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Education Committee
January 25, 2011

[LB130 LB235 LB236 LB247]

The Committee on Education met at 1:30 p.m. on Tuesday, January 25, 2011, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB235, LB236, LB130 and LB247. Senators present: Greg Adams, Chairperson; Gwen Howard, Vice Chairperson; Bill Avery; Brenda Council; Ken Haar; Ken Schilz; and Kate Sullivan. Senators absent: Abbie Cornett.

SENATOR ADAMS: (Recorder malfunction)...and we're going to initiate this second day of hearings in the Education Committee. To get things going today, let me introduce members of the committee, even though they obviously will continue to file in from whatever other commitments they may have. Our research analyst is Kris Valentin and he may be in later. Senator Haar from Malcolm certainly will be here, as will Senator Avery from here in Lincoln; Senator Sullivan from Cedar Rapids; next to me the Vice Chair of the committee, Senator Howard from Omaha; I'm Greg Adams from York; next to me is our legal counsel, Tammy Barry; next to her, Senator Cornett and she won't be here today; a new member to the committee, Senator Council from Omaha; and then Senator Schilz from Ogallala. Sitting next to Senator Schilz is Becki Collins. She is the committee clerk and I would ask on any and all of these bills if you wish to testify, that you fill out one of the registration forms and that you come forward and you leave the registration form with Becki. If you want to testify on both bills, we really need for you to fill out two testifier forms to keep that straight. When you do come to the table to testify, we'd ask that you begin by stating and spelling your name for the record so that the transcribers, it will be clear to them when they're going through everything. Today we're going to be hearing four bills, LB235 and LB236, which you may or may not have heard of. And then we also have LB130 from Senator Heidemann, and LB247 that will be introduced later on by Senator Pahls. We'll take each bill separately. We will go on the light system of three minutes per person. We'll take proponent testimony, opponent, and neutral testimony as we always do. The committee may have questions for you as we go along which may extend your testimony beyond the light. That's our problem. Your portion of it is three minutes. I would also ask...this is a hearing and literally speaking, that means I want everybody to be able to hear what's going on, and I would ask that any electronic communications be turned off. That includes the Blackberrys or at least not showing up during the hearing or the computers, except for credentialed press will be allowed to continue to use their computers. So with that, Senator, we'll begin this hearing.

SENATOR HOWARD: Senator Adams, welcome to the Education Committee.

SENATOR ADAMS: Thank you, Senator.

SENATOR HOWARD: If you would like to do the opening on LB235.

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SENATOR ADAMS: I will indeed. My name is Greg Adams, A-d-a-m-s, representative of the 24th District, here to introduce LB235. If you will indulge me for a moment, let me put both of these bills in context even though we will deal with them separately. LB235 was an early created bill, early created in that it was created prior to the October forecast. It was part of our LR542 process. If you recall, that part of our LR542 mandate was to develop cuts within the areas of...that is under our jurisdiction, which included TEEOSA. And so the mechanisms that you will see and that I'm about to describe for you that are part of LB235 were mechanisms that we had developed throughout the summer in anticipation for whatever number we needed to plug in to the LR542 process. As the...as we grew closer to the session and the October forecast came upon us and there were more of our colleagues contacting me in the office about numbers, that was when I went about and created LB236 as an alternative. LB236, you will see here in a moment, takes the projected numbers for aid down considerably. So I would hope that the committee will look at these two bills the way I will be looking at them, and that is as bookends, LB236 and LB235, and potentially we work towards a committee bill that will have elements of each. Now as we go into this, one of the things that you will note in both bills is that the mechanisms for reducing aid are basically the same in both bills. The biggest difference is when we get to LB236, you will see that literally the bill takes away two mechanisms, two adjustments, in an attempt to drive the numbers down further than what LB235 does. Now more specifically, LB235. LB235 as projected, and I underline projected, and I would emphasize with any of you and all of you, and you'll probably hear me say this over and over again in Exec Session as we work towards whatever we intend to try to move out of this committee and up to the floor. We can run models but those change all the time. And there's all sorts of things that can go into the aid formula that can cause the numbers to change. And as we have developed both of these proposals, all we've ever done is ask the Fiscal Office and the department for totals, aggregate numbers. If we do this, what will be aid in the first year, aid in the second year? As I pointed out to you in Exec Session on LB545, the thing I've never asked for and have never gotten and have never seen is how any of this will impact any one individual school district. I don't want to know at this point how it's going to impact the school districts in my district, because first and foremost we have got to develop a state policy. Ultimately, whatever this committee decides to kick out and move to the floor, we will inevitably have printouts. Our colleagues will demand them. And at that point, they're going to see numbers. But at this point, I was simply looking at two basic things: (a) Getting the aid numbers down to what I think, and you may think, are acceptable; and (b) doing it in an across-the-board fair way. So if you're the littlest school in the state or the largest school in the state or anybody that falls in between, we're proportionately impacted the same as best we can. And whatever we end up coming up with, I think that still needs to be the overriding concern of this committee, it's fairness to all 253 school districts that are so different across this state. What LB235 does, it models out in the first year to \$845 million. Now you remember that when we did LB545, or the LR545, we were looking instead, or LR542, I forget all of these numbers, we were looking at \$838 million and that was the number that the Fiscal

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Office was giving us. Well, as we continue to run additional models and we move forward in time, now under that same model the number comes out to be higher, rounding up to \$845 million; \$903 million in the second year of aid. Now under LB235, basically what we do is this. And excuse me for oversimplifying maybe, but the teacher in me says maybe this is the best way to explain it. If we're going to get at the kind of numbers that the budget is demanding, we can't nibble around the edge. We have to go to those mechanisms that have the greatest impact. And one of those is spending, school spending. You know that as we begin to develop aid, the GFOEs that we get from the school districts in this state, all of them, equalized or nonequalized, but those GFOEs that we get become the base upon which...the foundation upon which we build and determine what the aid is going to be for that school. And those in aggregate, all of those GFOEs, are going to be the base in aggregate for where TEEOSA is going to be. So as painful as it is, the reality is, if we're going to control this number out here, the total TEEOSA aid, we have to begin by looking at how much schools are spending and lid. Bottom line, it has to do with lids. Now what LB235 does, it allows school districts a half a percent in budget authority, lid budget authority, a half a percent. Or that is, if they're a budget-based school district, they will be able to increase by a half a percent. If they're a needs-based school district, we have to take it from 120 percent of needs down to 110 percent of needs. So we have those two classifications: budget-based spending or needs-based spending. The State Department of Education will determine which one the school is eligible for, whichever one is the greatest for them. Both of them roll back and reduce school spending so that we inherit a smaller GFOE going forward. The next thing that we need to do, and you will hear a lot about this from member school districts particularly if they have unused budget authority. Unused budget authority, currently there is about \$700 million worth of unused budget authority setting on the books for schools. Some schools, I have one in my district that has .48 in unused budget authority. Others have a lot. And superintendents will rightfully say, some of them, that the reason that we have unused budget authority is because we've cut back on our spending and we've really tried to rein things in, and we could have spent more but we didn't, and so we've kept this over here and now you're not going to let us use it. The reason that I have included it in this proposal is that if we're trying to control this GFOE coming in, then we lose control if those school districts reach out, if they have it, and capture a lot of unused budget authority. And then all of a sudden we're getting GFOEs coming in bigger than we anticipated, and our numbers over here in the end suddenly get out of whack. It's as much a predictability issue as well as an equity issue as anything else. If school has a lot of budget authority they could in effect go out and spend a bunch of it, others maybe have none. And as I mentioned a moment ago, they could very legitimately make the argument, well, the reason we've got it is because we haven't spent it. Now you're saying we can't access it. What the bill proposes, by the way, is a permanent change in access to budget authority and that is, we would tag a school's access to unused budget authority to whatever the basic allowable growth is. In a normal situation, a normal year, typically we're at 2.5 percent in budget authority, basic allowable growth. Now then you can increase your budget by 2.5 percent, then

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they would be able to access their unused budget authority at 2.5 percent. The next things that we need to do--the cost growth factor. Remember what we're doing. The cost growth factor is that percentage that we are growing the GFOE by to account for a two-year lag in data. So it's an inflation factor that we're growing it by. And normally, it's 6 percent as we take 2.5 each year, basic allowable growth, 2.5 each year and then we tag on another 1 percent because other political subdivisions have that extra leeway in that 1 percent over and above spending authority. So we do the same for schools in the cost growth. Well, realize what we're doing here. For instance, in LB235 if we say that the basic allowable growth is going to be a half a percent, well then it's going to be a half, plus what we did last year, which was a quarter, and then we would eliminate that 1 percent multiplier, eliminate it. So that reduces that cost growth factor, the factor by which we inflate the GFOE to account for two years of...two-year-old data. The other things that we tackled, and these things like everything else that I'm outlining to you, we need to have a lot of discussion about, and you will hear from your school districts and constituents, need stabilization. Three years ago, I believe it was, I may stand corrected, but three years ago with the passage of LB988, we incorporated need stabilization. Now for more than anybody else, the smaller schools. The smaller schools, what we were saying to them as we transition into a new formula, in order to help you make that transition, we're going to put in need stabilization. So if three years ago your needs calculated out to be \$1 million, then under current law the stabilization is 100 percent. So even though they may have declining student enrollment, therefore, declining needs, we would still hold them at 100 percent of their needs or \$1 million as we calculate forward the needs side of the formula. It impacts the smallest schools the most because they're the ones with declining needs because of declining student enrollment. It's been in effect, again, I'm going to say three years, I may be off a year. Here's the problem. Here we are in either of these bills or maybe any other hybrid that we may come up with, trying to drive needs down in order to save us out here and then we have this counter effect of need stabilization holding it right back up again. So what LB235 does is recognizes that counter effect and says, all right, look, we can't bring needs down and save on the total TEEOSA that the state will pay out and at the same time leave needs stabilization in at 100 percent, they're fighting against one another. So we're going to have to bring it down to 95 rather than 100 percent of needs, so the stabilization is still there. By the way, there's a technical correction that Tammy caught and somewhere between Bill Drafters and us, need stabilization in LB235 got eliminated and that was not supposed to. It was not supposed to. All right. LB236 is a different animal, but LB235 need stabilization stays in, but instead of 100 percent of needs, we go down to 95 percent of needs. The averaging adjustment. You know, someone said, Adams, why did you go to averaging adjustment after what happened two years ago? Well, we had to go to the averaging adjustment because (a) there's money there, and (b) I look at it as a trade-off of big school versus small schools. The small schools are sitting on their hands right now wondering what's going to happen on need stabilization. The trade-off to that, I think, is an adjustment in the averaging adjustment, which the small schools get to take no advantage of. It is the larger schools that do because of

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economy of scale. So to me, and I'll continue to make this argument in this bill, the next bill, whatever amended version of these bills we come up with, I see need stabilization on the rural side and the averaging adjustment on the bigger school side as being married to another. If one goes away, the other goes away. If one is reduced, the other gets reduced, proportionately, in order to establish some fairness. But that's the reality of why those two things are there. So in LB235 we take need stabilization down to 95 percent. We also take the threshold, the threshold for averaging adjustment and bring it down to 95 percent of the threshold rather than 100 percent of the threshold. And we find some savings there, and proportionately we have hit the same size...different size schools, we think, proportionately the same, obviously. On the need side, do we gain as much money by going from 100 percent of needs to 95 percent of needs? No. Than we do on averaging adjustment? No. In raw dollars, in raw dollars the money is not in the smaller needs stabilized schools. That's the trade-off here. In addition to those two adjustments, and remember need stabilization and averaging adjustment. An adjustment is money coming in or out, or as an allowance, the money is already there. So eliminating an allowance doesn't get us anywhere. It may simplify the formula, but it doesn't...we eliminate an allowance, we haven't saved any money. We've just put it all in the bucket and it's divided up amongst everyone. But an adjustment, and we have positive and we have negative adjustments, are money in, money out. That's why we've gone to those. We will also recommend in LB235 that we raise the LER. Remember, currently the local effort rate is at \$1 and it is the mechanism by which we judge. It is the benchmark by which we judge based on a school district's valuation what they should be able to pay for themselves. Then if we take that LER and we raise it, then what we are, in effect, saying to school districts, we're going to hold you accountable for more of your own resources. That, in effect, takes the state off the hook a little bit, which reduces our TEEOSA obligation with that. One last thing, and that is the allocated income tax rebate. We've done this before. We've done this in the last two years, I believe it was, since the passage of LB545, and even during the Special Session. We have reduced the amount of allocated income tax that goes out to schools by \$21 million. And this, it's the nonequalized school districts that bear the brunt of this. They're the ones that bear the brunt of the \$21 million reduction in allocated income tax. It saves the state some money and it is also spreading the pain to all school districts, not just those who receive TEEOSA. There are three other things that I think we need to do to the aid formula this year, and they have nothing to do with the revenue picture that we're facing. They're simply recommendations as I have listened to superintendents in the last year. And one of them is the comparison groups, the arrays, where we take the adjusted GFOEs of school districts and we put them in an array with five schools larger, five schools smaller in enrollment, and kick out the top, the high spender and kick out the low spender, and we look for a midpoint on spending and it becomes our basic funding point. We've heard from school districts, and it's a legitimate concern, that if you're out there on the edge, you're the marginal one. Gee, if I had of had ten more kids, I'd have gotten another X number of dollars like the guy down the road. Well, I don't care what you do to the arrays, there's always going to be that. But what we can

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do, and Tammy has graphed it out multiple times, we can ease that little drop-off effect by adding more schools to an array. So if we go ten schools up, ten schools down, kick out the top two and the bottom two, we can smooth out that array just to...if I had just been in a different array, that one over there, it would have been different. This smooths that out just a little bit. The other thing that I would like the committee to seriously consider is an allowance that is meant by law, currently, to terminate next year, and that is the elementary class size allowance. Now basically what that allowance does, it says to schools that we believe, and this is, in effect, why we passed this, we believe that keeping your class sizes below 20 in grades kindergarten through three, makes good educational sense. Now, obviously, if you do that, you may have FTE costs in order to do that, in which case we create the allowance, and we have helped schools that have made that move. And my belief is, and Russ Inbody is here from the department and could better make note of it than I, a lot of school districts have agreed with the Legislature, that that's a good educational move to reduce those class sizes and that allowance is there. I would recommend that we keep the allowance in, rather than let it terminate, we keep it in. Now remember, it's not a savings. That money just simply gets left in the pot and is divided amongst all schools, even those that have not reduced their class sizes, if we do away with it. And then finally, we have...and I think I pointed out to you, maybe not, if so, I will right now. We have in the last couple of years, but particularly in this interim, heard from two or three schools districts. One in particular that has been hit with a TERC ruling, and are going to be having to give up property valuation to an ethanol plant. And, you all know, those can happen on a variety of different things whether they be ethanol plants or whatever they might be. Philosophically, here's where I'm at with it. I think that if when we calculate resources for a school district, if they have value and as a result when we weight it up against their needs, we said, well, you've got the value so your state aid's going to be this much. And then they lose that value because of a TERC ruling or it could be other things, but if they lose valuation, then we need to look at because the state got to take advantage of that situation. I don't know that we ought to leave those schools hanging out there. I think we need to credit them back some of that. Now we can't reach back. We just can't keep reaching back to somebody that had a TERC ruling way back when. I mean that could go on for infinity. But what we can do is to enact this now which could reach back as far as this school year. So if we have school district A that has had a TERC ruling, and the one that I'm thinking of has an \$800,000 hit to a relatively small school district, that's big. Under current statute, they can set that up in payments and the folks that have won the ruling, by the way, have been very supportive of trying to help the school weigh through this. They want to be a good community partner and not just let the school fall off the edge of the fiscal map. But one way that we can help is to credit any aid formula for that loss of value and credit that back on a respin on a recalculation in aid in the next year so that they can get that additional aid back for what they have lost in value. I know it has taken a long time for an introduction, but that is the introduction to LB235. [LB235]

SENATOR HOWARD: Thank you. Want to take a deep breath? (Laughter) [LB235]

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SENATOR ADAMS: I've been taking a lot of those in the last twelve months. [LB235]

SENATOR HOWARD: Does the committee have questions? Afraid we do. Oh, we'll start with Senator Council. [LB235]

SENATOR COUNCIL: Yes, thank you, Senator Howard. Thank you, Senator Adams. Quite a lot of information to absorb. And again for purposes of those in the audience and viewing, I did not participate in the Education Committee's LR542 discussions, so I apologize in advance if some of these issues were addressed by the committee during that process. But first of all, I need you to correct me if I'm wrong. Under LB235, as you have just explained it, the cost growth factor that would be applicable would be three quarters of a percent? [LB235]

SENATOR ADAMS: We would take it to...yes, yes. Yes, that's correct. [LB235]

SENATOR COUNCIL: And if you don't have it... [LB235]

SENATOR ADAMS: In that first year. [LB235]

SENATOR COUNCIL: In the first year. [LB235]

SENATOR ADAMS: Yes. [LB235]

SENATOR COUNCIL: And if you don't have it, I understand it...how did that compare to what the cost growth factor is for this current school year? [LB235]

SENATOR ADAMS: This current school year, and I will probably stand corrected, Senator, I'm reaching back. This year we are at a basic allowable growth of a quarter of a percent and we still have, I believe, a half a percent...do we on that? Senator Council, I can't...I'd have to look again right now. It is less than the normal 6 percent, I would tell you that. [LB235]

SENATOR COUNCIL: Okay. So it's somewhere below 6 percent... [LB235]

SENATOR ADAMS: Yes, yes. [LB235]

SENATOR COUNCIL: ...but under LB235, it would go to less than a percent, it would be three quarters of a percent in the first year. [LB235]

SENATOR ADAMS: In the first year, and then go to a cent...a one percent in the second year. [LB235]

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SENATOR COUNCIL: In the second year. And as I understand from your TEEOSA 101 class, as well as this discussion, the purpose of the cost growth factor is to provide some recognition of inflation because the formula is based on data that is two years old. [LB235]

SENATOR ADAMS: That's correct. [LB235]

SENATOR COUNCIL: Okay. And I will just share with you my only concern about such a reduction and I appreciate...and I guess I need to preface my comments with that as well. I understand the budgetary situation that we find ourselves in, but I'm looking at short term versus long term and the impact on school districts. And we're working with two-year-old expenditure information and, for example, I think in the last week I've watched my gasoline prices go up 20 cents a gallon. And with the kind of inflationary costs that school districts are going to be faced with, did the committee give any more consideration to the cost growth factor in terms of providing the kind of aid that school districts would be requiring to meet the needs? I mean, I think kind of the unspoken here is that in very few instances will needs change. And you noted needs would change in school districts that are losing student enrollment. But barring that situation, if student enrollment stay about the same or continue to grow, you're going to see needs at that level. And I'm just concerned that the formula in LB235, and again appreciating the need to address that, the budget shortfall that we're looking at right now, how does LB235 position us two years from now in terms of providing adequate funding to K-12 education? [LB235]

SENATOR ADAMS: You know, you've raised a good question and one that has gnawed on me for a long time. And let me begin first by saying that what you're looking at right here, I put together, not the committee. And even as part of the LR542 process, I advised the committee of the general concepts and the aggregate number and it fit. But in terms of actually putting the bill together, this was really the first time they have also seen these definitive mechanisms, so I'll take full responsibility. And this has gnawed at me. It really has. Because even though we haven't seen much inflation, and probably won't in another year, the reality is that there have been collective bargaining agreements as you've pointed out. There have been fuel costs. Those things have not gone away. And this hurts. I mean, the bottom line, it hurts. [LB235]

SENATOR COUNCIL: I mean, because I mean, I could very easily see two years from now an improvement in our revenue picture, yet the districts have had to deal with the two years of reductions and to see a continual cutting. And just as with a lot of departments, agencies, school boards, principally personnel costs, and you know, once you start losing teachers, it's hard to get those numbers back up to... [LB235]

SENATOR ADAMS: Exactly. [LB235]

