

Transcript Prepared by Clerk of the Legislature Transcribers Office
Education Committee February 12, 2019

GROENE: My name is Mike Groene from Legislative District 42, I serve as Chair of this committee. The committee will take up the bills in the posted agenda. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceedings I ask that you abide by the following procedures. Please turn off your cell phones and other electronic devices. Move to the chairs at the front of the room when you are ready to testify. The order of testimony is introducer, proponents, opponents, neutral, and closing remarks. If you will be testifying, please complete the green testifier sheet and hand it to the committee page when you distribute-- to be distributed. I skipped a line, excuse me. If you will, if you will be testifying, please complete the green testifier sheets and hand it to the committee page when you come up to testify. If you have written materials that you would like distributed to the committee, please hand into the page to distribute. If you are not going to publicly testify or need to leave early, you can turn in written testimony with a completed green testifier sheet. We need 12 copies for all the committee members and staff. If you need additional copies, please ask the page to make copies for you now. When you begin to testify, please state and spell your name for the record. Please be concise. I'm going to limit testimony to five minutes. Four minutes green-- watch the lights-- one minute yellow and then wrap up your comments when it turns red or please finish. If you would like your support or opposition to be known but do not wish to testify, please sign this white form at the back of the room and it will be-- and add your checkmark opponent or proponent and it will be in the record. If you are not testifying in person on a bill and would like to submit a written position, the policy of the committee chair is that you need to have it in to us by 5:00 the preceding day before the hearing. Additionally, the letter must include your name, address, stated position of for or against or neutral, the bill number. The committee members will, with us today will introduce themselves beginning at my far right.

MURMAN: I'm Senator Dave Murman, District 38: Clay, Webster, Nuckolls, Franklin, Kearney, Phelps, and part of Buffalo County.

LINEHAN: Good afternoon, Senator Lou Ann Linehan from Waterloo, Valley, and Elkhorn, Nebraska.

WALZ: Lynn Walz, District 15: Dodge County.

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BREWER: Tom Brewer, District 43: 13 counties of western Nebraska.

GROENE: As far as I know, Senator Kolowski, Pansing Brooks, and Morfeld will be joining us. They might be introducing legislation in another committee. I'd like to introduce my staff. To my immediate left is research analyst Nicole Barrett. To my right at the end of the table is committee clerk Trevor Reilly. If the pages would please stand up. And we have Erika Llano is a sophomore at the University of Nebraska-Lincoln studying political science and sociology; and Maddie Brown is a junior at the University of Nebraska-Lincoln studying political science. You can hand her your green sheets, then your green sheets. Please remember that senators may come and go during our hearing as they may have bills to introduce in other committees. Also remind you that if you see anybody on their cell phone or, as Senator Brewer is, and or on their laptop, and we are usually contacting our staff to find out if we need to leave for a meeting or, or a presentation in another committee or to ask our staff to look at the information so we can ask accurate and pertinent questions of the testifiers. That we will start now with Senator-- with LB662, Senator Friesen.

FRIESEN: Mr. Chairman, members of the committee, my name is Curt Friesen, C-u-r-t F-r-i-e-s-e-n, I represent District 34, and I'm here to introduce LB662. So as you've looked through this bill, it's a very simple bill. It's got a long history with me. I tend to bring things once in a while that kind of disrupts the process. And so what this does is it eliminates the TEEOSA formula in 2020, 2022. So it gives about three years for, for us to come up with a responsible solution. So over the, over my four years that I've been here you've heard on the floor numerous times already that the TEEOSA formula is broken. So if it's truly broken, let's set a deadline when it goes and let's come up with a fix. If it's not broken then let's find ways that sends our money around the state in a little more equitable fashion. One of the things that I've heard over and over is when I've tried to do property tax relief is that there's numerous people also say TEEOSA is working perfectly fine, it just couldn't handle the spike in ag land prices. It could have been a spike in housing prices, it could've been a spike in commercial prices, but it couldn't adjust to that rapidly enough to compensate to keep all school districts requiring some state aid at least. And so when you look at the expenditures, I mean, in this fiscal year it's \$999 million that we're going to expend towards TEEOSA with a broken system. Again, when you look at how TEEOSA is set up and how it measures value in a district, I think, you know, maybe

