be from a school board's perspective, we've never come across an exclusionary exemption that we didn't really like. (Laughter) So we're here to say that we like this one. It does make me a little nervous to see two members of the Revenue Committee before me because we ask for these all the time in revenue and, of course, they rarely...really, no, I should restate that. They never see the light of day. (Laughter) So this one has potential, I hope. This is a great tool for school boards. It's kind of a double-edged sword. On one side, you do encourage people that you might not want to leave to take retirement a little earlier than you'd like, but then on the other side of that, there are some folks that need a little nudge and they want to, they want to be gone. They don't want to be working any more, and without this help, they might continue to work a little longer than they should. So I think having this window is very important and would hope that we could use this for a short period of time before it's phased out. With that, I'll conclude my testimony. [LB364]

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SENATOR ADAMS: Thank you, John. Are there questions for the testifier? Thank you, sir. Next proponent. [LB364]

HERB SCHIMEK: Members of the committee, my name is Herb Schimek, S-c-h-i-m-e-k. We are in favor of this bill. We consider it basically a contract between the teacher who left and the school district. And we don't think the school district should be penalized by just ripping out an exemption from the school district to be able to pay for this, so we're very much in favor of the bill. [LB364]

SENATOR ADAMS: Questions for Herb? Thank you. [LB364]

HERB SCHIMEK: Thank you. [LB364]

MIKE DULANEY: Senator Adams, members of the committee, my name is Mike Dulaney, D-u-l-a-n-e-y. I'm the executive director for the Nebraska Council of School Administrators, and I think Senator Pankonin and Mr. Chevalier have done a nice job outlaying what, what this would do. For school administrators, I can tell you this, kind of a continuation of our discussion yesterday with LB545, this is one of those pieces that my members, the school administrators, superintendents across Nebraska feel would be a good addition to that...to that piece, to that overall change in the distribution formula that you'll be considering. So it may be one of those that you could think about merging into LB545 in your deliberations. We feel that this would bring some continuity between the levy and the expenditure lids. And so that would help us immensely. With that, I will conclude my remarks and thank Senator Pankonin for bringing the bill to you today. [LB364]

SENATOR ADAMS: Okay, thank you, Mike. Are there questions for Mr. Dulaney? Seeing none, thank you for your testimony. [LB364]

RUSS INBODY: Senator Adams, members of the Education Committee, I am Russ Inbody, I-n-b-o-d-y with the Nebraska Department of Education. And I think that the provisions of this bill have been adequately explained, and the State Board of Education supports the provisions of LB364. And with that, I'd be glad to respond to any questions. [LB364]

SENATOR ADAMS: Are there questions for Russ? Russ, just as a matter of record then, these would still be excluded from GFOE calculation, correct? [LB364]

RUSS INBODY: Yes. My reading of the statute is that even though they get the additional spending authority, they are excluded from General Fund Operating Expenditures which is the elephant in the room on TEEOSA. At least you didn't call me the elephant in the room, Senator. But well, anyway, and that is one thing to keep in

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mind that any exclusions to the spending or budget limitations if this provision isn't in the statute which is in this bill two years later, GFOE would be increased which increases state aid. But with these provisions, these additional expenditures would not be an increase in state aid. [LB364]

SENATOR ADAMS: Thank you, Russ. Are there questions for Russ? Are there other questions? Thanks for coming in then. Appreciate it. [LB364]

RUSS INBODY: You're welcome. [LB364]

SENATOR ADAMS: Is there other proponent testimony? If not, is there anyone who wishes to speak in opposition to this bill? Is there any neutral testimony? Seeing none, Senator Pankonin waives closing. And that will close the hearing on LB364. And we'll proceed on with our next bill which is LB654. Senator Harms. []