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SENATOR COUNCIL: ...meet student needs. And I just, you know, want to be sure that everyone appreciates the magnitude when you're going to something a little less than 6 percent to less than a percent. And during that two-year period that we don't have data for, we don't know what kind of costs, increases, what kind of budgetary cuts, what kind of layoffs have had to occur in that intervening period. And correct me if I'm wrong, because I'm, again I'm trying to keep LB235 and LB236, the cost growth factor in LB235 sunsets after the next school year? [LB235]

SENATOR ADAMS: Right. [LB235]

SENATOR COUNCIL: Am I correct on that? [LB235]

SENATOR ADAMS: This is for a two-year period so we're at half a percent in LB235 this year and we're at half a percent for the next year. [LB235]

SENATOR COUNCIL: Okay. [LB235]

SENATOR ADAMS: Yeah. Now... [LB235]

SENATOR COUNCIL: Okay. So it must be LB236 where that... [LB235]

SENATOR ADAMS: Right. Right, where we take that half of a percent out of there. It's far more dramatic. [LB235]

SENATOR COUNCIL: Okay. And I may need to discuss it there because when I...because in LB235, the summary that was prepared for LB235, when you're talking about unused budget authority, it's all tied to the basic allowable growth rate, but in LB235 the basic allowable growth rate doesn't terminate, doesn't sunset, it just is reduced to a half percent. [LB235]

SENATOR ADAMS: It's reduced to a half a percent for two years, for two years. And Senator Council, I just received a note that under...in this year right now, that aid has already been distributed for the cost growth factor is 3.75 percent. [LB235]

SENATOR COUNCIL: Okay. [LB235]

SENATOR ADAMS: And you know, one of the other things that I might point out is even though we have to develop an aid plan for a two-year biennium, and we have a budget to balance, and we have projections to make and impact in the second year, I find it hard to believe that next year at this very time, we, as a committee, won't be sitting here looking at, do we need to make amendments to the aid formula because maybe the revenue projections have picked up. Maybe things have improved and we can modify this, or worst-case scenario, they've gotten worse and we're going to have to do some

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extraordinary things that we haven't done yet. So that's the other thing that's ongoing, I think. [LB235]

SENATOR COUNCIL: Okay. And you mentioned the proposed impact on the local effort rate. [LB235]

SENATOR ADAMS: Um-hum. [LB235]

SENATOR COUNCIL: And I understand how that operates, but is there anything in LB235 that seeks to address or somehow balance or equalize taxation? I mean, I know two years ago we were discussing that issue that we have districts that are levying at, you know, the limit, \$1.04, \$1.05. We have other districts that are levying substantially below those numbers. Is there anything, is there any consideration given to looking at somehow equalizing that in some way of bringing the limit down for those districts that are at it and bringing it up for those who aren't? [LB235]

SENATOR ADAMS: You know, I don't know that I will answer exactly what you're asking for, but my perception of what you're asking for is, I like to think of the whole formula to some degree as trying to address the equalization of tax rates to some degree. Now, have we seen this since LB988? No. Have we seen this? We have. One of the mechanisms that still is in the formula is the minimum levy adjustment which says that if you're below 95 cents, we actually take money away. And that is still part of the formula and is not recommended to be taken out of there, if that addresses your question or begins to maybe. [LB235]

SENATOR COUNCIL: But what I was saying is, was that looked at as one of the mechanisms that could be further adjusted to try to drive those numbers and get closer to...? [LB235]

SENATOR ADAMS: Honestly, we did not look at that. Good question. We didn't look at it. [LB235]

SENATOR COUNCIL: Thank you. [LB235]

SENATOR HOWARD: Senator Sullivan. [LB235]

SENATOR SULLIVAN: Thank you, Senator Adams, or Howard. (Laugh) And thank you, Senator Adams, and maybe I'll start with sort of a broad question and then drill down to some specifics. Is it safe to say that in what you presented here, the formula drives the funding, not the funding driving the formula? [LB235]

SENATOR ADAMS: Thank you. That is exactly what it does. The formula drives the funding and that's why we need to make adjustment in needs. [LB235]

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SENATOR SULLIVAN: And with the differences, I know you're going to eventually talk to us about LB236, but you in your introduction said, they're bookends. Are we going to meet somewhere in the middle? [LB235]

SENATOR ADAMS: I would like to think so. Exactly where that number is going to be it's going to depend on what this committee wants to do. And I can tell you that when we finally arrive at something, we'll model it and we'll get a number and it will look like that's about it, and then a month later it might be modeled again and we missed it a little bit. You know, when you're dealing with a billion dollars, if you can come within a few million of where you think your target number is, we've done pretty good. [LB235]

SENATOR SULLIVAN: So with that being said, and the fact that you don't model this for a specific school districts, you're looking at aggregate. So, and if the formula drives the funding, you make the assumption going into all of this that you're fair to all districts? [LB235]

SENATOR ADAMS: I am making that assumption. And we've did some things...we looked at, not at school districts, but early on, clear back in August, in some of the things we were looking at, we did some...we kind of looked at some impact based on category of school size by enrollment and that kind of thing just to see if we were headed in the right direction and not getting too lopsided in the cuts. But we never did look at Cedar Rapids or York or Omaha or Ogallala or anybody else. Didn't want to do that. [LB235]

SENATOR SULLIVAN: And it's fair to say also that in light of the current economic conditions, particularly what's happening in rural Nebraska, we have a growing number of nonequalized school districts. [LB235]

SENATOR ADAMS: That's correct. [LB235]

SENATOR SULLIVAN: Why then...why are you including nonequalized districts in the determination of the GFOE? [LB235]

SENATOR ADAMS: Okay. Here's why. And you may all rain down on me in disagreement. I've looked at it from a couple of different things. First of all, is an equity issue. The teacher in me says paint a simple picture. We got a gravel road dividing school district A and B. School district A has relatively high needs and not as much valuation so TEEOSA steps in to help them carry the day and run their school district. School district B on the other side of the road doesn't have the needs and has a much larger land mass of valuation. And based on our formula we say, you don't get the TEEOSA maybe, or as much, or as you said, nonequalized equalization aid, you don't get any. So there's a side of this here that would say, well, if school district B isn't

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getting any equalization aid, let's just let them do what they want to do. But it seems to me to be unfair that because this school district gets equalization aid, and we have this budget problem, we're going to wail on them and leave this one alone. [LB235]

SENATOR SULLIVAN: But aren't you giving them a double whammy by hitting them again with the allocated income tax rate? [LB235]

SENATOR ADAMS: I don't see it as a double whammy. They already have the valuation and the...their needs versus their resources, probably a lower levy. And this is, again, it's kind of spreading the pain. [LB235]

SENATOR SULLIVAN: And they do probably have a lower level, but...levy, but then they're also being hit again because their limits in spending authority. (Laugh) [LB235]

SENATOR ADAMS: That's right. That's right. And I suppose I could bring up...you know, your points are very valid, and I've heard them from superintendents of nonequalized districts that I have in my district. The other thing, as we move away a bit from principle for a moment, is that the nonequalized districts when we calculate aid, we don't look at them as nonequalized districts. They are a school district like all others and they're put in the arrays just like all other school districts. So if we have school district B that has the wealth, that has maybe a lower levy, and we put them in an array with equalized schools, then that bumps...it potentially bumps the midpoint of that array up because of their spending pattern. And as much as I hate to bring it up, it can also have CIR implications if we let them spend. You know, not that I think that this would happen necessarily, but if we had a school district that's B on this side of the road and they have the wealth and we say, go spend it, and we say to district A, you don't, and we're not going to give the TEEOSA either, so you can't. I suppose if district B wanted to, they could crank their teachers' salaries up and maybe walk across the road and even ask a couple good teachers from district A if you wouldn't like to come over and be on our side. I don't think the schools operate that way but those are all the things I was thinking about. [LB235]

SENATOR SULLIVAN: Okay. Appreciate that. Wanted to ask at least one question on...and this doesn't have anything to do with the formula, but the last three points that you were making with respect to the one school district in the TERC hearing, do you anticipate that happening more? And also are your thoughts to limit it just to TERC or maybe some other things that might be happening to land valuations in the...? [LB235]

SENATOR ADAMS: Other things can...other rulings can happen to land valuation other than just a TERC ruling and we want to be sensitive to that. Am I anticipating more of what happened to this one district? I don't know if we would see more. You know, if you have...I just think that whether we have more or less the point is, we said to that school district when we calculated their aid, you've got the value so you're going to get less

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TEEOSA. Now all of a sudden through no act of their own, they don't have the value, I think we need to credit them back, whether it's one or a hundred in a given year. [LB235]

SENATOR SULLIVAN: Okay. Your point well taken the last phrase you just said, because it could happen. (Laughter) [LB235]

SENATOR ADAMS: I know. (Laughter) [LB235]

SENATOR SULLIVAN: Thank you very much. [LB235]

SENATOR HOWARD: Do you have a question? Senator Avery. [LB235]

SENATOR AVERY: Thank you, Senator Howard. Senator Adams, in your opinion, raising the LER by 2.5 cents, will that affect property taxes, do you think? [LB235]

SENATOR ADAMS: You know, any of this can affect property taxes. But let me also say this, if you're a school district that's not at \$1.05 already, if we did nothing to the aid formula, you could affect property taxes. If you're at \$1, you can go to \$1.01, \$1.02, up to \$1.05 in any given year, even if we did nothing, if we weren't facing this scenario. But whenever you're going to take aid away and you're not at \$1.05, there is the potential to go up to try to recover that aid. The other side of it is, that when you also reduce...forcibly reduce the spending of school districts, they could, in effect, raise the taxes but if they can't spend it, there's little point in doing that. You see what I'm getting at, I mean, the trade-off with the spending lids and levy lids. [LB235]

SENATOR AVERY: Most of the changes proposed in LB235 deal with the needs side of the formula. [LB235]

SENATOR ADAMS: Yes, yes. [LB235]

SENATOR AVERY: Some school districts pay lobbyist, some do not. Where does that money come from in most cases? [LB235]

SENATOR ADAMS: Well, it's either coming from us or them in property taxes or TEEOSA. [LB235]

SENATOR AVERY: And can those expenditures be on the need side and then used to calculate greater...or to raise their need and, therefore, lead to greater amount of state aid? [LB235]

SENATOR ADAMS: Senator, my interpretation of that would be that unless this body, this committee, and our colleagues upstairs choose to segregate out of GFOE the

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lobbying expenses, then they're part of GFOE. They're calculated in and TEEOSA is calculated accordingly. [LB235]

SENATOR AVERY: Yeah, but we have done that with the lobbying fees, haven't we? [LB235]

SENATOR ADAMS: We have. Now we did a few years ago amend legal fees. I mean, we still... [LB235]

SENATOR AVERY: Legal fees, that's what I meant to say. We've done that with legal fees. [LB235]

SENATOR ADAMS: Right. We still allow school districts, because they are going to have legal expenses, that's part of their GFOE. And we allow some of that to be incorporated in, but I don't remember the ratio anymore. But a certain percentage of their legal fees we don't allow to be calculated into GFOE. [LB235]

SENATOR AVERY: In my reading of this material we have here, especially the fiscal note, we are proposing to change the comparison group, moving from five larger and five lower spending groups to ten larger and ten lower. The fiscal note indicates that they don't know what impact this would have fiscally on the overall number but that it might have an impact on a particular district. What is your expectation there? Do you expect some districts to be negatively affected, positively affected? [LB235]

SENATOR ADAMS: I don't know if it's really a...I mean, certainly, it can be a positive or a negative. Obviously, most districts are hoping it will be a positive for them. But remember, it's also an average, so some up, some down. I frankly don't see a big change. It's a smoothing out. It's a smoothing out, and I don't have a fiscal note either and I don't foresee a big change in dollars. [LB235]

SENATOR AVERY: So what is the purpose then of including that? [LB235]

SENATOR ADAMS: The purpose is that, you know, if you're a school district and you're in this array and you feel like, gee, if I'd have been in just...if I would have had just this many more students, or if I'd have been in this array, things would have looked differently. What this does, it takes a little of that bite away. It doesn't eliminate it. You're always going to have a school district that says, doggone, I wish I would have had ten more students so I could have been in that array because the basic funding level was higher. [LB235]

SENATOR AVERY: Didn't we tweak this a couple of years ago? [LB235]

SENATOR ADAMS: I don't believe we've touched the array since originally we created

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LB988, the formula as it is. [LB235]

SENATOR AVERY: Seems that we've done it since I've been here. Would that have been... [LB235]

SENATOR ADAMS: You were in on the creation of this formula. [LB235]

SENATOR AVERY: Ah, that was '07, wasn't it? [LB235]

SENATOR ADAMS: There you go. [LB235]

SENATOR AVERY: Yeah, I remember. Thank you. [LB235]

SENATOR HOWARD: Did you have a question? [LB235]

SENATOR HAAR: Yes, thank you. Senator Adams, there's a part of a mathematician in me that says, why don't we just create a factor and if we say we can spend, you know, \$850 million, you just choose whatever factor it is to get to \$850 million. Is that kind of what we're doing finally, do you think, that we're looking at how much we can spend on this and we're tweaking the formula to make it more fair or...? [LB235]

SENATOR ADAMS: Yes. In the three years that I've been Chair, I'm not sure I've had a year that I haven't had to bring to you some kind of an adjustment in the aid formula because of the revenue picture. And we are adjusting needs down. Do I wish we could go in the other direction? Absolutely. And I like to think that every time we as a committee have done that, we have looked at what's the fairest way, and in so doing not only fair, but are there things that we can do to improve the formula and at the same time reach the goal of a dollar amount we need to get to? And I particularly remember during a Special Session when we were looking at some things and I really felt like what we were really trying to do was not only get to the number but make the formula better. And are we making the formula better here? I don't know that we really are. We're using what we have at our disposal to do some pretty dramatic things at a pretty dramatic time in our revenue history. Now philosophically, I've tried to stay within the framework of equalization. I have tried to be fair across the board. And at the same time, Senator Haar, I've tried real hard in my discussions with the State Aid Review Committee and staff as we were developing these proposals to say, all right, as we're doing this, are there things that we need to fix and make better? [LB235]

SENATOR HAAR: And I'm sure we'll continue to talk about this very issue but it just...and I appreciate all the work you've put into this. This is... [LB235]

SENATOR ADAMS: Thank you. [LB235]

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SENATOR HAAR: Yeah, thank you. [LB235]

SENATOR HOWARD: Thank you, Senator Haar. You know, the first year I started down here in 2005 I thought Senator Raikes had this all under control with this formula, (laugh) and every year it's been adjustments and new formulas. I would like to kind of reflect on the local effort. It's kind of akin to the questions asked by Senator Avery and the Senator next to me right here. (Laughter) If we put the burden or we expect higher effort and local effort, if that's possible in that, aren't we just shifting this? You know, and that's the beginning of the question, if we're just shifting the burden on to the local folks, which means property taxes. There's no other way to look at that. They will still have the same expectation of paying in through their income tax and sales tax to the state of Nebraska. Are they getting less for their value through this? I know that's not an easy question. It's kind of complex, but it would seem to just the average person, I'm paying the same amount, and now I've got another expectation that's over here on me, and I'm not seeing any increase in the value for this. [LB235]

SENATOR ADAMS: Well, I don't mean to sound flippant, but we're not seeing the revenues either. So the sales and income tax isn't static, it isn't the same. There's less of it. And that brings us to this point. And are we shifting it to property? In some instances, yes. [LB235]

SENATOR HOWARD: But the disadvantage of that in the current times is that in...for example, just for example, inner city Omaha, home values are decreasing. They're not going up, they're going down. [LB235]

SENATOR ADAMS: Right. [LB235]

SENATOR HOWARD: The fortunate thing in our state is that the rural values, the farm values seem to be going up. But then again, are we shifting this in a disproportionate way? And you're the expert in the formula, so we're just hoping this can... [LB235]

SENATOR ADAMS: Well, don't give me credit for being an expert. I just am able to... [LB235]

SENATOR HOWARD: A formula maker. [LB235]

SENATOR ADAMS: ...dance the dance when necessary. Well, I will tell you quite candidly, in my opinion, we would be facing potentially much deeper cuts if it wasn't for the extraordinary increase in ag values across the state. Absolutely. And if I'm a school that's seen double digit valuation growth and not a lot on the needs side, I'm walking further away from being equalized with TEEOSA aid. [LB235]

SENATOR HOWARD: Right. [LB235]

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SENATOR ADAMS: And on the one hand I could very simply argue, I'm a taxpayer too. I pay sales tax and income tax, why shouldn't I get a chunk of this? And there's probably some superintendents out there who won't want to come up and announce it publicly necessarily, but understand exactly what I'm about to say. They may say, I kind of like being nonequalized because I've got my tax base and I don't have to worry with what you 49 do to me every year, other than a spending lid. [LB235]

SENATOR HOWARD: That's a legitimate...I mean, I would see that as being a legitimate statement. [LB235]

SENATOR ADAMS: And, you know, the day will come when the aid bucket tips slightly in a different direction. Right now it has tipped from west to east, because of valuation, because of students. And the day may very well come when we see commercial and residential values pick up again in Lancaster, in Douglas, in Sarpy Counties, and we see ag values flatten a bit. Now does that mean that the bucket is going to just tip the other way? No. The students aren't there. The students aren't there. [LB235]

SENATOR HOWARD: Okay. Well, let's just hope people keep eating and our land value continues to go up. [LB235]

SENATOR COUNCIL: Just one quick question. [LB235]

SENATOR HOWARD: Yes, Senator Council. [LB235]

SENATOR COUNCIL: Thank you. Back, Senator Adams, to kind of going along the line I was asking, the questions on the cost growth factor because I'm trying to put this in perspective. Again recognizing that the shortfall "budgetarily" we see ourselves in with respect to this biennium. Okay. But as I read LB235 and LB236, they call for the permanent elimination of the cost growth factor. [LB235]

SENATOR ADAMS: We're not eliminating the cost growth factor. We're eliminating one of the multipliers in it. [LB235]

SENATOR COUNCIL: Okay. Well the... [LB235]

SENATOR ADAMS: And reducing the other two. [LB235]

SENATOR COUNCIL: Okay. So you're eliminating one, reducing the other two. [LB235]

SENATOR ADAMS: Right. [LB235]

SENATOR COUNCIL: And my question is, is the intent there to be because it's

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permanent, I mean there's no sunset on those, is it the intent that that be a permanent policy change in terms of the state aid formula? Or is it the intent of eliminating one and reducing the others to get us through this current budget crisis? And if it's the latter, why don't we sunset the elimination of the cost growth factor? Why don't we say that it shall be...the one shall be eliminated, the other two shall be reduced for this biennium, which provides the opportunity two years from now, if economies change,... [LB235]

SENATOR ADAMS: Yep. [LB235]

SENATOR COUNCIL: ...you've got now two more years of budget information. I'm just concerned that because...and that's just the way the system is. Because we're two years behind in terms of the expenditures we base it on, I don't want to see us two years down the road not having in place an opportunity to address those inflationary factors that these adjustments, for lack of a better term, were designed originally to cover. So I'm trying to get a feel is...in drafting LB235 and LB236 for that matter, with no sunset on these cost growth factor changes, was it intent that that be the policy with regard to determining state aid or designed just to address the current... [LB235]

SENATOR ADAMS: That half of a percent, that multiplier out there, that would go away. [LB235]

SENATOR COUNCIL: Right. [LB235]

SENATOR ADAMS: But in terms of the other basic allowable growth mechanisms that become the other two multipliers within the cost growth factor, you know, those we adjust all the time. And I, quite honestly, I need to have the bill in front of me and look. [LB235]

SENATOR COUNCIL: I just have a problem when we put... [LB235]

SENATOR ADAMS: I didn't think they were permanent, Senator. [LB235]

SENATOR COUNCIL: Well, but we don't have a sunset in it. [LB235]

SENATOR ADAMS: Okay. [LB235]

SENATOR COUNCIL: You know, and the way the bill is drafted, I mean, they go away after '12-13. I mean, they're gone in terms of the language in the statute. [LB235]

SENATOR ADAMS: Right. [LB235]

SENATOR COUNCIL: So in order to...you can't adjust what's not there. You'd have to put it back in some form. [LB235]

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SENATOR ADAMS: Okay, I see what you're saying and... [LB235]

SENATOR COUNCIL: And so my question is, you know... [LB235]