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50 years ago, 60 years ago, 100 hundred years ago maybe it was an equitable way of measuring wealth. But today when you look at the resources side of the TEEOSA at least, it, it measures wealth just because you own property. And I think all of you know that we have young people moving back to the state that are acquiring houses. After your processes you go to your lender and you get pre-approved for a loan and you buy a house according to what your monthly payments can be. And so you're not necessarily rich even though you may be living in a \$300,000 house, you may be able to just barely make your payments. And then one slip on a banana peel and you're bankrupt and you lost the house. So it's, the TEEOSA formula no longer is measuring your ability to pay or your ability to actually pay that tax bill. It doesn't measure your ability to pay, it measures what that property is worth and that's it. And so, to me, if, if you want to talk about a system that's broken that's, that's part of it that's broken. We, we need to either change it to measure wealth differently or we need to come up with a new system. There have been numerous ideas out there. Each have their pitfalls. But I think all of them could be, if we'd work a little harder we can maybe come up with a better system. I don't know. But I guess this puts the pressure on to either say that we are going to come up with a better system or we're going to fix the system, or else this bill would just make TEEOSA end and it would save the state a lot of money. And it wouldn't affect my school district at all because, currently, 74 percent of the school districts really receive no equalization aid. So, to me, when only 69 out of the-- what, what do we have, 244 school districts? Sixty-nine of them receive equalization aid the rest of them don't. To me, that tells me the TEEOSA formula is not working because you can't tell me that they're that much ability to pay in all those school districts out there across the state, that they, the state should have no interest in funding those schools. So again it's, it's actually a pretty simple bill. But it's a complicated bill. And it is serious to the extent last year, I mean, I-- we've been told over and over that school funding is a local issue. Now, I recently had an e-mail from a resident of Omaha that very pointedly told me that each school district should fund their own school. I responded. It's usually I don't respond if they're not in my district but I said, I'm all in. I don't think a lot of people have a clue as to what we spend on education and where the money goes because their taxes would double. But yet, her point was that each school district should fund their own school. I'll do that. I'm all in. It wouldn't affect me any. I don't--

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that's what we do now. We get no aid from TEEOSA. So if you have any further questions, I'd be happy to answer them.

GROENE: Questions for Senator Stinner? Not Stinner. Reading the signature here. I have one. Just to make sure you know, I know who you are, Senator Friesen. You know, I've looked at that TEEOSA formula too. Basically, it's a good formula. I don't no longer believe that the formula is flawed, I believe politicians are. Because when I've seen some of the averaging adjustment, community achievement allowance, those were added because of deals made in this body not because they were needed for the TEEOSA formula to work. So, Senator Friesen, how do we stop the flawed politician from manipulating the formula?

FRIESEN: Well, that's a good question and that, and I agree with you to an extent because when I met with Matt Blomstedt about the formula, he's the one that constantly said the formula is fine. But it needed some manipulation along the way and no one at this body was willing to do it at the time. You know, and you saw what happened when land prices were going up. I mean, none of us thought they would have a run up 10 years long. It just has never happened before in a lot of years. So no one was willing to address it and they just let it run. But other times when the state was short of money, they did manipulate it. Political reasons. To either save the state some spending, other reasons like that. But, again, I don't, I don't know how you stop the political part from happening. But what my point is mostly is that the state should have some obligation in every child's education and they don't. They have an obligation in 69 school districts but not in the others. And so unless the formula, again, can be tweaked, which there's ideas to do that, it can be manipulated because it has been. You know, it was designed and it has been improved over the years to some extent. But then at times it's been manipulated to save the state money. But they have tweaked numerous things in it to make it a better formula. But they've just neglected some of the ones they should have been looking at.