SENATOR HARMS: My name is John, J-o-h-n, middle initial is N., Harms, H-a-r-m-s. I represent the 48th Legislative District. Senator Adams and colleagues, thank you for giving me the opportunity today to visit with you about LB654. Senator Adams, as you know, I have always had a high interest in public school education, and particularly when you deal with facilities and remodeling, I believe there is a correlation to the conditions of a school and how a child learns. If they're in a poor environment, I think it's very difficult for kids to focus and do what's appropriately. Two and a half years ago, Senator Adams, as you recall--you might be the only one that's left here--sorry, Senator Howard, I apologize. I introduced a piece of legislation that would change the public policy on construction, remodeling, creating an environment that was, I think, appropriate where funding would have been appropriate, and it came from the state. We're one of the only few states left in the nation that does not do that. And the reason that so many of our projects in Nebraska don't pass; it's not that the public does not want to support it, it's just that property tax gets into...gets in it's way. Well, as you know, that bill did not come out of committee, for whatever reason, which is fine with me. This is just another attempt, another avenue, another pathway to follow. And one of the things I would like to make sure the record is clear...this legislation is not to circumvent the voters in any form or manner. And I've tried to make sure as we wrote this legislation, that we had that in mind. And so what this bill does is it allows any school district of any class to enter into a loan agreement for the purpose of borrowing money from a financial institution which could include a bank for the purpose of renovating its existing facilities or actually adding on to a facility. And the expansion portion we've limited to about 2,500 square foot. That gets away from this issue of circumventing the voters and say I'm going to add on; I'm going to build a \$30,000 addition, or a 30,000 square foot addition. That eliminates that. And this amount would be that you could borrow, would be 70 percent of the total anticipated receipt spread out over ten years. So what it does and particularly for the smaller schools in rural America, it gives them that opportunity to do some long-range planning, looking at where we have to be to

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upgrade our facilities so that we have the appropriate atmosphere, so that we have a learning atmosphere that's conducive to learning for the future. And right now when I go home and I go into rural America, I'm absolutely embarrassed sometimes of what our children are in, the kinds of conditions the facilities are in, and this is an attempt to address that issue. It also takes the unanimous vote of the board, so the board is still in control of this. And the rest of this bill is all of the mechanical things that you have to follow, that you need to follow and cover in regard to that aspect. So I would just urge you to give this some serious thought and take a good look at it, improve it, do whatever you'd like with the bill. I, there's no ownership here. I just think it's important to have this public policy discussion because I have a feeling that what's occurring is that where I live in rural America, we're unable to upgrade our science labs. We're unable to even put our facilities in a manner to where we can add technology. We're in a position where we can't even put in technology labs. So I just think these are important issues, and it forces the school and the school board and the public to come together and plan for the future. And it's spread out over ten years. So I'd be happy to answer any questions. I know there are some people following me that probably will give you a little clearer view of what it does for them, so. [LB654]

SENATOR ADAMS: Thank you, Senator Harms. Are there questions? Senator Sullivan. [LB654]

SENATOR SULLIVAN: Thank you, Senator Adams. Senator Harms, how does this current proposed legislation differ from what you introduced a couple of years ago? [LB654]

SENATOR HARMS: Oh, a lot. A lot. Because the bill we had before was a bill that was based on need, and we were pumping in about \$50 million which was a lid and we had a few carrots in there. If you would decide to become, if you would get into a community learning center, it would give you the opportunity to actually get a higher percent on the money that you would receive. It's completely different. This really is designed to help, to get right down to helping people who can't help themselves without spreading it out over a long period of time. And the other was based on need. The funding formula, as Senator Adams will tell you, was a little complex. In fact, I had some people come in to explain the funding formula to the committee because I'm not really great on that area. [LB654]

SENATOR ADAMS: Senator Ashford. [LB654]

SENATOR ASHFORD: I really like this bill, Senator Harms. I think you're right on and I'm with it. We sort of, in a way, addressed some of these issues in the learning community statute, didn't we, Mr. Chairman, when we expanded or, well, we created a fund for construction....a levy for construction within the learning community so it's not as if it's not something we aren't addressing. I was sorry to see the stimulus bill doesn't

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include any school construction money. [LB654]

SENATOR HARMS: So am I. [LB654]

SENATOR ASHFORD: Because I think, you know, you've hit it right on the head and as you normally do. So anyway, it's a great idea. [LB654]

SENATOR HARMS: Well, thank you. [LB654]

SENATOR ADAMS: Are there other questions for Senator Harms? Senator Haar. [LB654]

SENATOR HAAR: Yes, thank you. When you say 70 percent of the anticipated receipts, but you're not saying in this bill that all the receipts have to go to pay that back. [LB654]

SENATOR HARMS: This is a special fund, a special construction fund. That's what it is, I may not have said that, but it's 70 percent of the special fund for construction. [LB654]

SENATOR ADAMS: Other questions? Thank you, Senator Harms. [LB654]

SENATOR HARMS: Oh, you've been very kind, thank you. I'll come back. [LB654]

SENATOR ADAMS: Are you going to stay around and close? [LB654]

SENATOR HARMS: Yes, I would like to. Just for a few minutes, thank you. [LB654]

SENATOR ADAMS: Okay. First proponent. [LB654]