SENATOR ADAMS: I'd like to see it go right back. As soon as we can get these back to normal, we need to do that. [LB235]

SENATOR COUNCIL: Yeah, and so I'm saying, so shouldn't we be looking...I mean, potentially, and I heard you preface your remarks that we may at some point in time come to some blending of LB235 and LB236, but if the intent is that we adjust them down at this point, particularly in light of the current economic situation, but then be in a position to look at adjusting them again and I'll just state it, that would be my preference as opposed to trying to reinstitute... [LB235]

SENATOR ADAMS: Yes, it would be mine too. [LB235]

SENATOR COUNCIL: Okay. Thank you. [LB235]

SENATOR HOWARD: Senator Sullivan has a question too. [LB235]

SENATOR SULLIVAN: Thank you. Just a quick one. Who is on your State Aid Review Committee and how involved have they been in crafting this? [LB235]

SENATOR ADAMS: Let me...all right, good question. And the first thing that I want to say before I start listing any names is, this is my proposal, it is not theirs. I made that very clear to them the last time we met. They are a sounding board. They are not the ones that will stand here. I don't want to do that to them. That's not fair because they were that, a sounding board. I have schools represented. It's been a while since we met so I may leave somebody out. One of the larger schools is LPS, is represented--Connie Knoche, who was formerly with the department and now with LPS. In addition to that, next on the list, Elkhorn Public Schools. Their finance director is on the committee, not the superintendent, but their finance director. We have Crete Public Schools. So we have kind of a medium-size school. Their finance director, not their superintendent, is represented there. We have Ord Public Schools. Their superintendent because they're not big enough to have a finance director. Dundy County Public Schools, clear out in the southwest corner. Their superintendent is there. Centennial Public Schools, just down the road here a ways, a nonequalized school district, formerly a superintendent at Valentine and now superintendent at Centennial is there. I have a banker. And that banker was constantly bugging me about how he really likes state aid and liked playing with the numbers from his desk. Yeah, I know. And, Senator Schilz is wondering how is that possible? (Laughter) A CFO of a bank and was always asking about it, and a former school board member, and I said, all right, why don't I put you right in the mix,

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and he quickly volunteered to be on the committee as well. Russ Inbody from the department is also there. And I'm probably leaving some people out and regret that I may be but that's the group that I have been working with. And we got different school sizes in there. [LB235]

SENATOR SULLIVAN: Thank you. [LB235]

SENATOR HOWARD: Senator Haar. [LB235]

SENATOR HAAR: I'm almost understanding most of the formula after two years. (Laughter) [LB235]

SENATOR ADAMS: You may be farther ahead than me. (Laughter) [LB235]

SENATOR HAAR: Oh, no, no way. Really what's most important when all is said and done is what happens to the kids in the schools and, you know, for the last two years we've been saying the cliff is coming, the cliff is coming. And as you visited so many schools this past summer, what effect is the funding going to have on children in Nebraska? [LB235]

SENATOR ADAMS: You have asked, Senator...I mean, you all have asked good questions of things that I've struggled with, the spending lids and trying to keep up and...but I think, frankly, the question that you have asked is the paramount question that I've struggled with. Aside from the state budget, aside from this committee, aside from rich and poor, rural and urban, what are we doing here and what impact will it have? And you're correct. I spent most of the month of October with staff traveling the state. We started in Scottsbluff and we went clear across the state talking to all sizes of groups, the superintendents, and everybody had their chance to attend some meeting at some point. And some superintendents, quite frankly, I saw their faces two or three different times and they heard the same story, more than once. And, basically, what I did was to outline primarily what was in LB235, because that was what we were working off of in October. And I tried, whenever possible, to ask the question, what's going to be the impact? What's going to be the impact? And here's what we're up against. We have 253 schools, 253 different situations, not only geographically, demographically, valuationwise, but also internal managementwise. They all have their folks that take care of their budget and some are more apt than others in doing so. And some have better heeded the call that we have issued. And you know what that is, that when these federal stimulus dollars go away, we were banking on revenues having increased and those things haven't happened to us. And this is purely, purely a subjective judgment. I believe that most school districts out there, most, and I believe far beyond the majority, have prepared for year one. They have built cash reserves. They have tried to keep their FTEs down. They're looking at attrition as ways to keep costs down. I've talked to a multitude of superintendents that two years ago sat down with their teachers' groups,

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their collective bargaining groups, and said, all right, look, here's what we'd like to do, but here's what we're going to have to do to get through this. And there are so many variables out there. The trust that teachers have with the superintendent that they have that builds up a rapport that helps some school districts weather this better than others. Year two, I am more concerned about, because it's as much an unknown for us, even though we have to build an aid right now that gets us through a two-year budget, and as I said before, we most probably will be back here a year from now depending on what happens when we start looking at year two. It's as much an unknown to them as to how well they can fare. We need, I believe, I know, that in whatever we create here, we need to have growth in the second year. We've got to have some growth in the second year. Holding things stagnant over two years is not good. That's the best answer that I can give you. [LB235]

SENATOR HAAR: Okay. I appreciate it. Thank you. [LB235]

SENATOR HOWARD: Any other questions? All right. Thank you. We have the first proponent. If you could state your name and then spell it, please. [LB235]

MARK SHEPARD: Senator Howard and Senator Adams and members of the Education Committee, my name is Mark Shepard, M-a-r-k S-h-e-p-a-r-d. I'm the associate superintendent for business affairs for Lincoln Public Schools. I testify today in support of LB235. LPS appreciates the recognition by Senator Adams and the committee that the most equitable way to pursue reductions in K-12 education is by adjusting the funding formula provided with TEEOSA. This methodology maintains a basic formula of needs minus resources equals state aid and affects districts on an equalized basis. We further support the components in LB235 that have been talked about at length today which will affect all school districts, equalized and nonequalized. Lincoln Public Schools recognizes that we must deal with these financial realities and challenges as a district and as a state. With the influx of the federal state fiscal stabilization funds the past two years, it really did provide school districts with an opportunity to plan for these current times and for next year. I think the federal education jobs bill signed into law recently will provide some relief for equalized school districts through LB18, if it goes through the Legislature. As Senator Adams outlined in his opening, very well, I might say, LB235 will reduce the state's obligation for funding to approximately \$845 million. Although this will have an impact on local school districts, I believe this is the type of reduction that has been expected and has been talked about for at least two years. If the state needs to make further reductions, I think it will likely be necessary to provide some form of relief. The averaging adjustment, as has been talked about, is of particular importance to Lincoln Public Schools in those districts which qualify for it. As a reminder, the averaging adjustment was added to the formula in an attempt to help districts which spend below the state average in a relatively high-taxing school districts move closer to that state average. The averaging adjustment is equally important to districts who receive it...or is equally as important to districts who receive it as the needs stabilization

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component is in the formula for districts that receive that. And I think that has been acknowledged by the proposal. We will not be testifying today on LB236, but if we were, we'd be talking about the averaging adjustment and again the importance for districts that receive it and the importance of dealing with both of those issues side by side, as was outlined by Senator Adams. LPS is a growing school district with over 900 more students this year and 900 more students last year. We are projecting similar growth as we move into the future. This growth comes at a time when our assessed valuation has experienced a 1.38 percent decrease in 2009-10, and a seven-tenths of a percent increase for the current year. Once we know what the reductions will be and fully understand our budget challenges, LPS administration and the Lincoln board will work together to develop a budget that recognizes that reality, and at the same time, we'll work hard to make any potential cuts as far away from the classroom as possible. That's the way we've always done it at Lincoln Public Schools. Thank you for the opportunity to offer some comments and I thank you for your time and commitment to the children of Lincoln and the children of the state. [LB235]

SENATOR HOWARD: Thank you, Mark. Do we have questions for this testifier? Yes, Senator Haar. [LB235]

SENATOR HAAR: Yeah, I'd ask the same question I asked Senator Adams. How is Lincoln...how are the students in Lincoln Public Schools going to be affected now that we've fallen off the cliff and we're facing a new budget biennium? [LB235]

MARK SHEPARD: Actually, Senator Haar, we like to talk about it now in the form of a step as opposed to a cliff because I think the jobs bill allowed that kind of two-step process to get us to the bottom of the cliff. I think as we...as I've already outlined, we continue to grow. As we look at that growth and it's happening all over Lincoln, all over our community, all over in every one of our schools, that growth is going to impact with a lack of available funds, ultimately, the classroom at some point. We continue to look at all of our retirements. This past year we had a retirement in the central office. One of our executive committee members retired. We did not replace that position. And at this time, there aren't plans to replace that position. We'll continue to evaluate every opening that we have. We typically hire on the average 250 to 300 certificated staff a year based on attrition and every one of those positions will be evaluated. [LB235]

SENATOR HAAR: Okay. Thank you. [LB235]

SENATOR HOWARD: Any other questions? Thank you. [LB235]

MARK SHEPARD: Thank you. [LB235]

SENATOR HOWARD: Thank you for coming in. Next proponent. Welcome. [LB235]

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JON HABBEN: Hello, Senator Howard. Thanks for having me, members of the committee. I'm Jon, J-o-n, Habben, H-a-b-b-e-n, Nebraska Rural Community Schools. You've heard probably about as much as you can hear on this. And I think Mark's comments well taken. We had a lot of discussion this morning in our legislative committee. The one thing that came through, real appreciation for what Senator Adams has done. LB235 could have been something completely different. It could have been a battleground. It could have been us versus them, east-west, so on and so forth. What he's really tried to do is to make this thing work across school districts in the state of Nebraska. That is really appreciated. Do we have some questions about tweaking the formula here, there, at some point, when those discussions are appropriate? Sure, we do. Every organization does. But the fact remains at this point, we are very thankful that LB235 is in place. We are very thankful that it stretches the number that we've been hearing quite a bit in terms of a goal to get further and not go to a minimum relative to how we're going to treat the kids of the state of Nebraska. That is crucial. There will be plenty of cuts. There have been plenty of cuts. There's been all kinds of efforts made to try and make things work for the last two or three years. Please don't let that go unnoticed. Please accept our thanks for making this something that we can all get behind, something that we can make an effort to work toward. We'll worry about our schools because they will all have to be making some reductions, but we are quite serious in the sense that, thank you for making the effort to deal with this in the way that you have done. We want to be a part of the discussions as they go on because we know today is not the end of the discussion. We appreciate it. Thank you very much. [LB235]

SENATOR HOWARD: Thank you, Jon. That's good to hear. Wait, wait, we might have a question. (Laugh) [LB235]

JON HABBEN: Oh, you have a question? I was hoping to escape. [LB235]

SENATOR HOWARD: As much as we appreciate your testimony, we might have a question. Do we...Senator Sullivan. [LB235]

SENATOR SULLIVAN: Thank you, Senator Howard. Thank you, Jon. In talking with members of your association in looking at LB235, are there particular features that most concern you with respect to rural schools? [LB235]

JON HABBEN: Well, I think when you look at this circumstance and you go in and you say, oh, gosh, that's pretty restrictive on...well, wait a minute. We've been trying to grow unused budget authority as a protection method for...so on and so forth. Sure, we wish we still had access to all of the unused budget authority if we had been able to accumulate it so that we could help smooth this out. But we do...as much as we...you know, it's like, as Senator Adams has heard this many, many times, we'd love to keep that because we do have school districts that have been pretty frugal that are now going

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to be capped at a point in which they may have wished they were less frugal because it would have given them some more wiggle room. How you balance that out, I'm not sure. You can't pick those school districts and not those and those, but not those, in this type of a circumstance. But that is something that concerns us. Many school districts really had been trying to find that path to create a protection in some fashion, whether it be building their reserve. Some districts passed a levy override. There are a variety of things that districts did try to do to help prepare themselves for whatever might be coming. This bill does put some limits on all of that across the board. As much as we'd like to maybe stretch some of that because it would be helpful to many of our districts, at the same time I think everybody understands what he's trying to accomplish. It is pretty difficult to not control spending while you're trying to do everything else in the bill. That doesn't go on deaf ears. We understand that. But as far as a point of concern for our districts, that's an important one. The second point of concern, Mark mentioned the connection between the averaging adjustment and needs stabilization. Needs stabilization is important. It has prevented some major swings in lost state aid, to gain state aid, to lost state aid. And it is important enough that as an organization representing rural school districts, 180 of them, we are very watchful of the issue of needs stabilization. It is very important to us. And when Senator Adams talked earlier about reducing the percentage of needs stabilization, you know, the question was, oh, oh, where are we headed here? Well, as he's played the bill out, it's allowed us to see where he's trying to achieve his balances and his offsets. [LB235]

SENATOR SULLIVAN: What's the average enrollment of your member schools? [LB235]

JON HABBEN: Our largest schools would be Plattsmouth, Seward, McCook, for example, down to the smallest K-12's in the state. [LB235]

SENATOR SULLIVAN: What's your best guess for the average of all those? [LB235]

JON HABBEN: Oh, the average enrollment? [LB235]

SENATOR SULLIVAN: Yeah. [LB235]

JON HABBEN: K-12, I'm guessing, 350, maybe something in that order, 400. [LB235]

SENATOR SULLIVAN: Which is about the average for median...of all the schools in the state, what's the average enrollment? About that, isn't it? [LB235]

JON HABBEN: It might be a little higher than that, but yes, your...yes, we have eight class B schools currently that are members. The rest of our members are C and D schools, so. [LB235]

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SENATOR SULLIVAN: Okay. Thank you. [LB235]

SENATOR HOWARD: Senator Avery. [LB235]

SENATOR AVERY: Thank you, Senator Howard. You... I know you're not testifying on LB236, but I'm just inferring from what you've said already, that you don't like LB236. [LB235]

JON HABBEN: That's correct, yes. Yes. [LB235]

SENATOR AVERY: Will you be testifying on LB236? [LB235]

JON HABBEN: No, thank you. [LB235]

SENATOR AVERY: Okay. [LB235]

SENATOR HOWARD: Do we have any other questions? Oh, Senator Haar, yes. [LB235]

SENATOR HAAR: And I know this is really a subjective question, but when you get the feedback from the communities for your schools, the people had...the average citizen, the taxpayers had, are they willing to accept the pain for their school systems or, you know, what kind of feedback...? [LB235]

JON HABBEN: Well, I might answer that like this. Last year I was a practicing superintendent and, of course, we had property taxpayers with large amounts of property that were getting more and more frustrated at accepting more and more responsibility. I don't think that's a surprise anywhere, whether it's urban or rural. But I think in rural school districts, you find that falling on fewer heads simply because the aggregate businesses are larger and larger which simply means fewer people. I think they understand. I think they understand that as much as they would rather not have this sliding toward them, they want to keep their school. They want their school to do a good job. They want their teachers to be well-thought of, their administrators to be well-thought of. They want what any growing student school district would want. And they're willing to accept it up to a point. Hard to tell where that point is at. [LB235]

SENATOR HAAR: Where that point is, yeah. [LB235]

JON HABBEN: Very hard to tell. When a school district becomes nonequalized, right now 61. Could be another 20. Who knows how many more in the year to come? As they accept the responsibility for their school with no state aid because valuations may have gone up, it's hard telling how long that's going to be acceptable. There's just no real good way to know that. But we're fortunate. In rural communities we're fortunate that

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there are so many people willing to step up and pay those taxes when state aid seems to be dwindling. Yeah, they're upset. Yeah, they want more state aid. Yes, they want it flowing back. Yes, they want to feel like the state money is part of their school district, too, but they're not going to back away from funding their district. They're doing the best they can. [LB235]

SENATOR HAAR: Thank you. [LB235]

SENATOR HOWARD: I don't see any other questions. Thank you for coming in today. [LB235]

JON HABBEN: You're welcome. Thank you. [LB235]

SENATOR HOWARD: Next proponent. Welcome. [LB235]

SANDRA ROSENBOOM: Thank you. My name is Sandy, Sandra Rosenboom, S-a-n-d-r-a R-o-s-e-n-b-o-o-m. Senator Adams and Education Committee members, I'm the business manager at Crete Public Schools. I wish to give some brief testimony in reluctant support for LB235. None of us is too thrilled with not having the funds we need to meet the needs of our students, but Senator Adams and his staff have done an excellent job in putting together adjustments to the state aid formula. We understand the need to lower the amount of state aid to be paid in the next couple years. When cutting the cost of state aid, it's very important that it be done in such a way that all schools are treated fairly, and unfortunately, in this case, it probably means to share the burden. LB235 is a reasonably balanced attempt to meet the \$840-plus million total state aid number for the state that has been a target ever since we...as we had planned on since...when the state fiscal stabilization federal money was going away. Moving back to the 2008-09 level will be difficult. Specifically about Crete--we rely heavily on state aid as we are a low property district. We have 50 percent of our revenue from state aid and are taxing at the levy limit. But we have maintained our levy with our bond and funds at or equal amounts over the past four or five years. We have been making cuts in the past two years. We have built our cash reserve. We feel we are prepared as we can be for especially the first year. We are a growing district. We have changing demographics that we see as an opportunity for our students. We will work to meet these students' needs and have worked and will continue to work to meet their needs. We will not be ridding any staff at this time but we will be reducing staff through attrition. Because we're a low spending, fiscally responsible district, we qualify for the averaging adjustment. That element of the formula is very important to us and we hope to see it maintained. We will not be testifying on LB236 because the prospect of that bill is too severe for the dedicated staff and students of our state, and we hope we won't have to deal with the effects that bill will have. Thank you. [LB235]

SENATOR HOWARD: Thank you. Very succinct testimony and you came in before the

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red light came on. (Laughter) Thank you. Do we have questions for this testifier?
Senator Haar. [LB235]

SENATOR HAAR: First of all, could you spell your name again for my notes? [LB235]

SANDRA ROSENBOOM: R-o-s-e-n-b-o-o-m. It's not too common. [LB235]

SENATOR HAAR: Okay, thank you very much. When you talked about not replacing staff, is that primarily in the classroom in terms of classroom teachers or administrative staff or what? [LB235]

SANDRA ROSENBOOM: Anywhere it happens. [LB235]

SENATOR HAAR: Anywhere it happens. [LB235]

SANDRA ROSENBOOM: We have not...we, as Lincoln would do, we evaluate each position. If we have a, for example, a math teacher resign or retire, it's not likely we cannot fill that position. [LB235]

SENATOR HAAR: Okay. So it's a mix. [LB235]

SANDRA ROSENBOOM: It's a mix. [LB235]

SENATOR HAAR: Yeah, okay. Thanks. [LB235]

SENATOR HOWARD: Other questions? Well, I have one. I'm just curious, is your student body population increasing or decreasing or...? [LB235]

SANDRA ROSENBOOM: Yes, increasing. We're a growing district. [LB235]

SENATOR HOWARD: How many students do you...well, just this last couple of years, how many students have you... [LB235]

SANDRA ROSENBOOM: In the last...two years ago we grew by 30 students. This current year we grew by 74 students. [LB235]

SENATOR HOWARD: Over the previous 30? [LB235]

SANDRA ROSENBOOM: Yeah. [LB235]

SENATOR HOWARD: Seventy in addition to that. Interesting. [LB235]

SANDRA ROSENBOOM: And right now we're...preK-12 we're up to 1,700 and 50

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something. [LB235]

SENATOR HOWARD: And you don't have any plans to decrease the preK? [LB235]

SANDRA ROSENBOOM: You mean the preschool? [LB235]

SENATOR HOWARD: Their early education, right. [LB235]

SANDRA ROSENBOOM: The effect of serving preschool with our clientele is so great it would be absolutely devastating to our total educational package if we had to do away with preschool. [LB235]

SENATOR HOWARD: Good. Thank you. I'm glad to hear that you wouldn't consider that. Yes, Senator. [LB235]

SENATOR HAAR: Do you feel as you talk among your staff and so on, that we give you too many mandates? [LB235]

SANDRA ROSENBOOM: Well, looking at the list of bills, you know, I see 12 suggested new mandates among the suggested bills. All of those things have good intentions but sometimes, you know, there are, you know, just adding one more piece to the pile. Yeah, sometimes it's difficult. [LB235]

SENATOR HAAR: Well, just for me personally, I've...the number of superintendents and principals and so on have said, too many mandates. One lobbyist approached me that way. But I would sort of like to see a list of too many and what falls on that list. [LB235]