GROENE: Thank you. Any other questions? Senator Linehan.

LINEHAN: Thank you, Chairman Groene. Don't you think if the formula was easier to understand it would be better government?

FRIESEN: You know, I, I've looked at that too a little bit and I-- some of the minute details to make up numbers, I don't know if anybody needs to understand them. The ones that tweak things. But, yes, it's

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not a transparent formula. I think, too, it would be nice of school districts, the superintendents when they looked at their budgets, that they could do a rough calculation to determine their TEEOSA. Right now, there's nobody can do that or very few that can do that because they don't know what it does. And that was part of the problem with their tweaking it years ago is they didn't even have the, the spreadsheets and stuff to probably get out the results quickly enough that you could actually vote based on numbers. And so the tweaks happened and then the consequences were what they were. So I think that a more transparent formula would be nice. I-- but then I'd have to dive deeper into it and see exactly what each component is made up. And I've not done that.

GROENE: Thank you. Thank you, Chairman.

WALZ: Quick question. So I just have to ask. So if, if this terminates the, the TEEOSA then, then what happens? What do we do then, if we just terminate TEEOSA?

FRIESEN: I suppose their next move is we'd have to take the lid limits off of the schools and it would save the state \$995, \$999--

WALZ: But isn't the state constitutionally obligated to fund education?

FRIESEN: Evidently not some of the schools. I mean, it doesn't have an obligation in 74 percent of them.

WALZ: When-- can I keep asking questions? So I don't, I don't know the, the year but when was TEEOSA created?

FRIESEN: That I-- it was created with LB1059 about 1999.

LINEHAN: 1990.

FRIESEN: 1990.

WALZ: And when it was, when it was created what was the intention? How much funding was intended to go into TEEOSA?

FRIESEN: I think the--

WALZ: From the state?

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FRIESEN: The intent of it was to equalize funding, you know, for those poor districts to the more wealthy districts. But between now and then so much has changed the way our economy is, the way the ag economy, the consolidation that's happened. And just the way I think business is, as we know it has changed. I mean, it used to be I think a lot of people always had large down payments when they bought a house. You could maybe measure their wealth in the size of the house they lived in. Nowadays, I don't think you can do that. It doesn't measure wealth anymore. And so the TEEOSA formula was designed to make up that the poor districts giving them more money.

WALZ: Right. But initially do you know how much, what percentage of state income taxes was supposed to go to--

FRIESEN: Oh, the allocated income tax portion was 20 percent.

WALZ: Twenty percent. And today it's--

FRIESEN: And they, they never-- I don't think they ever funded the 20 percent. And then, you know, I think now it's at, they capped it at about 2 percent, 2.1 percent.

WALZ: OK. I was just--

GROENE: Are you done, Senator Walz?

WALZ: I guess.

LINEHAN: No? Just, look, first of all--

GROENE: Senator Linehan, go ahead.

LINEHAN: Thank you. Tax equity and equal aged-- excuse me. I'm even going to mess it up. TEEOSA stands for Tax Equity and Educational Opportunity Act. Equalization was not introduced until 1997.

FRIESEN: OK.

LINEHAN: So originally it was supposed to help with property taxes. That was the whole, originally, back in-- put it on the ballot, passed, supposed to even out property taxes. That's why it's called tax equity. But then in '97 they went to equalization, which it's been tweaked so many times that it's not, it's not anywhere near what it was when it was originally introduced. So and we, and they raised income taxes 2 percent which meant that 20 percent of the raised

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income taxes was supposed to go to school funding. So I'm not sure exact numbers. Maybe Senator Groene can help me. But we, we use 2 percent of income taxes for school funding. It just doesn't go to the schools equally. So to say that we're not using income tax and sales tax, that's where the billion dollars comes from.

FRIESEN: No, I didn't--

LINEHAN: The billion dollars is income and sales tax.