JOHN STINNER: (Exhibit 2) Chairman Adams, members of the committee, my name is John Stinner, J-o-h-n S-t-i-n-n-e-r. I'm from Gering, Nebraska. I'm president of Valley Bank and Trust. We have locations throughout the Panhandle. I also have sat on the Gering School Board for ten years. I did prepare some comments to add some color to this bill and conversation, that I can't see very well, so I'm going to put my glasses on, I think. If I can find my glasses. The genesis of LB654 is rooted in the Gering School District's experience. In order to add some color to this presentation and the bill, I would like to present a short chronology of that experience. Subsequent to our failed bond issue in 2007, the Gering School Board met in several sessions to analyze why the issue failed. Based on the discussion, it was determined that the request had been perceived to be too high a dollar amount for our community. However, the needed improvements within the school district which had been contained within the bond issue were still there. In the case of our vocational education building, the need was urgent because OSHA had deemed the building to be unsafe and unfit. The board then set out to prioritize building projects, cash flows, and future ongoing needs of the district. A

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detailed analysis was done and it was determined that if we committed approximately \$150,000 of debt service to our \$350,000 of tax levy inflows from the special building fund, we could prudently borrow up to \$1,500,000 within a ten-year payoff. In this way, we would be unloading our bond issue to a single purpose request while maintaining internally required balances for the fund, taking care of the ongoing special building needs of the district. In order to accomplish the goals identified in our detailed analysis, all we needed to do was obtain ten-year fixed rate financing. Present law only contemplates two years of borrowed funds. In view of the preceding information, I request that you support LB654 which would amend Section 79-1070. Support will mean that we as corporate planners can better match projects which are desperately needed throughout the state with long-term financing. Additionally, I would like to emphasize that this will not increase the property tax owners taxes, and it will not take the place of a bond issue; but rather, could be used to make bond issues more palatable by unloading the issues of ancillary projects. In closing, we have no assurance that bond issues can be passed given the aging population demographic of our state, the prospects of additional tax burden on our property owners and the present economic environment. With that being said, the fact remains that school boards across the state need to have all the tools available to maintain a quality infrastructure for our children. [LB654]

SENATOR ADAMS: Thank you, John. Are there questions? Senator Sullivan. [LB654]

SENATOR SULLIVAN: Thank you, Senator Adams. I think this is, and could be, a very, very useful tool. Having sat on a school board in Cedar Rapids, I can appreciate this. But I'm also aware that, in spite of the fact that there's some really...the realization that property taxes wouldn't be raised, the perception is that a community sees some building activity taking place in a school, they automatically wonder why it wasn't approved by the...the citizenry and secondly, the potential is to raise taxes. So there would be some little education involved, wouldn't there? [LB654]

JOHN STINNER: I think communication is essential. As you are well aware, there is a lid of 105 total. You can take 14 basis points away from that and put it into a school, the special building fund. The reality is right now you need just about that 105 to run your school district. In Gering, I think we run it with 99 basis points with six basis points or 6 percent going to service, and that comes out to about \$380,000 of tax flow to the special building fund. So what we're trying to do is to take a long-term project and match it with long-term financing. As you're well aware, the markets right now, there's bond issues out there that can't get placed. So you need to have a lot more arrows in your quiver to attack these problems because I'm not confident in Gering, Nebraska, we're ever going to pass a bond issue. We've had five of them and five of them have gone down. So this is a way that we can stay current. The building project that we talked about, the vocational ed, is more than 2,500 square feet, simply because we did steel construction, our kids finished the interior of it. We're building three classrooms. Yeah, there are

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some brick and mortar going up. There hasn't been much commentary other than the fact is, I'm glad you guys are doing projects to enhance the schools for our kids. That's been the comments that I get. [LB654]

SENATOR ADAMS: Senator Haar. [LB654]

SENATOR HAAR: Thank you. I'm just a little confused by the statement at the bottom of the page: rather could be used to make bond issues more palatable by unloading the issues of ancillary projects. Would you take a minute... [LB654]

JOHN STINNER: Well, we had...we had the educational building and that was supposed to have been \$1.2 million, and Don Hague is coming up next and can get the exact numbers. But my recollection is \$1.2 million. There was another \$1.2 million in it for the science buildings. Obviously, we went to steel construction. We did it for \$600,000-some and we were able to get a little bit less on the science buildings. That \$2.4 million was included into a bond issue that also included building another, what did we call it, Don? It was a ninth grade academy, I believe, was in that bill, too, along with a grade school. So the asking was about \$15-16 million. By taking these two projects, eliminating the one project, the ninth grade academy, getting this done internally, we're only going to go back to the taxpayers with about a \$6 million asking. That will be more palatable. I always thought that over \$10 million, you don't even have a chance. Although we have approached our voters with a \$3 million issue that was, in the '90s, was turned down. So these are badly needed, needed assets for our kids. It enhances our science program. It enhances our vocational ed program and I thought, as a school board person, it was prudent to figure out a way of getting it done. [LB654]