SANDRA ROSENBOOM: One very simple thing is the have to need...the need to readvertise for a second time the comparison of what the levy, the budget we're proposing what that would do for last year's if...had the valuation maintained the same, what would your levy be? Nobody looks at it and nobody sees it. Easily could save us \$100 right off the back. [LB235]

SENATOR HAAR: Okay. Well, send me a list. [LB235]

SANDRA ROSENBOOM: I'll take that little one. [LB235]

SENATOR HAAR: Yeah, send me a list. I mean, I don't want them to go through everything right here and now but I would like to see some of these suggestions in writing of what... [LB235]

SANDRA ROSENBOOM: Some of the mandates aren't state, they're federal. [LB235]

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SENATOR HAAR: Right. Sure. [LB235]

SANDRA ROSENBOOM: And some of those mandates need to be there. Special ed funding. Big one. Being less and less supported by the state. We're down to maybe 40 to 60 percent, depending on what you add in of our "sped" costs being reimbursed. One time it was 75-80 percent. That money has got to come from somewhere. [LB235]

SENATOR HAAR: Yeah. Well, again I'd like a list and if we secede from the United States maybe we can get rid of some of those federal mandates as well. (Laughter) [LB235]

SANDRA ROSENBOOM: But that being said, those students need services. [LB235]

SENATOR HAAR: Sure. You bet. [LB235]

SANDRA ROSENBOOM: And they're not. Every student doesn't cost the same amount of money. [LB235]

SENATOR HOWARD: Thank you so much for coming in today. [LB235]

SANDRA ROSENBOOM: Thank you. [LB235]

SENATOR HOWARD: Other proponents. Welcome. [LB235]

DOUG NABB: Thank you. Senator Howard, Senator Adams, committee, my name is Doug Nabb, D-o-u-g N-a-b-b. I'm a lobbyist for Fremont Public Schools. We support LB235 and let me just say that Senator Adams has done a marvelous job every year having to readjust because of the budget crunches that we're in. And that's basically what causes the going back to the drawing board, so to speak. His first year in, I thought he was in trouble because he readjusted and his own district suffered as much as anyone did. And those kind of adjustments don't do well for the voting public, but...and I don't know, maybe there's something about the name, the number 235 with enriched uranium and so on. And I'm not sure but we won't deal with that one. We have approximately 42 percent of our budget is in state aid. So we are very concerned, too, about what's going to happen here with this. But we support LB235 because we feel that it's the most equitable way to equalize the reductions across the budget spectrum. And from that standpoint that's important to all of us to, basically, feel the pain equally. It's been mentioned by several people in regard to the averaging adjustment that it's very important. Let me just make this point. That the top 23 districts in population, student population, have 66 percent of the students of the state. The top 23 have 66 percent of the students, and only 2 of those are above average spenders. The other 21 are below average spenders and that's why the averaging adjustment is important to us, and I'm sure those other 20 districts. With that, I'll conclude my testimony. [LB235]

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SENATOR HOWARD: Thank you. Do we have questions for this testifier? You did such a good job. Thank you. [LB235]

DOUG NABB: Former teacher. (Laughter) [LB235]

SENATOR HOWARD: It shows. Welcome to the Education Committee. [LB235]

SHANA DAHLGREN: Thank you. My name is Shana Dahlgren, S-h-a-n-a. Dahlgren is D-a-h-l-g-r-e-n. I am the chief financial officer at KAAPA Ethanol, L.L.C. Our company owns a manufacturing facility, an ethanol manufacturing facility in Minden, Nebraska. We started production in 2003 and from the beginning our company has struggled with property tax valuation differences with Kearney County assessor, appraiser, and the board of supervisors there. The dispute has been centered on the proper classification of manufacturing equipment. We worked with the Nebraska Department of Property and Taxation to get their assistance to help determine which items we should be self-reporting as personal property and which items should be included in our real property valuation. Our personal property tax returns were based on the guidance that we received from the state and were consistent with the personal property tax returns of the other ethanol plants in the state, that were operating in the state. Using this guidance, our manufacturing equipment was included on our personal property tax returns. Kearney County also included our manufacturing equipment as real estate, therefore, creating a situation where we were being taxed twice on the same assets. Due to the significant costs of the double taxation, the company appealed their property tax valuations at the county level. We were unable to get the issue resolved at the local level so our appeals had been escalated to TERC, to the Tax Equalization and Review Commission, and finally, to the Nebraska Supreme Court. At the Nebraska Supreme Court we were successful in eliminating the double taxation. Unfortunately, this process has taken several years to resolve. After the decision from the Supreme Court, the local taxing authorities and Minden Public Schools were required to repay the company for the double taxation. The Minden Public Schools system has been left a victim of the situation. The overstated property values reduced the state aid that the school was eligible to receive. Because of the process to resolve the valuation dispute takes years to complete, the school system is forced to come up with the required funds to pay back the property taxes, but is unable to recoup any of the state aid that it would have been entitled to receive had these valuations been resolved at the local level. Section 16 of LB235 will potentially provide relief to the Minden school district when the refund is ever paid. Our company feels that it is important that the school systems not be the victims of such property tax disputes. Allowing the state aid calculations to be adjusted will eliminate the hardship from the schools. We want to ensure that situations like this don't negatively impact the education of children in our community. [LB235]

SENATOR HOWARD: Thank you. Do we have questions for this testifier? Thank you

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for coming in today. Jerry, welcome to the Education Committee. [LB235]

JERRY HOFFMAN: (Exhibit 1) Thank you, Senator Howard. Senator Adams and committee members, my name is Jerry Hoffman, J-e-r-r-y H-o-f-f-m-a-n, and I'm here representing the Nebraska State Education Association in support of LB235. I'll first describe the reasons why we're in support of this bill and then offer some concerns toward the end. We will never return to the conditions we experienced before the great recession of 2008 and '09. It lasted only 18 months but like a tornado that destroys our communities, it changed the course of our lives in how we relate to one another for generations to come. This is the time when we must work together. We must not be divided. And collectively, we must create an economic recovery that is and always has been dependent on putting education first. Let me repeat that. Economic recovery is and always has been dependent on putting education first. Our children need a quality education to succeed. They need a quality teacher in the classroom. They need up-to-date books, materials, computers, library media centers. They need social interaction with a community of peers to learn how to work together. Children of working families or those without a vehicle need transportation to school. They need a supportive, nurturing environment in which to develop their learning skills, to acquire knowledge and the know-how to earn a decent living, to enjoy life, and to contribute to their larger community. Education is the prerequisite to research and innovation, business development and expansion. Education is the foundation needed to make wise decisions in commerce as well as in our households. Education again is the pathway to economic recovery. Education has been a proven source of stability through the toughest of economic times. Education enabled our parents, grandparents, and great-grandparents to lift themselves and their generations to a higher standard of living and a better way of life. All of that is at stake in this conversation about providing for the learning and educational needs of Nebraska's students. Do we shortchange our children or provide them many and varied opportunities? Which choice do we make for our own children and grandchildren? We usually make those personal decisions and each of us choose opportunity. Just as we would choose opportunity for our own children, we must choose opportunity for all children in Nebraska. LB235 opens the door to that opportunity. We support LB235, a sincere effort to address the state's revenue problems. Given the crucial role that education will play in economic recovery, we request three things of the Education Committee as it works on this state aid package. One, provide school districts some flexibility in dealing with the budget problems they will face with this problem locally, especially those facing the upper limit of the levy cap. And that has been addressed thus far. Two, keep the cuts as small as possible, consistent with moderate revenue projections. And when revenue improves, dedicate that revenue to restore state aid to education. May I go on with one more point, I know I'm on red. Encourage...number three, encourage school districts to keep the cuts as far from the classroom as possible, which we recognize happens already. But I think it is worth mentioning. We thank you for taking on this difficult circumstance that we all face. Thank you for your public service, and I'm willing to answer any questions that you may

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have at this point. [LB235]

SENATOR HOWARD: Thank you. Do we have any questions for this testifier? Yes, Senator Sullivan. [LB235]

SENATOR SULLIVAN: Thank you, Senator Howard. Thank you, Jerry. In your conversations with your members, via their local education associations, what advice, if any, have you given them particularly with respect to entering into collective bargaining negotiations? [LB235]

JERRY HOFFMAN: The conversations that we're hearing which ultimately guides any recommendations that the association may have through collective bargaining agreements is this, teachers and school employees as citizens in their communities, short term and long term, recognize fully the economic impact that the recession has had both at the state level and most particularly at the local level. And I feel that that recognition gets translated into collective bargaining agreements at the local level. Whether that means there are districts who will go to the table and make settlements that will freeze their salaries or look at modest increases in salaries, I really cannot say at this point. Only to say that teachers and school employees who do bargain collectively in a majority of the 253 school districts that there is a heaviness, I might say, in their recognition of the economic circumstances and the budget conditions that their school districts face. [LB235]

SENATOR SULLIVAN: Thank you. [LB235]

SENATOR HOWARD: I don't see any other questions. Thank you for coming in today. [LB235]

JERRY HOFFMAN: Thank you very much. [LB235]

SENATOR HOWARD: Welcome to the Education Committee. [LB235]

LIZ STANDISH: Thank you. Senator Adams, Senator Howard and Education Committee members, good afternoon. My name is Liz Standish, spelled S-t-a-n-d-i-s-h. I work in the area of general administration for the Omaha Public School District and I'm here today to testify in support of LB235. After review of the bills, the Omaha Public School Districts believes that LB235 represents predominantly a proportional approach to the cuts in state aid and adjustments in the need formula. We believe this in comparison to LB236, the next bill that will be up for testimony and presentation. The proportional approach is a way to approach the necessary reductions under the economic conditions the state is in, in a fair and equitable manner. And that is something that the school districts strongly advocates for in reaching equitable opportunity and access for children across the state. I'd be happy to answer any

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questions that you have at this point in time. [LB235]

SENATOR HOWARD: Do we have any questions? Let me ask...oh, I'm sorry. Go ahead, go ahead. [LB235]

SENATOR COUNCIL: And we may be asking the same question. Thank you, Liz. Do you intend to testify on LB236? [LB235]

LIZ STANDISH: We do intend to testify on LB236 specifically in regard to the averaging adjustment. [LB235]

SENATOR COUNCIL: Okay. So if I were to ask you the question now, what is it about LB235 that is more proportional in nature than LB236 would... [LB235]

LIZ STANDISH: LB235 reduces the averaging adjustment by 5 percent. LB236, the elimination of the averaging adjustment would just be very disparate and dramatic for our school district to bear. [LB235]

SENATOR COUNCIL: Thank you. [LB235]

SENATOR HOWARD: I'm going to ask you to kind of project into the future. We seem to be able to do this in this committee. With either of these bills, with LB235 especially since that's what we're looking at right now, would you anticipate a shift in the need to produce funding on to the homeowner, on to the property owner in Omaha? [LB235]

LIZ STANDISH: The Omaha Public Schools is up against the levy limit within tenths of pennies. We would be still at that maximum level and maximizing every tenth of penny we could get. This proposal, we anticipate right now, administration is working through ideas that this is a reduction proposal for us. It will be reduction in programming, reduction in staff. [LB235]

SENATOR HOWARD: And the consequence of that would be? [LB235]

LIZ STANDISH: You know, increases in class size is one thing we're talking about and also potentially the elimination of programming for school children. [LB235]

SENATOR HOWARD: All right. Thank you. Oh, Senator Avery, I'm sorry. [LB235]

SENATOR AVERY: Thank you, Senator Howard. Ms. Standish, if we were to eliminate the levy lid, what would Omaha do? [LB235]

LIZ STANDISH: That would be a question only my board could answer. Truly, they would deliberate long and hard about how... [LB235]

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SENATOR AVERY: Celebrate, perhaps, in the streets. (Laughter) [LB235]

LIZ STANDISH: Well, I mean, I think...I don't think we should underestimate a board of education's deliberation that would go into if they were to choose to raise taxes on Omaha taxpayers as a result in the shift from the state. So I can't speak for my board of education. I know that there would be long, hard deliberation about it, though. [LB235]

SENATOR HOWARD: Thank you. Thank you for coming in. [LB235]

LIZ STANDISH: Thank you very much. [LB235]

SENATOR HOWARD: Welcome to the Education Committee. [LB235]

VIRGIL HARDEN: Thank you, Senator Howard. Members of the Education Committee, good afternoon. My name is Virgil, V-i-r-g-i-l, Harden, H-a-r-d-e-n, and I am the director of business for Grand Island Public Schools. Again I'd like to thank Senator Adams and the committee's work on the bill thus far. I guess I want to concentrate on the \$845 million that Senator Adams mentioned this bill projects out. Kind of to share some of the things that are on the table for Grand Island Public Schools, we receive \$8.1 million in ARRA money this year. We know we're going to receive about \$1.9 million next year...I guess yet this year in jobs fund money. So we have about \$6.1 million that we have to reduce our spending for the next fiscal year as things stand right now today. So the things that we're going to have to do, we're obviously going to have to look at attrition, reduce staff through that. We have a early retirement incentive program that we're working on. We're going to shift the levy. We have 5 cents in our special building fund. We're going to move all of that probably, most likely, to the General Fund. That won't increase taxes to local taxpayer but will obviously shift where the resources go. So the point in sharing these items with you is really that there is a lot on the table right now as we look at what Grand Island has to do to get through the reduction in funding that's coming through the elimination, the cliff, of ARRA money. And so a bill like LB235 and that mark of \$845 million is very important and critical for schools as we try to plan. We know we aren't going to get certified aid number until July, maybe long before. So, you know, we can deal with that. We're prepared to do the things that we need to do but there will be reduction in services to children. And in Grand Island, it will be the services to children most in need because of our demographics. We have a high level of children in poverty. We have a high level of children with special needs and, you know, things that are on the table: transportation, our truancy program, social workers, counselors, paraprofessionals. As I go on with the list, it gets closer to the classroom. And so there's a lot at stake right now with what LB235 does. We are in support of it because it is fair. It is an honest, open attempt to try to deal with the situation that we all have to. Grand Island is prepared to do our part but we do need to get a number out there as soon as we can so we can try to move forward and make those internal decisions. And Grand

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Island is not isolated. Obviously, all districts in the state have that desire. So with that I would end my comments and be happy to answer any questions you might have. [LB235]

SENATOR HOWARD: Do we have any questions? Well, I do. When I started down here, the Grand Island superintendent came to my office and told me about their social work program and how much good it did in your public school system. And I used that actually as an example for Omaha Public Schools to model after to put social workers in the schools, and which they have done. And I would really hope that you would try to retain that. You've been a good model for how to operate and to utilize social workers and I would encourage you to try to hang on to them. [LB235]

VIRGIL HARDEN: Well, we will do everything we can. We'll spend cash reserve, we'll move the levy, we'll reduce our expenditures in every category that we can as far away from the classroom. But I'm afraid there's so many dollars on the table that we're, you know, when you think about how a school district operates, it's a social organization. Eighty percent in general of every school district's expenditures go to salaries and benefits for administration, certified classified. And so when you're talking about that many millions of dollars of reduction, you're going to get to those expenditures. You still have to pay the heating bill, you still have to mow the lawn, you still have to buy textbooks to move things forward. So it's just the reality. I know you all are aware of it but LB235 at least makes a good attempt in trying to get enough dollars out there that we can deal with what we think is already on the table. So to add additional pain by cutting additional things would be very harmful. [LB235]

SENATOR HOWARD: Well, I'd appreciate if you would keep me posted, especially on the social work aspect of how things are going. [LB235]

VIRGIL HARDEN: It's invaluable. [LB235]

SENATOR HOWARD: Yeah. [LB235]

VIRGIL HARDEN: I mean the connection between the social worker and the truancy program and the real effect on getting kids in the classroom in the seat, you know... [LB235]

SENATOR HOWARD: And ready to learn. [LB235]

VIRGIL HARDEN: We can teach the kid. Somebody the other day said, well, you can't teach a chair much and I think that still holds true today. So... [LB235]

SENATOR HOWARD: (Laugh) I think that paints the right picture. [LB235]

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VIRGIL HARDEN: Yeah, exactly. [LB235]

SENATOR HOWARD: Oh, Senator Council. [LB235]

SENATOR COUNCIL: Thank you, Senator Howard. Just real quick. Mr. Harden, do you plan to testify on LB236? [LB235]

VIRGIL HARDEN: At this point, I do, yes, ma'am. [LB235]

SENATOR COUNCIL: Okay. Then you'll answer my question then through your testimony, I'm sure. [LB235]

VIRGIL HARDEN: Okay. [LB235]

SENATOR COUNCIL: Thank you. [LB235]

SENATOR HOWARD: Thank you for coming in. [LB235]

VIRGIL HARDEN: Thank you. [LB235]

SENATOR HOWARD: Any other proponents? Any other...any opponents? Anyone wanting to speak in opposition? Welcome to the Education Committee. [LB235]

CHUCK CHEVALIER: (Exhibit 1) Good afternoon, Senator Howard and Education members, committee members. Thank you for spending some time. My name is Chuck Chevalier, and the last name is spelled C-h-e-v-a-l-i-e-r, and I'm superintendent of schools at South Sarpy School District #46, close enough to Springfield to drive there, but. Just want to thank you and I send...I bring greetings from our board of education. We recognize the difficult decisions that you're going to have to make. I never know how to testify when we have concerns about one section. And we're really going to focus in on just Section 9 of this bill which is the needs stabilization piece. And first of all, we want to recognize, like a lot of testifiers so far, have talked about Senator Adams gathering input from school districts on this matter. We really appreciate that as well as his passion to make this an equitable and fair type of bill. We very much appreciate that like other districts have said. I also say that simply because his office has great coffee and I don't want to lose access to that, so. (Laughter) I wanted to just say that. You know as part of the equity issue, we wanted to talk a little bit about the needs stabilization as it relates to three districts in the Learning Community. And a lot of districts have talked about how this happens and the needs stabilization happens a little bit different in the Learning Community and affects three districts. Ours would be one of those districts. DC West would be another district, and Westside would actually be the third district that has needs stabilization in the formula. And, basically, there are 87 districts in the state that receive needs stabilization and according to NDE's Web site,

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\$29.5 million is the amount of this need. I called it funding but it's really need enhancement in the formula. Part of the problem is the ability to access new assessed valuation like other districts can in the Learning Community setup. We don't have that ability to access. Not all districts outside the Learning Community can do that but a lot of them can. We're put into the blender with that. And so, with that in mind, that value growth is not there. I was going to use the term, Senator Sullivan already used it, double whammy. I'll one-up you and say, triple whammy, because really kind of the average adjustment also gets thrown in there in the Learning Community funding mechanism. So the three districts, to be equitable, we feel you need to take a look and maybe look at some language, exclusionary language that's part of Section 9 of that bill that would exclude the Learning Community from that, because it is different how that happens. Thank you for listening. And I'd take any questions that you have. [LB235]

SENATOR HOWARD: Do we have any questions for this testifier? I don't see any, so thank you for coming in. [LB235]

CHUCK CHEVALIER: You bet. [LB235]

GEORGE CONRAD: (Exhibit 2) Senator Howard, thank you, Senator Adams. I'm George Conrad, C-o-n-r-a-d. I'm the superintendent at Douglas County West Community Schools. In the interest of time, the handouts that I've provided are my talking points and they speak both to LB235 and to LB236. So I figure when the red light comes on I'll wait and come back for LB236 unless you have some questions based on my talking points. The thing that I want to say first of all is, I never know whether to mark proponent, opponent, when I'm speaking, or neutral. The fact is what I'm trying to do is lay out to you the face of those children at DC West and the potential effects that LB235 will have upon them. And I've made a couple of points here. I want to skip the first two talking points and jump right into, this year alone, if we were not a part of the Learning Community, which was legislated upon us, if we were not a part of that Learning Community, we would actually have 357,000 more dollars in revenue for our school district by not being a part of the Learning Community and we would have been a nonequalized district. We've dealt with that. We've made cuts. We've made adjustments and we continue to provide for our students. That very next bullet point, what I've tried to attempt to do in my own simplistic fashion is to point out to you not only what we've lost, but then if you go to the very bottom point, if we look at 2011-12, and I understand that numbers adjust and numbers have to continue to adjust, but to put a face on this, I want you to understand that potentially with the loss of SFSF funds and with the reduction of the needs stabilization, we potentially would be faced with a \$839,000 reduction next year on a budget that's only \$9.5 million. And, obviously, that brings us some very strenuous feelings. When you think about the notion that that could potentially cut 11 teachers, and I only have 68 teachers to begin with, so that 11 teachers would represent 16 percent. And if you actually did the math, I'm not counting all of that funding loss against teachers, but I'm also looking at it realistically about additional