FRIESEN: Right, but the allocated income tax portion was initially was set to fund, that the 20 percent of your taxes paid come back to your school district. But I don't know that they ever did fully funded at 20 percent. I think they kept capping it at lower numbers and now it's capped at like, you know, a lower level.

LINEHAN: But two different subjects. It is capped at the lower level. That's why the lower-- and it's higher now than it was two years ago because we raised it from nothing to something. But, but that is one subject and the other subject is whether we, whether in fact we, we put 20 percent of our income tax revenue towards schools. We do, in fact, put more than 20 percent of our income tax revenues towards schools. It just doesn't necessarily go into the school where the income taxes was paid.

FRIESEN: Right. I was just talking about the allocated income tax portion of TEEOSA.

LINEHAN: Right.

FRIESEN: I agree. All the funding right now that those \$999 million comes from sales and income taxes. I agree.

GROENE: Thank you. Proponents? No proponents? There are, but they're just not here. Opponents? Neutral? We've received letters and emails. Proponents from Mike Drinnin, president of Nebraska Cattlemen; and Steve Nelson, president of Nebraska Farm Bureau. Opponents: Virgil Harden, chief financial officer of Grand Island Public Schools; Rob Winter, executive director of Greater Nebraska Schools Association. Neutral: none. Would you like to close, Senator Friesen?

FRIESEN: Oh, I sure would. I would suppose that a noncontroversial bill like this would just sail through committee. So I look forward to you guys sending this out. And again, I think, you know, if you guys can build a better mousetrap, we're all in. And the deadline is 2022.

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Well, so let's, let's either work on I guess fixing those components of TEEOSA that need tweaking or let's come up with a better system. But if we don't set a deadline, as we all know, nothing will ever happen here. So with that, if there's any questions from those late arrivals, I'd be glad to answer any questions.

GROENE: I have one. Did you talk to the University of Nebraska and the Chamber of Commerce and HHS? Because if this passed it would be a billion dollars for them that we didn't have to spend on public education. I thought they'd be here as proponents.

FRIESEN: No, I didn't. I, you know, I tend to just bring bills here and I, I let you guys sort through the things, you know? And you can see the good or the bad. We'll, we'll let you make those decisions. But it was based on, more on just the comments we've been hearing on the floor all the time. And that's my point is, is TEEOSA broken and here's a deadline. Let's fix it. If it's not broken then let's work on fixing it and we'll say it's good. But again, you know, in the past that's what I was always told is that, over and over is that nobody was willing to address the inequities in TEEOSA, everybody was just letting it run on autopilot. And in the Legislature here, we're good at doing that. If, if we don't set a deadline in front of us we let things go on autopilot until it gets out of control. And nobody is willing to tackle tough problems. And this, you know, in my four years here, this is a way more complicated problem than I ever imagined it would be. It's not a simple problem with a simple solution. It affects a lot of people, it affects a lot of businesses, it affects a lot of kids. And it is a tough issue to tackle as we've, I've, you know, we've tried to touch every piece of TEEOSA we could and been unsuccessful. But this year I'm, I am feeling a little bit more optimistic. I think we're a little more focused. I think more and more people are hearing that the TEEOSA formula may be broken. And so what I've kind of told people all along is, you know, in my first year here I thought it was, it was imperative that we get a property tax issue fixed because us in agriculture we're going to see some real damage. Well now, we're to the point already I'm seeing ag land slowly drift lower. We're going down for 5 or 6 percent instead of up 250 percent. But what we're seeing now is the urban residential homes going up 30 percent, which isn't clear anywhere near what we went up. I mean, we were going up 200 percent in a year. So my taxes went up 18 percent a year for 10 years. So to say that valuations are jumping at 30 percent, that doesn't excite me. But if we just want to sit back and do nothing, that's fine. Because I think ag land will continue to

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drift lower and that pressure is going to get pushed back onto the urban residential. And if you can imagine a shift coming back the other way, it's going to be rather painful. So it's not as pressing anymore for me to fix it, but I'd sure still like to fix it because I see a disaster coming. If ag land, especially, would ever drop like it did during the '80s and we'd see a 50 percent cut in its price, can you imagine the pressure it would put on TEEOSA and our state funding of all the programs we have here? You know, when I started farming ag land kind of peaked out during that time too, and it dropped by two-thirds. Went from \$3,000 an acre to \$1,000. And so if you see what that would do to the impact on the TEEOSA formula today, where would we come up with that funding? That would take a bite out of somebody's budget. So thank you very much. I'd answer any questions.