SENATOR ADAMS: Senator Sullivan. [LB654]

SENATOR SULLIVAN: Yes, thank you, Senator Adams. You presented this with your school board hat on. With your banker hat on, I presume you think this is a good idea? [LB654]

JOHN STINNER: I, you know, it fits what finance is all about. You've got a long, if actually I had to write the bill, it would be about a 15-year situation because as you are well aware as a person, if you wanted to redo something in your house, say a basement. If you seek a second mortgage of 10 to 15 years, fixed rate; it takes a lot of guesswork out as a corporate planner every two years when this rolled over, if you would do a two year, you've got new terms and conditions, you may not get it placed, too many unknowns. So at a 15 or a 10 year, 10 year being under this bill; you can plan, you can budget, you can cash flow, and yeah, it just makes good sense all the way around. [LB654]

SENATOR ADAMS: Other questions? Senator Howard. [LB654]

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SENATOR HOWARD: Thank you, Mr. Chairman. You've got a hard sell out there, don't you? Five times and five times, you're? [LB654]

JOHN STINNER: I, we're not unusual. No. [LB654]

SENATOR HOWARD: Oh, really? Gosh. [LB654]

JOHN STINNER: I think you ought to take a poll throughout the state and we have a...we have a facility, a banking facility in Wauneta, Nebraska, and they won't even go to the taxpayers because they know it's going to be turned down. And this would help them to redo their science lab and two, possibly two classrooms. [LB654]

SENATOR HOWARD: But if you've been told that this building is unsafe and unfit, that's a real legitimate reason to seek to replace it. [LB654]

JOHN STINNER: That was a sense of urgency. Yeah. [LB654]

SENATOR HOWARD: Well, my concern is the same as Senator Sullivan's is that it would not be to anybody's benefit for the people to perceive that you've kind of gone around them to get this done. And I think the, selling it to the folks out there is really critical. Fortunately, you have a great senator that... [LB654]

JOHN STINNER: I thought that we did...I thought we did a great job trying to sell that bond issue. We had lots and lots of people involved. There was a lot of positive commentary on that issue. It was turned down. So given the fact that we couldn't pass that bond issue for a whole host of reasons, we had to figure out a way of getting that done. [LB654]

SENATOR ADAMS: Other questions? Senator Giese. [LB654]

SENATOR GIESE: Thank you, Senator Adams. Mr. Stinner then, so today, you don't have any tools to do something like this. If this legislation... [LB654]

JOHN STINNER: We do not have a fixed rate product past two years to go out and finance any kind of improvements that we would want to do, without raising the taxpayer asking. This doesn't increase taxes to the taxpayer. We do not have that tool. [LB654]

SENATOR GIESE: Thank you. [LB654]

SENATOR ADAMS: Are there other questions? John, one of the questions that I had as you--and you and I have talked about this--but as you conceptualize this, did it concern you at all that with a ten-year obligation without a vote of the public, you are binding

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future school boards? [LB654]

JOHN STINNER: You do bind future school boards, yes. That's why it's a hundred percent of the school board vote, but so does a bond issue--bind future school boards for 30 years. [LB654]

SENATOR ADAMS: Okay. But with a vote. That... [LB654]

JOHN STINNER: But with a vote, yes. [LB654]

SENATOR ADAMS: That'd be the difference. Okay. Thank you. Are there other questions for John? Senator Haar. [LB654]

SENATOR HAAR: Yes. You said this requires a hundred percent of the school board? [LB654]

JOHN STINNER: It's written to, for a unanimous vote of the school board which we thought was important. It does not contemplate a hundred percent. It's 75 percent or 70 percent of the flows. So that you can't just leverage up the school district based on this fund. You have limitations. [LB654]

SENATOR HAAR: No, but I mean, does it take a hundred percent of the school board to vote for this? [LB654]

JOHN STINNER: Yes. [LB654]

SENATOR HAAR: Okay. [LB654]

SENATOR ADAMS: Other questions? Thank you, John. We know you traveled a long way. [LB654]

JOHN STINNER: Thank you. [LB654]

DON HAGUE: (Exhibit 3) Good afternoon, Senator Adams. I'm Don Hague, superintendent of Gering Public Schools. It's D-o-n H-a-g-u-e. I want to thank you for allowing me to speak in support of LB654. And I want to have an opportunity to ask a couple of questions that I didn't put in my comments here and Senator Sullivan brought out about what the bill that was introduced two years ago on equalization, and I'll talk a little bit about that. But I want to go through these comments first. The bill would amend Section 79-1070, allowing school districts to borrow money up to ten years instead of the current two year provision. Buildings across the state are aging, and I think everybody knows that. Deferred maintenance has become a way of life. To merely meet our facility needs, the bond issues become so complex, it is difficult to explain to the