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reductions in budget. Moving on to the next page, I've added another bullet on how this potentially would affect South Sarpy and Westside as well just to show you some of those similar numbers. I go on to the next paragraph to show LB236. With the loss of SFSF numbers and the potential loss in needs stabilization, I'd lose 23 teachers out of 68. That would be a full one-third of my staff, and I would no longer be an accredited school district under Rule 10. So those are the kinds of effects that I face. Interestingly enough, the school districts in Nebraska, and again I applaud Senator Adams and that whole discussion of how do you deal with needs adjustment or needs stabilization, and then the adjustment averaging, but the fact is for people in DC West we're affected both ways. Because for those larger districts in the Learning Community, who then lose revenue through the averaging adjustment, that reduces their state aid and places more of the burden on the common levy to provide for their budgets. So I not only take a hit in the needs stabilization, but also through averaging adjustment as a member of the Learning Community. And the light is red. And I'd be happy to answer some questions or come back during LB236. [LB235]

SENATOR HOWARD: Well, you give us a lot of information quickly. Thank you. [LB235]

GEORGE CONRAD: Thank you. [LB235]

SENATOR HOWARD: Do we have questions for this testifier? Senator Avery. [LB235]

SENATOR AVERY: Thank you, Senator Howard. Does your school district hire lobbyists? [LB235]

GEORGE CONRAD: No, sir, we do not. [LB235]

SENATOR AVERY: You do not. [LB235]

GEORGE CONRAD: They get me. [LB235]

SENATOR AVERY: They get you. [LB235]

GEORGE CONRAD: It's not good. I'm also the business manager, I'm also the HR director and also the strategic planning director, so. [LB235]

SENATOR AVERY: You don't drive the bus though, do you? [LB235]

GEORGE CONRAD: Actually, sir, I have done that on a regular basis. (Laughter) Yes, I did do that as a substitute when necessary. [LB235]

SENATOR AVERY: How many students do you have in your school? [LB235]

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GEORGE CONRAD: Right around 700. We actually represent...we are in the upper half largest school districts in Nebraska. So when you look at the notion that, hypothetically, in a year or two I no longer exist by virtue of the fact that I can no longer be an accredited school district, I find that difficult to address when I'm in the upper half of the largest school districts in the state. And my test scores are equal to none, even though I have the third highest poverty percentage of 11 school districts in the Learning Community. [LB235]

SENATOR HOWARD: Senator Sullivan. [LB235]

SENATOR SULLIVAN: Thank you. I didn't quite follow that. You said you wouldn't be accredited...? [LB235]

GEORGE CONRAD: I would need to make budget cuts that would be so significant under LB236, not LB235, but under LB236, those budget cuts would be significant enough that the reduction of my budget, which would include at least 23 teachers at \$1.6 million, would potentially cause us to close doors because we would no longer be accredited. [LB235]

SENATOR HOWARD: Senator Avery has another question. [LB235]

SENATOR AVERY: Yes, that leads me to another question. Probably LB236 is not where we're going to wind up. That's an extreme case, but I suspect LB235 may not be where we wind up either. At some point, in between those two, is where we're going to be. Do you have a bottom line beyond which you cannot go, a minimum disposition point beyond which you cannot go before you are at absolute crisis point? Do you know what that would be? [LB235]

GEORGE CONRAD: You know that's a great question, Senator. And part of the reason for that is because one of the things I think we've done prudently in our school district is that we made sure over the six years that we've been in existence as a reorganized school district, we've taken our cash reserve from zero to the maximum. So we've made some very important strides in making sure that we're planning for the future. So we do have a cash reserve of about \$2 million. And so we've been planning ahead for this. We've made reductions as far away from the classroom as possible, which includes classified staff and front-line administrators that have been reduced since my tenure there for five years at DC West. So I'd like to tell you I'm two or three years out. Can I give you a number? Probably not. I'd sure would like to, like zero, but (laugh) I understand that that's not practical. I understand those kinds of things. What I'm trying to do is, and I respect Senator Adams' comment opening this bill which was, that he has not tried to put a face to any of the districts. He's tried to be as equitable and fair as possible in structuring this bill and I don't disagree with that at all. But I will tell you that I am the one who is dealing with some of those faces at DC West. And as a result of my

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membership in the Learning Community, this has devastating effects. Without being a part of the Learning Community, I would actually be a nonequalized district, which we were prior to coming to the Learning Community. [LB235]

SENATOR HOWARD: Do we have any other questions? I'm just going to ask you one. As a member of the Learning Community at your school, have you seen this last school year, have you seen students transfer into your school, have you seen students transfer out? [LB235]

GEORGE CONRAD: Great question, Senator Howard. Actually, we have not seen an increase in students in or out as result of the Learning Community. We have had a few more students labeled open enrollment as opposed to the word, option enrollment, for those counties outside. And because we're in the northwest fringe, we deal with Yutan, Arlington, and Fremont for students in and out under option enrollment. But the net increase has not been significant, and of, I think there are twelve, six of the students who applied for open enrollment were students who wished to stay in our district even though they had moved to another district within the Learning Community. [LB235]

SENATOR HOWARD: So they were returning, basically. [LB235]

GEORGE CONRAD: Yeah, they wanted to stay. [LB235]

SENATOR HOWARD: Okay. Well, that's very interesting. Thank you. Thank you so much for coming in to us today. [LB235]

GEORGE CONRAD: Thank you. Appreciate it. [LB235]

SENATOR HOWARD: Are there any other opponents? Are there any neutral? Anyone that wants to testify neutral? Senator Adams, if you would like to do a closing. [LB235]

SENATOR ADAMS: Thank you, Senator. In closing, I'll keep it very simple. I want to thank the people and the school districts that have come forward. And at minimum, in my opinion, they've indicated that generally where we're headed with LB235, it does recognize equalization. It recognizes some fairness. And there's no question in my mind that all of them could find things that they don't like about it and wished didn't have to be the way they were. And with that, I'll say no more, unless you have questions. [LB235]

SENATOR AVERY: And you'll work on your numbers? [LB235]

SENATOR ADAMS: And I'll what? [LB235]

SENATOR AVERY: You're going to work on your bill numbers? [LB235]

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SENATOR ADAMS: LB235, excuse me. [LB235]

SENATOR HOWARD: LB235. They all run together after a while. Would you like to open on LB236? [LB235]

SENATOR HAAR: I have a question. [LB235]

SENATOR HOWARD: Oh, I'm sorry, Senator Haar. [LB235]

SENATOR HAAR: The whole question of what happens in the Learning Community, is that something that needs fixing then? I mean... [LB235]

SENATOR ADAMS: I think it's something that we're going to have to look at. Both of the superintendents have been in during the interim to talk about that. Needs stabilization in particular is of concern to them given that environment and Westside, as well. You know, one thing to consider is that when you reduce the averaging adjustment for the other schools in the Learning Community, that does reduce their needs, which buffers slightly what they're talking about. But it's still something we need to look at. [LB235]

SENATOR HOWARD: All right. Thank you. [LB235]

SENATOR ADAMS: If you're ready for me to open on the other? [LB235]

SENATOR HOWARD: I certainly am. [LB235]

SENATOR ADAMS: This is a terrible way to open on your own bill, but I don't like it. (Laughter) I don't. And I would tell you again, and I've told some of you individually this, that LB236 was a response, a response out of frustration that came during the month of December, and here it is. I guess my point was, I wanted folks to see what it's going to look like if you're going to try to take this down to \$800 million. And on the last bill I had proponents. We can just flip that all over here in just a minute, can't we? I feel a bit like our old friend, Senator Raikes who would always come here and say, nobody comes up here as a proponent to my bills. Well, now you know what we're talking about. LB236 takes aid projected in the first year to \$800 million. It takes it in the second year to \$844 million. I don't think we ought to go there but I wanted you to see what we would have to do, if that's the direction we go. We have to take the basic allowable growth rate now to zero, not even at half a percent. We got to take it right to zero. Again we do the same with budget authority and the budget authority on formula needs schools would be the same. We have to take it down to \$110 million. Restrict use to use budget authority and the two crowning elements here are, besides zero growth, is elimination of needs stabilization and elimination of the averaging adjustment. Now if you want here, we can sit here all afternoon and make arguments about for or against needs stabilization, for or against the averaging adjustment from a philosophic standpoint. But if you're going to

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take numbers down to this level, that's what LB236 does. It's an illustration. It's not a place I want to be. It's simply an illustration more than anything else of what's got to happen. Now I put both bills in so that, I've said it before, I'm sounding repetitive, so that there will be bookends. Here's where we were at and I wanted everyone to be able to see what it was going to take to get to that kind of a number of \$800 million and it is dramatic, it is difficult. And it's the elimination of some things. And with that, I'm not going to say anything more about the bill that I really don't like, but I'll try to answer your questions. [LB236]

SENATOR HOWARD: Do you want to just withdraw it? (Laughter) [LB236]

SENATOR ADAMS: I think education requires that it not be withdrawn, as in our education. [LB236]

SENATOR HOWARD: Thank you, Senator Adams. Senator Haar. [LB236]

SENATOR HAAR: Does either LB235 or LB236, in the total you're talking about, include the fifty-some million dollars? [LB236]

SENATOR ADAMS: No, if you're talking EduJobs money, no. [LB236]

SENATOR HAAR: Right. Okay. [LB236]

SENATOR ADAMS: My perception of things is that, let's hypothetically say that we pass something in between here and it comes out to whatever the number may be. Let's say it's \$810 million. That's the number we've heard. Then that's the General Fund contribution. The EduJobs money is on top of that. [LB236]

SENATOR HAAR: Is on top of that. Okay, thank you. [LB236]

SENATOR ADAMS: Right. However, I would tell you that there was a small handful of our colleagues that approached me in December and said, well, that \$59 million ought to come off the \$810 million so that the General Fund...and that's...that pushes people under the school bus. Other question? [LB236]

SENATOR HOWARD: Any other...oh, Senator Avery, yes. [LB236]

SENATOR AVERY: Thank you. Do you think that...I agree with you, this is good to have. The numbers that this model will generate will be good to have in this committee and when we get on floor debate. Do you think we'll be able to get some real world examples of what this would mean in the classroom? How many teachers would be lost? Things of that sort. How much class sizes would have to increase for us to make \$800 million work? That would really be helpful. [LB236]

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SENATOR ADAMS: You know, you've asked a question and you may have really opened something up there, Senator, because I got a feeling there's about umpteen superintendents and business managers sitting back here that can't wait to the microphone to tell you what it's going to do to their school district. There will be dramatic cuts. [LB236]

SENATOR AVERY: Yeah, thank you. [LB236]

SENATOR ADAMS: Dramatic, that will impact what happens in a classroom. [LB236]

SENATOR HOWARD: Senator Council. [LB236]

SENATOR COUNCIL: Thank you, Senator Howard. Two questions. One is kind of tag on to what Senator Haar's question was and as I sit here and think about it, the EduJobs money, the way it's being handled it's being distributed, basically, through the state aid formula but without need to adjust the state aid formula, correct? I mean, it's just... [LB236]

SENATOR ADAMS: Well, all we did was to...in that bill, was just to inflate aggregate need. [LB236]

SENATOR COUNCIL: Right. [LB236]

SENATOR ADAMS: Yep. We didn't mess with any of the mechanisms. [LB236]

SENATOR COUNCIL: No, no, right. We had figured the aggregate need to accommodate the distribution of the money. And tell me if my observation is correct. Under ARRA, how we handled the ARRA monies, our handling of that ARRA money kind of effectively operated as a mechanism adjusting the state aid formula, didn't it? [LB236]

SENATOR ADAMS: Well, when we received the money what we did was the same thing we always do. We said, here's how much money we're going to have to operate with and we adjusted needs accordingly. [LB236]

SENATOR COUNCIL: But, I mean, and operated as an adjustment to the formula. In a way, we're... [LB236]

SENATOR ADAMS: Yeah, because of it, we had to make adjustments. Without it, we would have had to make even more severe adjustments. [LB236]

SENATOR COUNCIL: Okay. Now with LB236 at \$800 million, do you know what

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percentage then cuts to education would amount to of the total budget cuts that would have to be made? [LB236]

SENATOR ADAMS: You know that's...you're talking in proportion to all the budget cuts. [LB236]

SENATOR COUNCIL: In proportion, right. [LB236]

SENATOR ADAMS: I really don't but I could throw some numbers out to you and we could, maybe, dance them around in our head. [LB236]

SENATOR COUNCIL: Okay. I mean, because we're... [LB236]

SENATOR ADAMS: We were scheduled as you can see at the footnote down at the bottom, if we don't change a thing in the aid formula, aid goes out in the first year at \$984 million. And it's over \$1 billion, \$1.76 billion in the second year. Now if you think about that and then, hypothetically, okay, not hypothetically, let's use LB236, we're going down to \$800 million in the first year, down from \$984 million, \$184 million, and then we go over to the second year and we're going from \$1.76 billion down to \$844 million. Huge, huge. [LB236]

SENATOR COUNCIL: So that's...you're talking close to a half a billion dollars over the biennium. [LB236]

SENATOR ADAMS: And we would probably have higher education, and we would have HHS, and we would have all kinds of institutions in the state saying, thank you, K-12. [LB236]

SENATOR COUNCIL: Yeah. Thank you. [LB236]

SENATOR ADAMS: And we would have taken a...K-12 would take a disproportionate share of the cuts. [LB236]

SENATOR COUNCIL: (Inaudible). And if you're looking at it when we started the LR542 process that the directive was 10 percent General Fund reduction and what you're looking at here, just based on LB236 numbers, and they're round, you're talking about almost 50 percent... [LB236]

SENATOR ADAMS: Yeah. [LB236]

SENATOR COUNCIL: ...of the budget shortfall coming out of K-12. [LB236]

SENATOR ADAMS: The other argument that I was involved in throughout the entire

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interim with folks was, 10 percent off of what. [LB236]

SENATOR COUNCIL: Right. [LB236]

SENATOR ADAMS: It was 950 last year if you include ARRA money. So is it 10 percent off of that? Is it 10 percent off of 810? Or is it some other number, just like I talked about a moment ago with the EduJobs money? [LB236]

SENATOR COUNCIL: Thank you. [LB236]

SENATOR HOWARD: Senator Sullivan. [LB236]

SENATOR SULLIVAN: Thank you, Senator. And thank you, Senator Adams. As I and you agreed earlier that at the end of the day it's probably going to be some place in the middle that we might arrive at, and admittedly, that's going to be the work of our committee. However, if we look at what you've presented in LB236 we're getting rid...eliminating needs stabilization and averaging adjustment of...we're leaving in the elimination of the income tax rebate. We're leaving the local effort rate the same on the two bills, so where's the wiggle room? I mean, I know, I don't mean to put you in a... [LB236]

SENATOR ADAMS: On LB236? [LB236]

SENATOR SULLIVAN: Yes, uh-huh. [LB236]

SENATOR ADAMS: There isn't any. [LB236]

SENATOR SULLIVAN: No, no, no, no. I mean for reaching that middle ground. Admittedly that's the committee's work but some thoughts, a little bit. [LB236]

SENATOR ADAMS: You know, one of the places we can begin to look is if we go back to my thought pattern anyway with needs stabilization and averaging adjustment. I truly believe that philosophically, politically, they're married to one another because they impact...we're spreading the pain, remember. And, you know, we've gone from in LB235, we've gone from 95 percent of the averaging threshold and 95 percent of needs stabilization, or 100 percent down to 95, and then we go to LB236 and we've completely eliminated them. So one of the things we potentially do is work with those percentages on the averaging threshold and the percentage on needs stabilization and see where it takes us. That's one place. [LB236]

SENATOR SULLIVAN: Okay. [LB236]

SENATOR HOWARD: Senator Haar. [LB236]

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SENATOR HAAR: Well, I think so often using the word greedy, teachers are blamed for this if they keep wanting raises and wanting raises and so on. But I certainly don't agree with that characterization, but I've heard it a number of times. Even if teachers would take no salary increase over two years, you couldn't meet this kind of budget with just that little, could you? I mean, you're still talking about fire...you know, increasing class sizes in almost... [LB236]

SENATOR ADAMS: Well, with LB236, I can only speculate that even if you froze pay schedules across the state, you're probably still looking at cuts. I don't know. Again, each school district is different in how they've managed themselves up to this point. So I really can't answer your question with any specificity. [LB236]

SENATOR HAAR: But just subjectively, you'd agree with that. Yeah, yeah, thanks. [LB236]

SENATOR HOWARD: Okay. Let's see who is here to support you. Supporters, proponents. Anyone here in support? All right, then, we'll go to who is here in opposition. [LB236]

MAX KROGER: Hi, Senator Howard. [LB236]

SENATOR HOWARD: Yes, sir. [LB236]

MAX KROGER: Max Kroger, K-r-o-g-e-r, superintendent of Ord Public Schools. And I, like everybody else, I'm supportive of what Senator Adams has done and how hard he's worked in getting LB235. I just want to give an illustration. In Ord, a year ago, we were \$1,040,000, approximately, in needs stabilization. We would have lost \$1,040,000 if it wouldn't have been for that. This current year, somehow, we gained \$1 million, over \$1 million in needs stabilization. And why am I up here then? What am I worried about? My concern is without that stabilization is a roller coaster effect. If I could gain \$1 million...yeah, we made some cuts. We tried to prepare for tight times, but nothing drastic at this point that would cause that difference. My concern is not only for Ord but all the schools. Number one, losing that state aid, but number two, the roller coaster effect. If I gained \$1 million, I could lose \$1 million probably almost as easily. And that would be really tough. The formula depends upon the schools you're compared to. What the things we've talked about would smooth that out some. But that's my concern is needs stabilization has really taken a lot of the roller coaster effect out, especially for smaller schools, rural schools, but you have heard also Westside even is involved with it. If it was eliminated completely, it worries me in this time if we lost that kind of money in state aid. That's my main concern. I mean that's what I'm... [LB236]

SENATOR HOWARD: Let's see if there are any questions for you. Senator Haar.