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general public what you're trying to pass. Gering is similar to many school districts in Nebraska. It is difficult, even in good economic times, to pass bond issues. As you've heard before, Gering Public Schools has attempted to pass several bond issues. The last one failed in September of 2007. If we would have had the ability to borrow money for a ten-year period versus two, it would have allowed us to develop a more comprehensive short and long range plan. I think what John was trying to explain is our bond issue became so complex because our needs were so great, and we didn't address all those needs in the bond. When you stand up and explain that to the public, it's difficult for them to grasp all of your needs, and it gets so big dollarwise; it's difficult to sell. Our assessed valuation is one of the lowest in the state...having passed a bond...making passing a bond issue even more difficult. A bond issue in Gering costs our taxpayers twice what it costs the residents of Scottsbluff. And Scottsbluff is not a wealthy district, and we are separated by a river. And it's not a big river, but it's a river. A 10 cent levy to support a new building in Scottsbluff would cost the Gering patrons 20 cents for that same building, so we have half the assessed valuation. Senator Sullivan, when you were asking about the previous legislation that Senator Harms introduced, what we were asking for was equalization of bonds; just like we equalize with state aid. But in these economic times, I'm not up here trying to support something that costs the state money. I hope in my four years that I have remaining as the superintendent before I retire, I think this state is going to have to look at ways to equalize bonds. If you don't, you're going to have districts that are never going to be able to pass bonds. And it shouldn't depend on the wealth what you need in that community. By supporting this bill, you would give Nebraska districts flexibility to address the needs by borrowing money at a fixed rate for a ten-year period and making payments through the special building fund. You wouldn't deplete the whole special building fund to make payments, but you would take part of it to make a payment. So it lets you plan or take care of those needs that you have. We know these are tough economic times. This bill would not cost the state additional money, and the limits in the bill would not allow the district to circumvent the bond process in order to actually construct a building. And you've already talked about that, the 2,500 square feet, and the limit on the dollars that you can do in this bill. We would respectfully ask you support the bill. And I'll answer any questions. [LB654]

SENATOR ADAMS: Thank you, sir. What questions do you have? Senator Haar.
[LB654]

SENATOR HAAR: Thank you. I'm just thinking too, kind of what happened in the Chamber the other day when we talked about bonding. Going from a simple majority to a two-thirds. A hundred percent is really pretty tough. And I wonder whether two-thirds doesn't make more sense when we go through this. I think it's a good bill, but I'm just thinking, you know, you can have one elected official who gets on the, you know, soapbox and says I will not raise taxes. So, I think two-thirds would be a better, just a suggestion for you. [LB654]

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DON HAGUE: That would be up to your committee, I think. [LB654]

SENATOR ADAMS: Are there other questions for this testifier? Do you...could you respond to the same question that I asked John? In regard to binding future school boards to this ten year obligation. [LB654]

DON HAGUE: I'll try to. I think you are going to bind future school boards, Senator Adams, but I think by laying out a comprehensive plan of these are the things that you're going to have to address. I was thinking driving down, you may have a roof in one building, you've got floors that you've put off, you've got just a lot of deferred maintenance. If you haven't visited a lot of rural school buildings, Senator Harms is right. There are a lot of deferred maintenance going on out there, folks, because our levy--that \$1.05--more and more of it is going to general operating costs. So that special building fund is getting even tighter. you're not generating money. I think if you lay out a comprehensive plan and communicate it and you keep it in front of the board, Senator Adams, I don't see it as being a problem. I think it's something we're going to have to look at. If not, everybody is going to defer it and then we're all going to be trying to pass bond issues to just fix up buildings. And this really is targeted at repairs more than anything else, because 2,500 square feet is two classrooms. That's basically what you're talking about. It's limited, two brand-new classrooms. [LB654]

SENATOR ADAMS: Okay. Any other questions for this testifier? Well, thank you, too, for coming so far. Appreciate it. [LB654]

DON HAGUE: Oh, I appreciate it. Thank you. [LB654]

ROBERT HALLSTROM: Chairman Adams, members of the committee. My name is Robert J. Hallstrom, R-o-b-e-r-t, middle initial J., Hallstrom, H-a-l-l-s-t-r-o-m. I appear before the committee today on LB654 on behalf of the Nebraska Bankers Association as a registered lobbyist in support. Senator Sullivan asked Mr. Stinner to put on his banking hat, so he stole a little bit of my thunder. But basically banks and school districts and schools are the lifeblood of their communities. They work together well on a number of different educational projects and activities, and we see the possibility to continue to do so through this, what I would describe as more flexible financing or funding alternative to accomplish things that could be done in other less flexible ways today. I think the ability to leverage the money that the school districts have in their special building funds over a ten-year period is inherently logical and sensible. They may have to...they may get the same project done today, but have to utilize all their funds that they've built up over time which isn't going to allow for quite as good long-range planning as Senator Harms suggested was at the heart of the bill. So we believe that this is just one, one better way to provide that longer term financing without using any additional tax levying authority than they have today. No new taxes. I would agree it probably is an educational and a communications type of situation to make sure

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that the public understands what this type of procedure or protocol entails. But with that, I'd be happy to address any questions you may have. [LB654]

SENATOR ADAMS: Thank you, Bob. Are there questions? Well, I guess I would have one and I'm not sure you're the person to answer it. It just came to me so I'm running through the green copy of the bill. When...now on two-year notes, but let's hypothesize that we've got a ten year possibility here. What procedurally, are school districts obligated, do you know, or what would be the process for determining which institution would be the lending institution? [LB654]

ROBERT HALLSTROM: Well, I think the school district is free to go out to the local financial institutions or the financial institution of their choice to obtain whatever types of terms and conditions on their financing that are available. I'm not sure of any specific, we're aware of any specific statute that binds them to go one place or another. [LB654]

SENATOR ADAMS: Or put out an RFP or anything like that? [LB654]

ROBERT HALLSTROM: Yeah, I'm not aware of that. [LB654]

SENATOR ADAMS: One would assume that that would be just prudent to do something like that. [LB654]

ROBERT HALLSTROM: Yeah, and I would believe that's the case and Senator, actually along the lines of what I commented on earlier, about being able to do the same things in more flexible fashions. You probably have situations out there where some of these deferred projects are being taken care of, and they may require financing for more than two years, legitimately today; but you're at the mercy of, you can only go out two years and then you have to renew as opposed to what Mr. Stinner suggested was a fixed rate type of ten-year alternative that might be out there and available to the school districts. So that's why I think you can get the same things done today, just in a less flexible and perhaps more costly manner than proposed under LB654. [LB654]

SENATOR ADAMS: Thank you. Are there other questions for Bob? Senator Sullivan. [LB654]

SENATOR SULLIVAN: Senator Adams. So does the proposed legislation indicate that that ten-year note would be fixed rate? [LB654]

ROBERT HALLSTROM: I don't think that's obligated in there, Senator, but I think that certainly would be what the school district would be looking for. Obviously, the market is going to have to determine whether or not that particular loan would be available at any particular time, but I think historically, the banks have worked well with the school and educational facilities on projects for the betterment of the community and viability to the

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community, in many cases. [LB654]

SENATOR ADAMS: Senator Haar. [LB654]

SENATOR HAAR: Question. Thank you. In this case, what would be the difference between borrowing money and bonding? [LB654]

ROBERT HALLSTROM: Well, when you have borrowing money, in this case, you're taking, you're taking from the special building fund and you are committing only up to 70 percent of the anticipated revenue receipts, either in that fund or coming into that fund over the length of the ten-year repayment period, as opposed to a bond district where you go out...or a bonding project where you go out and sell the bonds, have to get the investors to put the monies back in and then presumably within the bond issue itself, have provided for whatever tax levy and authority is required over the lifetime of the bond to sell those, or to pay off that, those bond obligations. [LB654]

SENATOR HAAR: Okay. So it is a much simpler process. [LB654]

ROBERT HALLSTROM: I assume it's much simpler in its mechanics, and as we've noted in many parts of the state, it's easier to have a direct financing alternative for these types of projects than it is to have a large dollar project that requires bonding approval. It's just the way it's worked. [LB654]

SENATOR HAAR: Okay. Good. Thank you. [LB654]

SENATOR ADAMS: Senator Howard. [LB654]

SENATOR HOWARD: Thank you, Mr. Chairman. Just a quick question. I remember our discussion on the floor regarding bonding recently and is there a requirement for collateral in this type of an arrangement? How does that enter in, or does it? [LB654]

ROBERT HALLSTROM: I...I don't believe so in this case. I would assume those types of bonds, Senator, and I may be the last one up here, so I may be getting some questions that were better left for someone else, but...and maybe Senator Harms can address them when he closes, but I don't think there's any collateral obligations for a bond of this nature. [LB654]

SENATOR HOWARD: Not a sales tax or a property tax backup on this? [LB654]