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[LB236]

SENATOR HAAR: Yeah, everybody has heard, I mean, across the state has heard that we're short of money and so on, but people in your community, do you think that the average citizenry is aware of the kind of cuts that are going to happen in schools and do they care? [LB236]

MAX KROGER: Aware, but not brought home to the point where they really understand it. I mean, they understand, I think, and are aware that the state is in financial trouble. But are they aware of how that affects Ord Public School directly? I doubt it. You know, at this point, we're not even...we're all saying, he's done a great job. If we get the printout and see what...he may not have as many people saying you're doing a great job, Senator. (Laughter) So, you know, it's just a matter of until it's pounded home with facts, and they see services disappear or programs disappear, then they'll understand fully. But at this point they just know there's a problem, I think, for the most part. [LB236]

SENATOR HAAR: Yeah, and I'm concerned too, you know, whose educational responsibility is it to pound home the facts? Because I think, too, many people don't understand in any sense what's going to happen to their kids and their grandkids. [LB236]

MAX KROGER: Yeah, I think that's, you know, the schools...mine for responsibility for the schools, the city council, the mayor in the town, the county, you know, it goes all the way through. It isn't just schools. We're all getting affected by cuts here. And, yeah, that's our responsibility. And we've talked about it. We've put it, you know, in articles, but we don't even know at this point... [LB236]

SENATOR HAAR: Sure, until later. Yeah. [LB236]

MAX KROGER: ...directly. I mean we know there's problem. We know there's going to be cuts. We've tried to prepare for them, but we really don't even know how much we're going to have to cut. [LB236]

SENATOR HAAR: Well, I think that's a big challenge for all of us--from your seat, from our seat--is to get the reality across. [LB236]

MAX KROGER: I think we understood that...your problem and so we're all willing to take our share and I think that's where he has done a great job of trying to make it equal, and we don't have a problem with, you know, if everybody kind of bites the bullet a little bit. That's all we can expect is fairness on it. [LB236]

SENATOR HAAR: Thank you. [LB236]

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SENATOR HOWARD: Senator Sullivan. [LB236]

SENATOR SULLIVAN: Thank you, Senator Howard. Max, you may correct me if I'm wrong because I think I'm misunderstanding you. Even with needs stabilization, your district experienced a certain amount of roller coaster effect, right? [LB236]

MAX KROGER: Well, yeah, and largely because of...we've lost \$600,000 in the last two years in state aid. But it's been largely because our valuation has went up. For the most part that's the reason. Well, you know, when we got the ethanol plant, they were...they started selling the ethanol plant with the fact that it will help lower taxes. I said, careful how much you say that because it's a balancing effect. As a valuation goes up, the state aid is going to go down. It will help with the bond issue but in the formula...you know, and our valuations went up and that's why we've lost. And so really, yeah, we've lost state aid but we've gained in valuation so, you know, it hasn't been that bad. We, of course, would like to have...any time we have the loss of state aid, and a gain in valuation, unless it's new valuation, it's an increase in property tax. I mean, if farm land...if the city...if my house in town, if the valuation goes up, we lose state aid and it's purely an increase in property tax. But as far as the school budget, you know, it hasn't been near as bad since we've had needs stabilization because one offsets the other. [LB236]

SENATOR SULLIVAN: Now you don't anticipate a problem with the ethanol plant in your area, do you? [LB236]

MAX KROGER: Well, I don't because I'm retiring in five months. (Laughter) I think they're going to make it that long. No, they seem to be...we had problems and we went...I mean we went...one ethanol plant went bankrupt already and we thought, oh boy, you know, now we've lost state aid. At that time, luckily, we had aid stabilization also. But, you know, and now we're not going to get the taxes, but aid stabilization helped us through that situation. And luckily it got sold and reopened before it became a problem. [LB236]

SENATOR SULLIVAN: Thank you. [LB236]

SENATOR HOWARD: Any other questions? Thank you so much for coming in today. [LB236]

MAX KROGER: Thank you. [LB236]

SENATOR HOWARD: Hi, Jerry. [LB236]

JERRY HOFFMAN: Hi. Good afternoon, Senator Howard, Chairman Adams and committee. My name is Jerry Hoffman, J-e-r-r-y H-o-f-f-m-a-n. And I'm here

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representing the Nebraska State Education Association, just simply going on the record in opposition to LB236 and I don't want to belabor the point anymore. If there are any questions on that, would be willing to entertain those at this point. [LB236]

SENATOR HOWARD: Any questions? No. Thank you. [LB236]

JERRY HOFFMAN: Thank you very much. [LB236]

SENATOR HOWARD: Welcome back, Liz. [LB236]

LIZ STANDISH: Thank you. Good afternoon once again. My name is Liz Standish, spelled S-t-a-n-d-i-s-h, and once again I work for the Omaha Public School District. I'm here to testify in opposition to LB236, specifically because of the disparate and disproportionate impact our school district would see as a result of the elimination of the averaging adjustment. The averaging adjustment truly was built in the formula to recognize school districts that were making a high local effort, high taxing school districts, typically high needs school districts, typically school districts serving the most diverse populations across the state, and school districts that then were below average spenders. It was almost a solution to schools that were making significant effort as a way to move up towards that average. So the averaging adjustment is very vital and important to the Omaha Public School District, and complete elimination of the averaging adjustment, we would see cuts that, honestly, we can't even dream of right now. I mean, we are working in estimates knowing that we don't have models before us, and it's hard for us to even get our heads around how dramatic an impact this would have for the Omaha Public School District. One thing we keep talking about in the room today is proportionality. And just to lay out the numbers based on the '10-11 school year, which is all we have to work from right now from state aid, the averaging adjustment is roughly \$80 million. And kind of like Senator Adams putting things in broad terms, if you're looking to cut \$200 million, you then are in a situation where you have 27 school districts taking the burden of 40 percent of the cuts, and on the other hand, they're also participating in the additional 60 percent of the cuts. So we do not support this bill simply because it does eliminate the averaging adjustment, and we wish you the best in your committee work before you, and truly hope that LB235 is the model that you work from. And thank you so much for the opportunity to provide input today. [LB236]

SENATOR HOWARD: Let's see if we have questions. Senator Haar. [LB236]

SENATOR HAAR: Yes, the same one I asked earlier. Do you think Omaha people know and do they care? [LB236]

LIZ STANDISH: I think we've had a little bit of a recognition from our community. I do know that we've began conversations with principals clear back after the Forecasting

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Board shortfall was projected in October and November. We've begun very preliminary conversations in the community and it will be really helpful as your process unfolds to provide any guidance you can as to where we are going to be because it's just...it's very hard to get your heads around exactly what this is going to mean to your school district at this point in time. So everything you're building ideas around is based on very broad, big projections. [LB236]

SENATOR HAAR: Sure. [LB236]

LIZ STANDISH: So I think there's a little bit of awareness but I don't know that reality has really settled in just yet. [LB236]

SENATOR HAAR: And do you have plans as...I mean, have you talked about that as a school district to get the reality? [LB236]

LIZ STANDISH: We had a very preliminary conversation at the Board of Education actually just a week ago and we do plan on having some community conversations as we move forward. And our human resources division is busy working on, much like Lincoln talked about, going position by position and really considering how we can move through this process. [LB236]

SENATOR HAAR: Because I think there's a shock and ah moment going to come. [LB236]

LIZ STANDISH: Hopefully, not too shock in I. That's what we're here advocating for is as you work to keep the shock and ah to as minimum as possible for schools, so. [LB236]

SENATOR HAAR: Okay. Thanks. [LB236]

SENATOR HOWARD: Any other questions? Thank you for coming in. [LB236]

LIZ STANDISH: Thank you very much. [LB236]

ANDREW RIKLI: (Exhibit 3) Senator Adams, Senator Howard, my name is Andrew Rikli. My last name is spelled R-i-k-l-i. I'm the assistant superintendent for administrative operations for the Omaha Westside Community Schools. Thank you for your time. Without belaboring the points that have been presented prior, we believe very firmly that LB236 would present potentially devastating cuts to all school districts. And before I go any further, I think it's necessary to express some solidarity with our friends from South Sarpy and DC West in that Westside is one of those rather unique situations whereupon we receive both averaging adjustment funds as well as the needs stabilization. So I certainly appreciate Dr. Chevalier and Dr. Conrad expressing concerns that we have

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about LB235. But taken on balance, we think it's a far superior approach than LB236. Senator Avery had posed the question, in real terms, what does this mean? To a district the size of Westside, we are the seventh largest school district in the state of Nebraska with approximately 6,100 students. Our General Fund is \$69.2 million. We're already absorbing a hit of \$3.3 million in ARRA dollars. We knew that all along. This is no surprise to any of us. If the averaging adjustment would go away, if needs stabilization would go away, that would be an additional \$6 million on top of the \$3.3 million. If you're doing the math at home, that's about a 12 percent hit to our General Fund. That's a significant hit to our budget, needless to say. So we hope that the middle ground that the committee has referenced a number of times is where we can land. And with that, I would happily answer any questions that the committee has. [LB236]

SENATOR HOWARD: Do we have any questions for Andrew? We do not. Thank you. [LB236]

ANDREW RIKLI: Thank you. [LB236]

TODD CHESSMORE: My name is Todd Chessmore, superintendent of Lexington Public Schools, T-o-d-d C-h-e-s-s-m-o-r-e. First of all, it seems kind of odd to testify in opposition to a bill that the introducer is opposed to, so I'm not sure if I'm in opposition or a proponent. But we do oppose this bill, and as many have said, it's because of the averaging adjustment. Lexington, I think, is a very unique district and I would go out to say, very few districts, maybe one other, looks anything at all like Lexington in the state. As I was thinking, one of the questions asked of the committee of someone else was, well, what if we raise the levy limit, how would that help you? And as we have talked about this, we're looking at, I think we could potentially lose around \$3 million. And in order for us to make up that \$3 million, we would have to raise our levy by 52 cents. I'm not for sure that would be real palatable to anyone in our district. And so that is, as I have listened to maybe some of the solutions that others have thrown out there to help have the potential to make up the funds that you may lose and to give districts the freedom to do that, my concern is that doesn't give us really a whole lot of relief to do that. We have been planning. The question was asked, does our community know about it? We actually started talking about this two years ago. I actually had my negotiating teachers on the negotiating team call Senator Adams' office when I told them that we were being told that in two years there would be a cliff effect and they didn't believe me. And so I asked them to call Senator Adams' office. They did. He answered, had a significant impact on our ability to negotiate with our teachers, and to prepare for the future and where we're going. We had great cooperation. We have, I think, a great community and people that...I think, are starting to understand where we're going. So I would answer any questions if there were any. [LB236]

SENATOR HOWARD: Do we have any questions? Senator Sullivan. [LB236]

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SENATOR SULLIVAN: Thank you. So how did your negotiations end up? [LB236]

TODD CHESSMORE: Well, we were able to not commit...have any long-term commitment to our teachers on the salary schedule. For two years, we have put no money at all on our salary schedule. We have...there have been funds and we have tried...we used some unique tactics to try and reimburse our teachers or to give our teachers an increase without putting the long-term commitment on the salary schedule. So our salary schedule has not changed in now three years. [LB236]

SENATOR SULLIVAN: What about your salary? [LB236]

TODD CHESSMORE: Mine has not increased for...I'm on a three-year salary and I just get it at one year and leave it for three years. That way I don't have to negotiate every year. [LB236]

SENATOR HOWARD: I don't see any other questions. Thank you for coming in today. [LB236]

TODD CHESSMORE: You're welcome. [LB236]

VIRGIL HARDEN: Good afternoon again, committee members. My name is Virgil Harden, V-i-r-g-i-l H-a-r-d-e-n. I'm the director of business for the Grand Island Public Schools. And earlier I testified as to what's already on the table for Grand Island, and I'm sure every other school district in the state that received ARRA money. And I guess I'm going to go ahead and use a term that probably will just get me in trouble, but I'll go ahead and use it anyhow, in that LB236, in our opinion, would absolutely without a doubt, represent bad faith between the committee, the state of Nebraska, and their commitment to the education of the children of Nebraska. That's how deep the cuts would be in Grand Island. We, too, feel that we would not be able to maintain our accreditation. The cuts would be so egregious that...I think earlier a committee member had asked about, well, have you done the work or do have an idea of the cuts? Once we share our 14-page printout spreadsheet, you know, us business folks, we like to have spreadsheets, so we have a 14-page printout of all the positions that are on the table. And it's quite a drastic list of things. We need to finish that list internally and share that with our board but once that happens, we would be more than happy to share it with the committee if that would be of help to you in your deliberations as you consider the bookends, as Senator Adams has described the two bills. With that, I'll conclude my testimony. [LB236]

SENATOR HOWARD: Do we have any questions? Senator Sullivan. [LB236]

SENATOR SULLIVAN: Thank you. One thought just occurred to me, Mr. Harden, and it harkens back to a comment you were asking about mandates. Should we, as a

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committee, be looking carefully at any additional burden that we add on to school districts in the form of mandates? [LB236]

VIRGIL HARDEN: Well, absolutely, would be my first response and to go maybe a little deeper. When you think about the things that are on the table as far as assessment, you think about the NSSRS, you think about the CDC, you think about even some of the bills that maybe are in front of the Legislature this year with the school safety committee, while a great idea and we're all concerned with getting kids to school, just another thing that has to be managed and there's a number of hearings that have to occur every year that have to be advertised. And the whole level of mandates, you know, to produce a list I think someone had asked for that. It's probably not a bad idea. We probably need to do that and maybe try to put some dollars behind those. You know, what does this mandate in real terms really cost a district? Or is it just a general administrative, you know, burden that then requires additional administrative staff? You know, when I think about Grand Island and the administration that we've added in the last 11 years, the only area that we've added is in dealing with NSSRS and CDC in the different reporting requirements for the student data system and the staff data system. We haven't added additional other staff. It's just to deal with those things so we have that information. At this day and age, though, you know, it is critical that we have good flow of information back and forth between the local education agency and, you know, certainly the state and federal government. So I don't want to downplay the importance of being open and honest and transparent with what we're doing and how we operate. Vitally important. Are there methods and technologies and means that we can do to try to reduce that burden? It might be a good question to ask, so. [LB236]

SENATOR SULLIVAN: Thank you. [LB236]

SENATOR HOWARD: Any other questions? Don't see any. Thank you for coming in. [LB236]

VIRGIL HARDEN: Thank you. [LB236]

SENATOR HOWARD: Any other opponents? [LB236]

CHUCK CHEVALIER: Good afternoon again. Chuck Chevalier, and the last name is spelled C-h-e-v-a-l-i-e-r, and I represent South Sarpy School District #46. I have three children of my own and I would tell you I told them, quit whining, and so please don't see me as the big whiner that comes up here and whines because I know you have hard work to do and I know the position that you're in. But I can't conscientiously represent 1,000 kids and not come up and quickly testify against this bill. They would find education elsewhere but our district would be done. We have a \$13 million budget. Our budget for next year will actually go down and we would lose about \$3 million on LB236. And so in our situation, those kids can open enroll in districts that are less than ten

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miles away and we would lose kids and the funnel would go down and we would lock up the doors. Yeah, the kids would find education elsewhere, but they're comfortable here. Our district and our community members feel strongly about their school system and I just, you know, I would say about the same things as I did in the other testimony if I try to give you reasoning for that. But I just felt like I had to represent those thousand children that go to our schools. Thank you. [LB236]

SENATOR HOWARD: Are there any questions? I don't see any. Thank you for staying around to testify. [LB236]

GEORGE CONRAD: George Conrad, DC West, spelled, C-o...not DC West, but Conrad is spelled C-o-n-r-a-d. (Laughter) I appreciate having bills back to back because then I can finish my bullet points from my previous conversation. Seriously, one of the last things that I would say is that I would request that you consider some of those special circumstances that we find ourselves placed in as a part of the Learning Community. I considered what Senator Avery asked me earlier so where's the line and, obviously, LB235 is going to be far more favorable than LB236. Do I genuinely believe that we would indeed close our doors? Absolutely. I would tell you that I think that I have gone out on that limb to actually provide you with dollar numbers because there's always someone in the crowd who's more than happy to say, well, George, that's not right. You got a million here. Well, you've got \$2,000 here. You got \$200,000 there. I genuinely believe in the information that we have collected as business managers, who meet monthly by the way, and the Learning Community, that I speak with the authority of greater minds than I when it comes to understanding budget and understanding local resources and state resources. So I would also concur that it's difficult for me to address that. I would say one final thing. And the one final thing that I would say is, what you're faced with, obviously, and I know I'm speaking the obvious, is efficiency versus effectiveness. Because when you look at the performance of students at DC West, the third highest poverty district in the Learning Community behind OPS and Ralston, and you look at our school performance scores on the state Web page, or you listen to the Governor mention that, oh, yes, DC West, one of the top five reading scores for C-1 schools, and actually we'd be number three if we were a Class A school. The fact is, we've provided that effectiveness. Now the question becomes, at what point do we have to reduce some of that expenditure? We've had...we've had small class sizes long before there was any incentive for small class size at DC West. Interestingly enough, a bill like LB236 would also take us out of the running for the potential to even qualify for small class size reduction benefits in another part of the state aid formula. They're all connected. That's all I have to say. Thank you. [LB236]

SENATOR COUNCIL: Quick question. [LB236]

SENATOR HOWARD: Senator Council. [LB236]

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SENATOR COUNCIL: Thank you, Senator Howard and thank you, Mr. Conrad. And I was looking at the data that you provided, and maybe I didn't turn it over because I was looking to see, what does DC West levy at? [LB236]

GEORGE CONRAD: What do we levy at right now? [LB236]

SENATOR COUNCIL: Right. [LB236]

GEORGE CONRAD: We levy at the maximum, \$1.05 for our General Fund. [LB236]

SENATOR COUNCIL: Okay. [LB236]

GEORGE CONRAD: And I'm glad you asked that question, Senator Council, because the reality is I can't speak for all the small school districts as we talk about needs stabilization, but the reality is, we're not one of those districts who are at \$1 or at 98 cents. We have no place to go and remembering that 95 cents of our levy goes to the common levy and comes back to us at a far reduced proportionality, really shows the impact of needs stabilization because it reduces what we get from the state with no power to generate additional money. Now some people might say, well, why not a levy override? The reality is, if you look at the potential cuts in LB236, for example, we potentially would need to pass a levy override of over 23 cents. We're about \$68,000 per penny, so to recover \$1.6 million, that's a lot of pennies. And quite frankly, the social political issue there is, wait a minute, George, do you want us to pass a bond election because most of our money is going somewhere else to the common levy? And now you want us to pass a bond election to continue to educate our own kids at that same level? That's a difficult...difficult things to address. [LB236]

SENATOR COUNCIL: And where is the...your average per student expenditure? [LB236]

GEORGE CONRAD: Average per student expenditure? Good question. Honestly, I can't answer that question. I want to say it's around \$12,000. It is high. It is not the highest within our five above, five below array. I think when I talked to Tammy last year, I think we were third at the top of our five above, five below array. But in terms of our counterparts in the Learning Community, we are definitely on the high side there. Obviously, there's some obvious issues there. You know... [LB236]

SENATOR COUNCIL: I'm just trying to get some understanding. [LB236]

GEORGE CONRAD: Absolutely. [LB236]

SENATOR COUNCIL: And when we talk about the array, and again correct me if I'm wrong, there wouldn't be a district in the Learning Community that would be in your

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array? [LB236]

GEORGE CONRAD: That is a correct statement, yes, ma'am. [LB236]

SENATOR COUNCIL: Okay. Thank you. [LB236]

SENATOR HOWARD: Senator Haar. [LB236]

SENATOR HAAR: When you've heard so many details and so on today, but again getting back to the big picture. And, of course, we're all concerned about how children...what happens to our children. And one of the reasons I'm so concerned about school funding is what you miss in the third grade you don't just pick up when you go in the fourth and so on. But then on the other hand, there was someone at one of the tax meetings in the summer that...and this is a literal quote, said, we are such a rich country we shouldn't pay any taxes. And that was in Nebraska. How do you respond to somebody? Because that's the other end of the spectrum and that's the pressure that we get all the time. [LB236]

GEORGE CONRAD: Interesting. Interesting question. If I was so rich as a taxpayer in this country, then I should be willing to give more, I guess, would be my response. But then I'd start sounding like Warren Buffet, wouldn't I? (Laughter) And I don't make anything close to what Warren Buffet makes, I can tell you. You know, it is. It's a difficult question, Senator. I will tell you that I value my quality of life here in Nebraska. And it does not go past my observation that we continue to be a state that's still in the black. When I read articles about my home state of Illinois where I was born, and the financial issues that they're struggling with in education, well, their whole budget, let alone education, so I count my blessings. [LB236]

SENATOR HAAR: Yeah. But, I mean that's the other part that we all have to face as well as... [LB236]

GEORGE CONRAD: Absolutely. [LB236]

SENATOR HAAR: ...people who are generally fed up with taxes, period. [LB236]

GEORGE CONRAD: And again, the other issue I think that you deal with is, how do we meet the individual needs of 253 districts? You know, people say to me, George, well, good grief, if your program is so good at DC West, then why the heck aren't you attracting more kids, you'll have a growth factor, you won't have these problems? Well, they don't understand that I live in a flood plain 56 miles, square miles make up my district and virtually all of those miles are in a flood plain. That may not mean anything to you, but to Century Homes it means a lot because they can't build houses with basements, therefore no starter homes, no kids coming into my school district. The only

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homes that are new homes for us are lakeside dwellings that cost more than \$1 million, generally not available to beginning families with kids in school. [LB236]

SENATOR HOWARD: Thank you so much for coming in today. [LB236]

GEORGE CONRAD: Thank you. I appreciate your time also. Good luck. [LB236]

SENATOR HOWARD: Could I ask how many more opponents we have to testify? None. Do we have any neutral folk? We don't, so would you like to do a closing? [LB236]

SENATOR ADAMS: I don't see a point in it. [LB236]

SENATOR HOWARD: I see. (Laughter) Didn't want you to be shortchanged here. [LB236]

SENATOR ADAMS: I don't see any loose ends that have to be tied up here. As soon as Senator Heidemann gets here, we're going to proceed on with LB130, so we'll stand down a moment or two until he arrives. If I could have everyone's attention, it is late and the good Senator Heidemann is here and he'll probably need a couple of hours, so we probably ought to get started. [LB130]

SENATOR HEIDEMANN: This is actually early for Appropriations. I just thought I would let you know that. [LB130]

SENATOR ADAMS: Well, it's really going to be early for you in April, isn't it? (Laughter) Go ahead, Senator. [LB130]

SENATOR HEIDEMANN: Senator Adams and members of the Education Committee, I'm Senator Lavon Heidemann, spelled H-e-i-d-e-m-a-n-n, representing District 1 in the southeast corner of the state. I'm here today to introduce LB130. Under LB130 if the amount calculated for the Tax Equity and Education Opportunities Support Act is different from the amount appropriated, the State Department of Education would proportionately adjust each school district's formula need. This authority to prorate would apply only to school fiscal years 2011 and 2012, and 2012-2013. I'm just going to kind of wing it from here. I am putting this out here, hopefully, that we probably don't have to use this. It's my thought to present this to the Education Committee and that they would just at least leave it lie. As we all know, we have two Forecasting Boards that we have to deal with yet and one is in February and one is in April and it's the April one that always catches us. And it's my thought that you're going to be quite a ways down the road with the process of already having dealt with your formula. What this would do if things don't treat us like we would like from the April forecast, is to give us a tool to make things work late in the game. Whether the Education Committee and the

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Legislature as a whole would think this would be a good tool is probably to be determined. But looking at the budget situation and the challenges that we have before us, I felt compelled to at least bring this to you. And what you do with it from here is, of course, up to your discretion and what you think is needed. But I think it's something that we need to at least look at. Once again, hopefully, you don't IPP this thing this evening. (Laughter) But just to have it in your toolbox in case things don't go as we would like, not only in Education Committee, but also in the Appropriations Committee because our two committees are tied more than you think they are. And what you do affects us quite a bit. And what we do actually affects you quite a bit also. And this could be a tool late in the game that could come into play. With that, we are having a lively, a very lively discussion in Appropriations today so I think I am going to waive closing, if that's all right. If you have questions on this, I would try to answer them and we can go from there. [LB130]

SENATOR ADAMS: Are there questions for the Senator? Senator Sullivan. [LB130]

SENATOR SULLIVAN: Just a...I know you're in a hurry to get back there and we can't be there to hear...be privy to your discussions, so I'd like to know initially, you know, and there's all sorts of speculations all over the board as to what our economy is going to do and this balancing act that you have to deal with in Appropriations, are you in a positive frame of mind or a negative frame of mind? (Laughter) [LB130]

SENATOR HEIDEMANN: If I would have to guess, and what my guess is worth, would be left up to you to decide. I really hope that February...I'm thinking that February and April won't treat us too bad. We haven't had that luck in the last few years, I will say. Especially in 2010, there was some very late corrections and actually some of that had to do with state aid. There was a recalculation late in the game that cost us millions of dollars and that we had to deal with. And maybe if we would have had this in 2010, we might have handled things differently, I don't know. [LB130]

SENATOR ADAMS: But then we saved you money later in the financial status. [LB130]

SENATOR HEIDEMANN: We always forget that in Appropriations. (Laughter) [LB130]

SENATOR ADAMS: Senator Avery, did you have a question? [LB130]

SENATOR AVERY: Thank you, Senator Adams. Senator Heidemann, is it fair to classify this as a rather blunt instrument of budget management? [LB130]

SENATOR HEIDEMANN: I wouldn't want to say blunt. I mean, I've had people, after I introduced this and this was not my intention, that they came up to me and said, this is a great idea. Why don't we do this more often? And I realize that's not going to be accepted, you know. And that's not the reason that I did this. I was a little bit nervous

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that, as I said before, if we got to April and things weren't working out, we wouldn't have anyplace else to go to. And this, to me, would be someplace to go to. [LB130]

SENATOR AVERY: But we've worked with the TEEOSA formula for as long as I've been here, and I think it's been around since 1990. It's very complicated. Not a whole lot of people understand it and I understand that it's frustrating for people, but it's not without its merits. But what you would do with this proposal would be to essentially override the TEEOSA formula, right? [LB130]

SENATOR HEIDEMANN: My question to you over the last three years, have we funded the formula or we took the formula to the funding? That's a question that... [LB130]

SENATOR AVERY: We used the formula to reach a number, a funding number. [LB130]

SENATOR HEIDEMANN: And what difference would my thought here be than what we have done over the last three years? [LB130]

SENATOR AVERY: Well, at least... [LB130]

SENATOR HEIDEMANN: I don't want to get into this discussion to be right truthful. [LB130]

SENATOR AVERY: Well, at least with TEEOSA, though, we have in there the means to manipulate different parts of the formula without doing harm across the board to schools. [LB130]

SENATOR HEIDEMANN: Theoretically, if you prorated though, you would be staying under...you wouldn't have to deal with equalization, would you? We're getting a lot deeper than what Senator Heidemann wanted to go with this. (Laughter) [LB130]

SENATOR AVERY: All right. My guess is, we'll hold this in committee and you decide later or we'll decide later whether we need it. [LB130]

SENATOR HEIDEMANN: It is my high, high hope that we don't need this. [LB130]

SENATOR ADAMS: Senator Schilz. [LB130]

SENATOR SCHILZ: Thank you, Senator Adams. Senator Heidemann, thanks for coming in today. Don't want to keep you too long, but everybody is sitting here talking about...at least from my thoughts here, everybody is looking at this as, this is what we'll use if we need to cut even more drastically, correct? I mean, that's the assumption, right? [LB130]

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SENATOR HEIDEMANN: You could actually use this to increase it if you wanted to. (Laughter) [LB130]

SENATOR SCHILZ: That was my question. Depending on what happens, this vehicle could be used either way, couldn't it? [LB130]

SENATOR HEIDEMANN: It could be, yes. [LB130]

SENATOR SCHILZ: Okay. Thank you. [LB130]

SENATOR ADAMS: Senator. [LB130]

SENATOR COUNCIL: I guess I'll respectfully beg to differ. If we establish what the TEEOSA formula is, it's going to set a specific amount of money that would need to be appropriated. I'd...in response to Senator Schilz's question, I don't see anything in the language that would say that this would allow the Appropriations Committee to say, okay, we have more money so we're going to increase the amount of funding under...because the formula is going to result in a specified sum of money being needed. And that's how I see your bill that there's a specified sum of money. If we were to approve LB235 today, it would say we need \$845 million for state aid and if the forecasting comes in and we take in far more than anyone imagined, there's nothing in the bill that you introduced that says you could adjust the formula to use the money. [LB130]

SENATOR HEIDEMANN: I think if Warren Buffet decided to give the state of Nebraska a bunch of money today that there could be some tweaks in that...tweaks in this language and I think we could make it work. [LB130]

SENATOR COUNCIL: Okay. Okay. [LB130]

SENATOR ADAMS: Or tweaks in the existing formula mechanisms too. (Laughter) Are there other questions for the Senator? Senator, did you say you were going to waive closing? [LB130]

SENATOR HEIDEMANN: I'm going to waive closing. Good luck. Very much, this year, good luck. [LB130]

SENATOR ADAMS: Thank you. We'll take proponents to this first. Senator, you might want to stick around and see if there's any proponents. [LB130]

SENATOR HEIDEMANN: There's usually not many with my bills. (Laughter) [LB130]

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SENATOR ADAMS: I can relate to that. Are there proponents? If not, then we'll move to opposition testimony. [LB130]

JERRY HOFFMAN: Chairman Adams, committee members, my name is Jerry Hoffman. For the record, J-e-r-r-y H-o-f-f-m-a-n. I represent the Nebraska State Education Association, and just real briefly, going on record in opposition of LB130. For us LB130 represents an erasing of over 20 years of this committee's work on moving a formula from being foundation into equalization and now trying to measure to the best extent you can, the actual cost of delivering equal educational opportunities to all children in the state. And while you may not necessarily fully fund that needs number, it's always set forth as a goal that you try to achieve, and try to achieve as you might in the current circumstances and in good circumstances as well. So with that, I'll open it up to any questions that you might have. [LB130]

SENATOR ADAMS: Are there questions for Jerry? Thank you for your time today. [LB130]

JERRY HOFFMAN: Thank you very much. [LB130]

SENATOR ADAMS: Are there others in opposition? [LB130]

STEVE COLEMAN: Very quickly. My name is Steve Coleman, S-t-e-v-e C-o-l-e-m-a-n. I represent the Papillion La Vista Schools. And I simply wanted to add to the opposition by stating, I hope the committee does indefinitely postpone the bill. It is not something that we would want the committee to be tempted to consider later and mar the work that you've done in working within the existing TEEOSA formula to date. I think the processes in dealing with funding of schools should stay within the committee and the committee has that background, that expertise in being able to look at districts individually. That's what we're based on. If we're seeking simplicity, maybe there's an argument. But the process of treating the districts throughout the state of Nebraska within the formula, the way we've grown to become accustomed since...I started working on this formula, Senators, in 1990 with Senator Withem, as we've moved to this. And to get to a point now that we'd say, we're just going to split up the pot proportionately, I think it's contrary to many of your efforts that you have taken so far. And that's what I wanted to add and I thank you. [LB130]

SENATOR ADAMS: Thank you. Are there questions for this testifier? Thank you. Next opponent. Is there any neutral testimony? And Senator Heidemann waives closing, so that will end the hearing on LB130. And the good Senator Pahls is here, so we will begin introduction, Senator, on LB247. [LB130]

SENATOR PAHLS: Good afternoon, Senator Adams and... [LB247]

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SENATOR ADAMS: Almost evening, but... [LB247]

SENATOR PAHLS: It truly is. My committee got over about an hour ago, just to let you know. (Laughter) [LB247]

SENATOR ADAMS: Should I feel good or bad about that? [LB247]

SENATOR PAHLS: (Exhibits 4, 5 and 6) Well, you should feel good because you're doing good things. And what I'll do, I'll try to condense some of mine, my ideas, because I'm looking at concepts here is what I'm really, truly looking at. And I think my notes are being sort of passed around so I'll...let me ramble through this. My name is Rich Pahls, R-i-c-h P-a-h-l-s, and I represent District 31. I'm truly glad that my bill was scheduled on the same day as the bills to make cuts to state aid to schools. To me, now is the perfect time to take a look at schools' spending priorities. My bill requires school districts to spend at least 65 percent of their funds on direct classroom instruction. As we all know, learning begins in the classroom and classroom instruction is the basis of all education. Many school districts already meet the standards in my bill, but many do not. And we'll discuss that a little bit later on in our...when we start taking a look at the numbers. My bill does not...I'm saying does not create any new reporting requirements for the school districts. The financial reporting requirements in the bill are based entirely on the financial information already reported by school districts. The bill uses the same categories or the word "functions." My point is this. My bill does not create any new burdens on school districts. The only change is how much the district spends in each category. LB247 does not leave the school districts who do not meet the standards high and dry. Under the bill, there are no sanctions unless the district does not meet the standards for three years in a row. Budget variations do vary from year to year that may cause a district to dip under the 65 percent requirements for districts. Under the bill, the Commissioner of Education is given the authority to create an intervention team to assist the district board of education, the superintendent, and any other school official to assist the district in getting back on-board. School intervention teams are a part of the federal turnaround model for school districts that use federal funds. The commissioner and the State Board of Education are in the process of creating school intervention teams as part of school accountability standards. So I'm not inventing anything new. If a district stays under the 65 threshold for three years in a row, it could lose state accreditation. But again, I'm not interested in punishing districts. Under the bill, the Commissioner of Education can waive the loss of accreditation penalties if the district has a plan in place to put it back in the 65 percent or better range. Now I have introduced this concept in the past. The current financial situation should make it very clear if we're going to force districts to make cuts, we need to set our priorities where the cuts are made. We may be forced to cut spending in classroom instruction, but we should ensure that these cuts are made in a way that we know that classroom education is still the number one priority in spending for a school district. Now what I'm going to do is...I have a handout of a fiscal note of this bill. And you'll need that because

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I'm going to talk...I'm trying to talk...at the end of the day, I'm trying to use some visual just to help keep myself not only focused, but to help move the conversation along. I'm handing out a fiscal note that we received today, and I'm going to just go over a couple points on this that I want you to take a look at. I'm not going to read the whole thing but in the middle of the page you see a box, 2008-09, and 2009-10. What I'd like to have you see, in 2008 and '09, look at the very bottom of that, it says 60.4; 2009-2010, that dropped to 57.65. So to me it looks like direct class of instruction did drop, if you take a look at the numbers. Now there may be various reasons why that did happen, but I'm curious why it would drop. And that's one of the things I'm trying to see. Now if we would follow this bill to the nth degree, I want you to look at the boxes right below that. As you can see...and these numbers came from the Fiscal Office, not from me. As you can take a look at the enrollment of the school size, if we had a 65 percent rule, that's the way it is, you could see how many districts there are less than 250. There are 90; 87 would not make the requirement. As you go down the line you can see all the way to those schools less than 5,000...or more than 5,000, you can see six would not make it. That is if we held fast to the 65 percent rule. Now what I want you to do is flip over to the page and you can see now, let's say that we would include federal dollars into the...and they're saying out of a \$1, 85 percent...and they have no way of knowing this, but they're saying, they're figuring 85 cents of the federal dollar goes into the classroom. Now I personally may question that, but let's say it does. So now you add that into the formula, you'll see there's a difference. Take a look at the number of schools that if we include federal dollars, of the 90...I'm starting with the smallest, 250, 90 of those schools, 51 of them would not make it. Now if we go all of the way down to the bottom number which is the larger schools, only two would not make it, the 65 percent rule. That is, if you had the federal dollars. And you would be surprised at some schools that wouldn't do...would make the cut and would not. Now then I want you to go down to the bottom of the page because we're always looking at the fiscal impact. They said there would be no fiscal impact of this because you'd automatically assume the Department of Education, they want another individual over there who is going to come out, if they have the intervention team is going to take a look at all of these schools. But they didn't take into account that a lot of schools, once they start seeing this and saying these are the rules we're going to play by, chances are they would probably make some of those decisions. They wouldn't need an intervention team. But now there may be some schools that do need an intervention team that come in if it's a significant difference. They give a period of years to do it. So that's what I'm saying is, and the reason why I came up, or the idea of intervention teams is thanks to Senator Sullivan. Because the last time I was in front of this, she said, okay, Pahls, so what? If they don't do anything, so what? I said, well, my so what is, we have an intervention team come in and then the lack...lose their credibility. Or their...well, right, they'd actually lose something very significant. So they're going to take this seriously. And people say...another question I think Senator Adams asked, well, what about, you know, it all starts at the local level. Well, I think once you start receiving more and more money for other than the local level, you do lose some of those...what I'm going to use, some of those rights. The state

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needs to know that there's some accountability. So those are my answers to those questions. Again I'm showing what happens if you don't include federal dollars and if you do include federal dollars. And the reason why...and I'll have my next handout, and you can see why it does make a difference. And, like I say, these numbers on these page...this page I gave you on fiscal note, that came from Fiscal Office. I did not have access to the current numbers. We went to the Web site and we pulled up the numbers off the Web site, and that will be the colorful packet that I want to talk about. And you're going to be able to see that these are old figures but this is all that I had access to. So you see there are ways of looking at federal dollars included in, not included in. There's a difference. And you'd be surprised at those schools that do make it and those who do not. Because automatically may say, may assume that Omaha wouldn't make it, with federal dollars they would. Other school districts would not, necessarily. But you also got to realize they do receive a nice chunk and the reason I'm saying it, they're the largest school district. Now you may have seen these, but I just want to go over to prove some of my points. Okay, on...and I've numbered the pages, but page one basically is the pie what I'm looking at. And if you go below it you see the chart. You see all instructions, support services for pupils, staff, central administration, office of the principal, maintenance, and so forth. And you can see for the state how much money is spent in those particular areas and the percentage. For example, for the state the percentage is 60.46. I just want you to start taking a look at that because what we need to start investigating more is, not only is the school district obtaining the 65 percent into the classroom, but maybe we ought to look at some of these other functions or categories to see maybe they could even improve if they so chose. On page two is just a further breakdown of all instruction. So if you take a look at all instruction and you pull up on the Web site, you would see regular limited English, poverty, early childhood, special ed. You would see that under all instruction. That's the part that I'm really aiming at. You see what I mean. That's the part that I'm saying (inaudible). Then let's move over to page three. That is support services for pupils. And again it shows the things that fall under that. And then if you really want to delve into it deeply, and you may have, I don't know what you have, there is a booklet that even breaks these things down even in more detail. I mean, much more detail. But the information is out there, it's just having access to it or understanding it. Okay, on page four, that's support services for staff. These are just a little more description of what's going on. Central Administration. When I first started taking a look at it, gee, you know, I never even thought that the Board of Education would fall under that. Look at how much money statewide we spend basically on the Board of Education and its functions. And it breaks that down further on. I'm just going to keep going. Page six and seven, they're just more descriptions. The one surprises me that in some districts, on page seven, their maintenance and operation really surprises you. You think, oh, gee, there are a lot of new buildings but they're high on maintenance. You wonder why. I don't know the answer but it does cause a person to think about it. And I'm sure there's rationale for all these decisions that are made. Well, I'm going to move past eight, nine, and now I'm going to go on page ten. Because I'm going to go now to some individual schools and I'm doing Bellevue Schools right

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now. Senator Cornett, I wish you were here, and I understand the reasons not to be. But if you take a look at, on page ten, you can see the pie chart, then you could take a look and see the percentage. Now all instructions, they are sitting at 61.55. Of course, again if you go down to a federal and you'd add that into it, you would see that that would shoot them up. But again, that's assuming all of the federal dollars are going into that. Well, then let's take a look at page eleven. It even breaks it down more so you can see. Let's take a look at central administration on page eleven. State average is 5.36. In Bellevue, the average is 3.73. Now to me, that's a significant difference. I mean, it looks like their central office is mean and lean. And it even looks like their office of the principal is mean and lean. There may be reasons for that. I do not...like I say, I do not know. And then, Senator Sullivan, on page twelve, take a look at your district. Again the pie chart...and again, I'm looking at the big red slice is 58.41. Now if you add this in, you can see that it would not make...right now, just roughly, this year, now this is year 2009...this is school year...oh, let me see, I lost it, 2008-2009. This is the information. Now there may be a reason for that. Take a look at their maintenance. Their maintenance is 11, which is, if you look over on the other page, it's a little bit higher than at the state level. Central office, they're 9.43, the state average is 5. Office of the principal, they're lower. Now there may be a reason because of the configuration of that school district. There may be a legitimate reason for that, but it's going to allow us to start taking a look at that because I'm sure if I worked in central office in some school systems, you hear, oh, we have too many central office people. Well, then you'd look at this and say, oh, maybe not, or the reason why we have is because of the way we're organized. It doesn't make them good, bad, or indifferent. It's just the way that particular school operates. But they may have to look at what they're doing. And then...okay, Elkhorn, Elkhorn is right now, they're way above if you take a look at theirs. If you look at all instructions and add in their federal, they would be...we could almost hit the goal at 70 percent. And let's go over there and take a look at their central administration, on page 15. Central for the state is 5.36; they're at 3.6. Their office of the principal is 5.2...4.52, lower. And they spend more money, apparently, in the classroom. Wonder why? I don't know. Something to think about. And their maintenance is higher than the state average but there's probably rationale for that. Avery, I've heard you...Senator Avery, I've heard you make some comments about Lincoln Public Schools. Well, looks like, if you add in there all instruction and their federal, that they were doing quite well themselves, if you add both those figures in. If you include the federal dollars, then keep in mind, that's assuming that 85 cents out of their dollar goes into the classroom. I don't know if it does or not. But then let's take a look at their central office. Lot of times I've heard people say they're, Lincoln, are overweight. Well, by looking at the information that they report to us, they're significantly lower. Looks like they do more to the office of the principal, when the reason why I probably would like something like that because that's getting closer to the child. And we have Malcolm. You take a look at that, you see the numbers. And you can see that it would be below but pretty close. Then again you look over here, what they do. Their central administration is 8.57; the district state is 5. They're significantly higher. And there may be a reason for that. I'm not saying. Support