ROBERT HALLSTROM: It's...it's a general obligation bond so the tax levying authority of the municipality of the school district, whoever is issuing the bond, in this case, school districts, would be behind the repayment capacity of that bond issue. [LB654]

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SENATOR HOWARD: Thank you. [LB654]

SENATOR ADAMS: Are there other questions? Thank you, then, Bob. [LB654]

ROBERT HALLSTROM: Thank you. [LB654]

JOHN BONAIUTO: Senator Adams, members of the committee. John, J-o-h-n, Bonaiuto, B-o-n-a-i-u-t-o, executive director of Nebraska Association of School Boards to make three points. The testimony has been very thorough about the need for this. I had an opportunity to visit with Senator Harms prior to the special session when he was really starting to put this concept together. And a very important point to him was having this available to school boards and to the school districts as a tool to meet their needs for facilities, but not circumventing the voters. And so that's, and that's, I think, a part of the parameters of what can be done within the confines of this bill and the approval of the entire board. Trying to get that buy-in. That doesn't mean that the board and the administration won't have to do a great job communicating the need, but it is a tool that the board could use to address some very critical needs. The second thing is, is between bond issues, and bond issues, and we track bond issues and levy elections. The history is about two-thirds of the levy elections fail, and a few more bond issues have passed, but it's going to be tougher and tougher. And in small communities, especially if you don't have a very large tax base, you can't generate enough money to do what you really need to do without a substantial increase in taxes and so it's...this is a very important option for those districts that have facilities that are in really difficult shape. But the building fund...there was a time when boards had an additional levy for facilities. And in the late '90s when we started to ratchet down and collapse the levying options into the maximum levy, everything went to the general fund. So the building fund, although it remains, it is not a separate levy. And so as a school board member, I might feel that I think that we're at a point where we could set aside a portion of the \$1.05 and put 2 cents, 3 cents; we could put some money in the building fund; but then negotiations or collective bargaining does not go as well as we would like it to go and we take...we have to take some of that. We need to add a teacher because we have more students showing up in an area than we had anticipated. So all of the sudden, where we thought we had 2 or 3 cents that might be able to be used for facilities, we're back to zero. And so I think districts have been passing bond issues to upgrade and to maintain facilities. It used to be they'd pass bond issues to build buildings, but they're passing bond issues just to maintain their existing facilities. So this is very important. The last thing I would say and this is in response to the question about the obligating future boards, I believe if there's a need, that that will not be an issue. Because for my experience, people that run for the school board and serve on the school board, they see what condition and they have such a, you know, a good view of what they need to do to serve that community and the students of that community. And I can tell you that there are board members that see before the community sees, not only when facilities need to be worked on, but when districts need to merge. More often than not, it's the

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board members who are going out and getting themselves into trouble with the community saying, I don't think we could support this program alone any more. We need to be talking to our neighbors. We need to be looking at other options, and sometimes they lose their elections because of that. So I think board members are going to go into this with their eyes open, and if there's a need there, they'll make the case and convince the voters in their community that they're doing this for the long haul for the right reasons. With that, I'll end my testimony. [LB654]

SENATOR ADAMS: Senator Haar. [LB654]

SENATOR HAAR: Yes, thanks. I was never on the school board, so this may be an easy answer, but um, so if the money is committed for ten years basically and five years down the road, another roof needs replacing, how does that get replaced? [LB654]

JOHN BONAIUTO: Well, that's a good question. And one that I think could happen very easily, you know, and boards would have to look at what their options would be. If they used this option, could they go out for a second loan or would they, could they do a short-term or that's a question that I'm sure boards, there will be the need, okay, because you can't predict when something, when your boiler is going to go bad or your roof is going to fail, and if a district doesn't have the money on hand in a reserve to deal with that, it's, there would, they would be exploring their options. [LB654]

SENATOR ADAMS: Or if 70 percent of it is committed. To this particular loan amount. [LB654]

JOHN BONAIUTO: It is, the whole 70 percent is committed, so if they had some of the money that had not been committed, they could go back, but yeah, it's hard to predict, but I'm sure the need will arise. [LB654]

SENATOR HAAR: And that is kind of, I think, what your question has been about, too. So is there anything in this bill that even speaks to that or it just says 70 percent is committed and after that? [LB654]

JOHN BONAIUTO: I think it, you know, there are those districts that might not go to the 70 percent. And so it, it...that would leave some room. And without any experience, and I've gone around the state and I've looked at some of these school facilities and it is, it's really questionable, you know, why we haven't gotten a challenge in our formula because as Senator Harms said, we're one of the few states that does not include facilities in the overall school funding. And that was the bill that we talked about a few years ago. But I think that communities have taken pride and tried to maintain their facilities, but it's not easy; and they'd rather put money toward learning and instruction, rather than in brick and mortar. And that's, you know, I think that's why we find ourself in the position we're in. [LB654]