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services for people is higher than the state average. Their staff support is lower. So this is part of the information. I'm going to bypass Millard. Let's go to Ogallala and you can see where Ogallala, they would do pretty well. Then you take a look at how they're sitting over here. Their central office...or central administration, is 5...state is 5.37. They're 3.57. I would say it looks like their staffing is pretty on top of it, you might say. Their office of the principal is higher. That must mean they have more administrators closer to the children. That's how I look at information like this. It doesn't mean that one...in some districts, like I say, may have other demands than others. Okay, let's take Omaha. I think we have Senator Council and Senator Howard. If you take a look at their all instruction is really low, if you take a look at, before you add the federal, once you add the federal, which is significant. But it is interesting to note that they, compared to all the other schools districts in the bracket, not dealing with federal dollars, is significantly lower. So that would make me think a little bit, why does that happen? But they would meet the .65 if you would add in the federal dollars. But I would...the question I would look if I were an intervention team needed to go there, which you wouldn't under the current thing, that was something I would look at. Then again, I would look over here at central administration. You hear how they're always...they're overloaded. I mean, I hear that. Well, by state average they are above but they're not significantly. Again, that's percentages. Once you start figuring out dollars, it does change. You know, a percent, change it to dollar bills, there is a difference. The office of the principal, they spend less. Now to me, I would look at that automatically and I would say...I would say, gee, a school that really needs people with hands on, you need an administration hands on. You don't need as many as up here. You need them down here. That's why if I was an intervention team going into a school, that's what I would look for. Those are the things to look for. Not to punish, not to say you're doing a bad job. Have you thought of reallocating your resources? Or especially if you need more resources. And then I did this one just because I like to razz Fisher, Senator Fischer. (Laughter) She's a friend. But her school district does very well. I mean, if you add in the all instruction, you add in the federal. And then again, if you look at their central administration, she ought to be tickled because it is significantly below the state. And their office of the principal is about right on. And the thing...and then, of course, Senator Adams, not leaving you to last but, I... [LB247]

SENATOR ADAMS: Let me have it. [LB247]

SENATOR PAHLS: ...you know, but again if you take a look at a 63 and add the 4, that makes it. So that school would not be under...needing an intervention team come in. And then if you take a look over...let's take a look over at their central administration. It is significantly lower. And then their office of the principal is higher. See, the part of the reason why I like that is because you're trying to get the bodies closer to the bodies. But the argument may be that we need this large central office or we need as many people as we have because we need to delve the resources out and things like that. I mean, we could get in an argument like that. But what I'm trying to do is, even though I know

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some people don't necessarily support the concept of basically forcing schools to go into 65, but if we take a look at that, and if we would add in the federal, that number would drop down. Because it does appear that we have schools that do need to have somebody come in and take a look. And it looks like its skewed towards the smaller schools. It's not the larger schools that they may need help. But also, I'm a realist, when you get so small, sometimes you have to have...you know, I mean, you need so many...I'm just, support staff, you need so many secretaries, so many custodians, so many bus drivers, you just need that and class sizes because of different...I'm not telling you something that you do not know. But again, I'm trying to get people to, number one, you'll have a good argument if you say, hey, we meet these standards. Right, we may need to look at some of these and I am of the belief that if the people think that we're being as honest and clear to them how we're spending dollars on children, I think the support is there. It is when you hear the rumors, there are too many administrators, are there too many support staff like too many paras or things like that, and it takes away. If we can say, no, take a look at this. And if we are...if we do need help, we're willing to listen to people. Because I think the school boards have...it's difficult. If I were on a school board, and I know several of you have been on it, it is very hard to analyze all that information. I don't care because you have another life, but it is hard to stay on top of that. Even as a school administrator it was hard for me, you know, to stay on top of it. But the neat thing about it is, right now, in the school district that I did leave, the superintendent could push a button, he could see that the class results, the children...one class in the particular school or my budget, just like that. Had immediate access to it. So I think the information is there. I just think we need to get it out and make it so people really understand it. That's the end of my story. [LB247]

SENATOR ADAMS: Senator Avery. [LB247]

SENATOR AVERY: Thank you, Senator Adams. I liked your idea the first time you brought it to the committee. I like it now and I really like your exhibits. But the one question I think I asked you then, and I don't remember your answer or I wouldn't ask it now, but how did you come up with 65 percent? Is that some national standard? [LB247]

SENATOR PAHLS: Yes, that is when you take a look at the...you know, literature around the United States, that's a common number that you hear, 65. Now if you want to, I would be very happy if you go to 70. [LB247]

SENATOR AVERY: Or 75. [LB247]

SENATOR PAHLS: Or...right. Well, no, I mean, we have to be realistic but if we do look at some of these numbers, then we're going to...we'll have people...if I were all of a sudden, I would start looking as a patron, I would start taking a look at some of these functions more seriously. You know, if I was very dissatisfied at my school that it

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seemed to be overrun with kids and not enough teachers or administrators at the local level, I'd say, what are we doing otherwise. And they may be strapped. They may not be able to. But I do think the federal dollars is what helps, that helps a lot of schools. [LB247]

SENATOR AVERY: Is that money generally all instruction? [LB247]

SENATOR PAHLS: Well, the Fiscal Office, they told me that they didn't have an exact number for that. They were saying 85. Inside me, it tells me, I don't know if 85 cents of every dollar on the federal level gets to the classroom. I don't know if it does, but I wasn't...I don't want to argue...not argue, but that point is not something that...I think we ought to eventually get to a... [LB247]

SENATOR AVERY: It doesn't change the overall point you're making if you add those federal dollars into instruction. [LB247]

SENATOR PAHLS: Right. The only thing about it is if instead of adding 85, let's say 75 cents of the dollar that would drop what would hit to the classroom, but an awareness is what I'm thinking about. [LB247]

SENATOR ADAMS: Senator Haar. [LB247]

SENATOR HAAR: Well, first of all, Senator, I appreciate the work that you've been doing on sales tax and so on, but Senator Adams has been beat up so badly today....(laughter) [LB247]

SENATOR ADAMS: Used to it. [LB247]

SENATOR PAHLS: Yeah, I was watching a little bit of it. [LB247]

SENATOR HAAR: No, he's used to it so I don't worry about that part of it, but...and I think I'm all for transparency and I'm going to have an energy transparency bill that we talk about and so on. But if we really were to follow through on this, I'm afraid we'd need almost a TEEOSA 2 because, for example, when you look at the small schools, some of them, busing takes up I believe as much as 40 percent of their budgets and so on, so. Although I think this information should be available to citizens, I think setting a standard without equalizing that standard would be doing great disservice to some of the smaller schools in particular. [LB247]

SENATOR PAHLS: May I respond to that? [LB247]

SENATOR HAAR: Oh, sure, please do. [LB247]

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SENATOR PAHLS: Yes, I understand because that's the reason I would be very open to people thinking like there are some schools that we know are going to be behind an eightball because of the size or something like that. But also, I think if we would take a look at that, and then if we are concerned about property taxes and things like that, then the idea comes, okay, can we support or afford this school, etcetera, etcetera. Then decisions can be made locally because if you do have to raise property tax, then you would have a selling point. I mean if you want...if transportation, because I know it must be a big deal in Omaha, if that's an issue then you'd have to work around that. And I hear you loud and clear. Like I say, there are some schools...and I know another thing you need is a subset of TEEOSA, you know. [LB247]

SENATOR HAAR: But, you have some of the characteristics of a philosophy teacher when they ask you these questions. It just makes you think, you know, and I appreciate that. [LB247]

SENATOR ADAMS: Senator Council. [LB247]

SENATOR COUNCIL: Yes, thank you, Senator Adams, and thank you, Senator Pahls. And I don't think there's anyone on this committee who would take issue with the goal that your bill seeks to achieve and that is as much educational funding goes directly to impact students. But I must, and I will take issue with some of the items that your bill doesn't recognize as being direct classroom instruction for purposes of arriving at the percentages. And, in fact, when I first picked up your bill, the first thing that jumped out at me was summer school. And I looked at it and I harkened back. I ran for the Omaha Board of Education in 1982 and I ran because the board of education eliminated summer school. Now we're looking at the number two goal of the P-16 Initiative being reducing the achievement gap and yet we don't count one of the mechanisms that school districts use to bring children up to grade level, and those are summer school instruction opportunities. And not to include summer school as a direct classroom instruction, you know, I take issue with. And also, when you...inclusion of special education instructional programs and an exclusion of special education transportation, when I know from the Omaha Board of Education perspective, a significant percentage of that special education transportation is for children who have physical disabilities--they couldn't be in the classroom but for the transportation being provided. So I think there has to be some balancing of that and I would be very supportive if the programs that I know to involve direct classroom instruction were included, not only on the expense side but the funding side, the federal program dollars I think they need to be. And when you look at the chart for OPS and it's more than 4 percent above the state average in terms of federal funding, knowing that that's due in significant part to the fact that OPS educates the overwhelming majority of children in this state that have special needs--be they language, physical, mental, those related to poverty. And when we look at...you made the statement about paraprofessionals and counting them. Well, in many instances in terms of direct classroom instruction, because of the needs of the children,

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that classroom teacher needs that paraprofessional there, and if you look at page 25, Omaha Public Schools spends significantly more than the state average for support services for pupils. So, I mean, I don't know how you would bring those all into play. And then looking at the bill, if the intervention team is sent in and they're able to demonstrate that support service, the money that is being spent for support services for pupils are actually impacting direct classroom instruction, that summer school actually impacts the direct classroom instruction and represents a significant budgetary item, I don't see anything in the bill that would allow some override, except there's a provision that says that if you adopt a plan that demonstrates that, you're going to get the 65 percent. I think if you're going to go this route, they also ought to be able to submit to the Commissioner of Education evidence that notwithstanding how these programs and activities are categorized, that it's actually impacting direct classroom instruction, and if you counted it as such, would put it above 65 percent. [LB247]

SENATOR PAHLS: May I respond? [LB247]

SENATOR COUNCIL: Yeah, absolutely. [LB247]

SENATOR PAHLS: Well, one of the reasons why I used the reporting systems that the schools are required to report back to the state, I used their functions. I didn't come...I didn't make up any new functions and I think they do that in accordance with the federal rules. And that's the reason why I used these functions. To be honest with you, several years ago when I brought this bill forth, the same question...and I'm not disagreeing with you, was brought...was, say, you don't have the right things right. I had several people who were opposing it said, well, we'll talk to you. Never did. Never made any effort to...said, because we need to put some of these things in. Because some people would say, well, you need a building principal before direct instruction. So somewhere along the line, you'd have to say, what are...and I'm willing to sit down when people say these are the things that really, we really need for direct instruction. I mean, I'm not in disagreement with that, but like I say, I offered that. And these were professional groups, but they never came. So I just followed up on this. And I'm looking at the conceptual thought behind this, to be honest with you. [LB247]

SENATOR ADAMS: Senator Sullivan. [LB247]

SENATOR SULLIVAN: Thank you, Senator Adams. Senator Pahls, do you know if any school districts currently provide this kind of information to their patrons? [LB247]

SENATOR PAHLS: Well, what they would say is, they do have a budget report, you know, that the school board approves and they may have it on their Web site. But I think what we do, we're famous...and I was part of that process, we're very famous for giving information but not making what I call, friendly information. [LB247]

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SENATOR SULLIVAN: But some...okay, but I think some school districts do... [LB247]

SENATOR PAHLS: Oh, yes, you go to the Web sites...if you would go to the school's Web site, now is to get people to really understand the value of that. And that may be... [LB247]

SENATOR SULLIVAN: Well, and how incumbent is it then on a local school board to take a look at information and follow suit on that? [LB247]

SENATOR PAHLS: Well, I think, what I'm trying to do is say, hey, the information is there, make a judgment. Don't let me as the person who is leading the school district literally just say, this is the way it should be. And I'm not saying that that happens all over, but I think that I can confuse you with numbers, if I so choose. [LB247]

SENATOR SULLIVAN: Well, sure. [LB247]

SENATOR PAHLS: Not you, particularly, but... [LB247]

SENATOR SULLIVAN: Yes, I realize that but because there are...and I think you admitted that in looking at some of these situations that the devil is in the details, and there are a lot of variables that you're not privy to in every individual situation. So wouldn't it be better for the local school board, knowing their district better than anybody else does, to make the determination on if there needs to be some improvements or changes, rather than the state saying, okay. [LB247]

SENATOR PAHLS: Well, I don't know too many school boards who would argue since...against probably 65 cents of the dollar should go to the classroom. I don't really think there would be too many. They may argue like the categories, but I don't think...I mean, the public as a general would not argue. In fact, they probably would say, I can't believe it's that low. [LB247]

SENATOR ADAMS: Senator, more of a comment than a question but you're certainly welcome to respond. We probably ought to have 75 or 80 percent in the classroom. [LB247]

SENATOR PAHLS: It would be nice. Then add all those categories. [LB247]

SENATOR ADAMS: But I'm sitting here thinking I heard someone say, maybe it was you, a subset of TEEOSA we would be creating. I'm sitting here thinking about, okay, we've got small schools under 900 and we have economy of scale so the building divided by the number of students, and the bus divided by the number of students, and then I'm...allowances, we have one for teacher education adjustment, so if we have a schedule with a lot of MAs in it, does that just, you know... [LB247]

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SENATOR PAHLS: No, you couldn't. You know... [LB247]

SENATOR ADAMS: You get it. [LB247]

SENATOR PAHLS: Yeah, I understand. I mean, some of these things, you know, they sound good in theory but, you know, getting, making it work. [LB247]

SENATOR ADAMS: In principle, I think you're right on. [LB247]

SENATOR PAHLS: Yeah, yeah. [LB247]

SENATOR ADAMS: Are there other questions for the Senator? If not, thank you, sir. Are you going to stay for closing? [LB247]

SENATOR PAHLS: Well, I have a feeling that there probably won't be an awful lot of people speaking, (laughter) to or...there may be some, but I mean... [LB247]

SENATOR ADAMS: I got you. Are there proponents? If so, now would be the time. How about opponents? [LB247]

LIZ STANDISH: We've gone from good afternoon to good evening. Liz Standish, spelled S-t-a-n-d-i-s-h, with the Omaha Public Schools, and I just want to make one quick point. Based on our understanding of the bill as written, it automatically assumes that federal funds are not direct instruction, but holds the school district accountable for a total that includes federal funds. So federal funds, for example, in the Omaha Public Schools such as IDEA, special education, Head Start, Title I, which is required to be spent on reading and math instruction, would not be included in the threshold to meet direct instruction, but would be included in the total of what we were held accountable for. So if the committee does decide to go down this road, and I very much echo Senator Adams' comments that it would get very complex very quickly, we would want you to be very thoughtful about what you included in the deliberation on what counts as direct instruction. I understand Senator Pahls did present data. Obviously, supporting OPS with the federal programming, we would meet the threshold. But the bill as written, based on our understanding, it does not account for the federal funds. So that's simply our testimony and just wanted to get that on the record. Thank you very much for your time today. [LB247]

SENATOR ADAMS: Thank you. Are there questions for Liz? Thank you for staying around today. Next opponent. [LB247]

BRIAN HALE: Senator Adams and members of the committee, my name is Brian Hale, H-a-l-e. I represent the Nebraska Association of School Boards. This is, at its most

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general state, a wonderful goal that I think all schools would aspire to attain. The issue is, of course, as we've discussed, anytime you try to throw a uniform blanket over 250-some school districts, there are going to be lumps in the blanket. Certainly, it comes down to the details and what is in and what is out. And the only thing that...I mean, there's a number of these items at the top of page three, I think it begins in the bill about the things that aren't included. I contend to you that a lot of the things, support services for pupils, support services for safety, transportation, the office of the principal, some percentage of the principal's work is to assure that the teachers are doing their job, that they continue to improve, that they do appraisals and evaluations, those things matter in terms of what the direct instruction of the students are. And certainly that's going to be a focus coming up of the Department of Education to try to identify the effect of educator and the traits that that entails. And certainly that's going to incorporate a lot of observations, a lot of time spent, and those things all matter when it comes to the finished product of education. Certainly, food service, custodians, counselors, the professional development, summer school as was mentioned before, all of those things come together in school buildings to create the best direct instruction possible. And we believe, certainly as you've gone through the brief presentation here today, trying to analyze all 250-some school districts in the state is quite an undertaking. It seems a little bit like you would become more of a super school board to try to analyze who is doing well and who isn't. And we believe school boards in the state are doing things that need to be done to deliver education in a safe, secure, and intellectual environment. And so, obviously, the results in Lincoln and Omaha may be different than the results in Malcolm, in other smaller districts. And that's just mathematics when you put a certain...when you need a custodian, that percentage of that custodian versus the entire budget varies when you have huge districts versus small districts. The same thing goes with bus drivers. And so, we believe, while again this is a wonderful discussion, trying to implement this statewide has its mathematical problems, and we believe school boards are doing a good job to address the needs of their local communities. So with that... [LB247]

SENATOR ADAMS: Are there questions? Seeing none, thank you. [LB247]

BRIAN HALE: Thank you. [LB247]

SENATOR ADAMS: Other opposition? [LB247]

KEVIN WINGARD: Senator Adams, committee, Kevin Wingard. It's W-i-n-g-a-r-d, Milford Public Schools. I don't know if I'm an opponent or neutral, but we would be one of the school districts in Milford that would be below the threshold currently, and I just wanted to be on record to say I agree with all the senators and everyone else who has already spoken about the list. I think it's a great idea holding local districts accountable for student instruction and keeping a classroom level. But I just want to be on record as we would be one of those below and, you know, as I look at this, we don't have a BD

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Program for special education kids or an autistic program. I have six paraprofessionals that work individually with kids all day long, but according to this, I would not be able to count them. You know, I have the same issues as everybody else with the transportation and some of the support services in other areas. I kind of laughed at the maintenance one on Monday. We had a heating unit go out which affected three classrooms. Those three classrooms ended up in our library and our cafeteria for the day until we got that thing fixed. So that day my custodian was in direct contact with that classroom. (Laughter) Yeah, so I think you could debate this, like you said, with the...you know, kind of like the state aid formula, you know, all of these can be debated. And overall, I think it's something that our local district does look at all the time of where our money is going, especially now with the budget constraints. But as I look at this, there's just lots of items I think locally we can get up to our local patrons and say, well, we do meet the threshold because of these items but if there is no flexibility there, we would be on the list of not meeting this. So we've been here a long time, that's all I have to say. [LB247]

SENATOR ADAMS: That's all right. Thank you, Kevin, for staying around all day. Are there questions for Kevin? Thank you, sir. [LB247]

KEVIN WINGARD: Thank you. [LB247]

SENATOR ADAMS: Is there any other opposition? Neutral testimony? Senator Pahls. [LB247]

SENATOR PAHLS: I'll make this short and sweet. I wasn't going to respond to some of this but one of the organizations that said that they would come talk with me was the school board. Well, I've been around for a while. So I'm willing to sit down and talk. And again you can see in the discussion, people started pulling in all these peripheral things that we need for the classroom. I understand that. But I do like the idea, everyone says we need to get money into the classroom. And that, if we continue that, and if the school boards, if that's in their heart, take a look at where the money is being spent. And if you think it's being spent appropriately, I'm not going to argue with that. And I thank you for your time. [LB247]

SENATOR ADAMS: Thank you, Senator, for hanging around. [LB247]

SENATOR PAHLS: Oh, yeah. [LB247]

SENATOR ADAMS: Are there any other last questions for Senator Pahls? If not, that will end the hearings for today. [LB247]