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SENATOR HAAR: But as, you know, as Senator Harms is saying, that's hand in glove with learning. You can't... [LB654]

JOHN BONAIUTO: It really is, and when we collapsed all of the funds and put the building fund under the \$1.05, we put facilities in competition with children and learning and instruction. And I can tell you, facilities will lose every time. [LB654]

SENATOR ADAMS: Other questions for John? Thank you, sir. [LB654]

JOHN BONAIUTO: Thank you. [LB654]

SENATOR ADAMS: Is there other proponent testimony? Is there any opposition testimony? Neutral testimony? Senator Harms to close. [LB654]

SENATOR HARMS: Senator Adams and colleagues, thank you very much for giving us the opportunity to visit with you about LB654. Let me answer a couple of questions for you. The question that you asked in how you determine the banks. I've done this in my previous life. I had 12.5 counties, 90,000 square miles, needed a way to do some remodeling. And what we did was we went to one of our local bankers and that bank was the lead bank, and every bank was given an invitation to participate in all 12.5 counties. At a fixed rate, no one had too much money involved in the project, but they did it in a shared responsibility. I tell you, it worked absolutely marvelous. People participated, banks contributed what they felt they could contribute to it, and it worked really, really well. And so ours is put out between, you know, 15 years. And our board's views were that it was important for them to make the decision now because five years from now, it could be more expensive. Five years from now, we may not be able to afford to do everything we want to do. And Senator Haar, in regard to your question, this is only one project, one loan is all you're going to have. So it forces the public schools to do, to sit down and prioritize. I'm really into long-range planning. And I think you have to look at these issues very hard and decide what you think are your priorities for the future and looking at your school system and then move in that direction. So that's what it does. So I'd be happy to answer any questions. [LB654]

SENATOR ADAMS: Senator Howard. [LB654]

SENATOR HOWARD: Thank you, Mr. Chairman. Just a quick question. You know, you hear so much about the rural schools decreasing in numbers of students. How is it looking at Gering? [LB654]

SENATOR HARMS: Gering is growing. Gering has done really well. In fact, they have temporary facilities put up or whatever you call them, just to handle the growth. Scottsbluff has kind of leveled off. I think the further north you go, there's probably

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where we see some difficulties with that. That's why, um, well, I won't go into the other piece of legislation because it had that all covered. So I'm not going to go there.
(Laughter) [LB654]

SENATOR HOWARD: Well, it's good to know that so that, you know, you put the money into the buildings; you know that they're going to be used a long time for many students. [LB654]

SENATOR HARMS: Yeah, that's why learning communities are so critical, I think. A lot of people have focused on--this is not the topic--but they focus so much on the Omaha...it may be the thing that saves rural America by them coming together and making decisions about that and building a school system where all these children can come. I think we're going to be confronted with that just because of the normal trends. Well, it's been a pleasure. [LB654]

SENATOR SULLIVAN: Thank you, Senator Adams, and thank you, Senator Harms. Just for clarification and for the record, because based on the previous testimony that says the dollar, the facilities are now...the facility planning is now part of that \$1.05 limit we've got to stay within. And your proposed legislation says 70 percent of the anticipated receipts generated from the district's current special building fund levy, how do districts adequately plan for that anticipated revenue? [LB654]

SENATOR HARMS: Well, that's...that's difficult, and that's where it gets into the planning process and each school will be different. Each school will have to decide what their priorities are going to be. It also has an impact on your assessed valuation and you know, other kinds of projects that you've had. But at least it gives them that opportunity to make the long-range plan and at a point where they can say, you know what, for the next ten years, this is what our goal is going to be. I think there's some risk to it, to a certain degree, in the planning process. But it does at least open that portion of it up for them. It does not stop them though from pursuing other kinds of grants, other kinds of gifts, creating a foundation and raising dollars to do the things they have done and need to do in the future. There are a lot of other options. [LB654]

SENATOR SULLIVAN: Yeah, I mean, there's a risk any time you go into debt. [LB654]

SENATOR HARMS: I agree with that. I try to tell my children that. Thank you very much, it's been a pleasure. [LB654]

SENATOR ADAMS: Thank you, Senator Harms. That will close the hearing on LB654. It will close the hearings for today, and committee, we're going to spend a little time in Exec Session now. [LB654]

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Disposition of Bills:

LB364 - Held in committee.

LB654 - Indefinitely postponed.

Chairperson

Committee Clerk