GROENE: Senator Murman.

MURMAN: Yeah, thank you, Senator Groene. Thanks a lot, Senator Friesen, for bringing this forward. I think it's high time that we have more discussion on TEEOSA. We need pressure on the Legislature to do that. Whether it comes from a ballot initiative, increase in valuations in agriculture-- we've already had that, increased valuations on urban valuations-- we're, we're having that now. We need pressure to do something in this body and maybe this bill will just be a part of that pressure that helps us to get something done about school funding.

FRIESEN: It seems like we're unwilling to do things sometimes until we have a deadline.

GROENE: Thank you, Senator Friesen. Any other questions? That closes LB662. The next bill, I'm presenting. So Vice Chair Senator Walz will take over.

WALZ: Welcome, Senator Groene.

GROENE: Thank you, Senator Walz. Mike Groene, M-i-k-e G-r-o-e-n-e. I appreciate Senator Friesen being the opening act on TEEOSA because that's what my bill addresses, property taxes and funding equality through changes in the TEEOSA formula. Been working on it going on five years, put together about 10 different senators plus myself to look at different aspects of urban and rural. What, what areas in the TEEOSA formula needed to be changed. And LB695 is a result of that, plus a lot of input and a lot of research. LB695 is an effort to accomplish two goals. First is to provide long-term property tax

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relief for all Nebraskans. Second, is to stabilize the TEEOSA formula, its proportional funding of state income sales and local property taxes plus make the formula reflect the reality of real life economic factors. LB695 addresses Nebraska's overburdensome reliance on property tax to fund our public schools. I have come to an understanding that the TEEOSA formula has flaws but it still remains the best option we have to address equal access to a free instruction in our common schools of this state, as our constitution says, for children in our 244 school districts, which have varying student populations from 60 to 51,000 students. And I'll go through the steps of the changes we are recommending here. A, foundation aid: establish a stabilizing factor in the amount of state aid given to each school district by using a base per student funding amount. LB695 proposes to dedicate 25 percent of the state's prior year's total income taxes, both individual and corporate, plus sales tax revenues to be distributed equally to school districts on a pre-K-12 student basis. In 2018, total state income and sales tax revenues were \$4.28 billion. There are 307,753 K-12 students enrolled statewide in our public schools, which would equate to a foundation aid factor of \$3,474.40 per student if this was enacted this year. Creating a reliable state aid funding source through foundation aid will give long-term stable property tax relief to taxpayers in the 175 districts that receive no equalization aid, as well as those districts who are very near the edge of receiving none. Foundation aid will replace the income tax rebate. Why did 20 percent-- to answer the question, why the 20 percent didn't work in the past? Because the income went back to the district where it was, where the income was created. When you live in Millard, Elkhorn, the suburbs with high-income individuals living there, guess who got most of the state aid back? When you lived in a small district like Hayes Center where the ranchers had bad years, they didn't get much income back in aid so it really didn't work. Using foundation aid on a per-student statewide equalizes that, takes out that disparity, and it, it is equal. Property tax relief for equalization districts. All districts would have received foundation aid as a resource. Districts lacking enough local resources to fund their schools will still receive equalization aid. LB695 proposes lowering the max levy \$1.05 to 95 cents. Therefore, the local effort rate used in the formula will be lowered from \$1 to 90 cents, giving those property taxpayers a 10 percent reduction in their school general fund property taxes. State equalization aid will fill in the created funding gap. C, local property valuation distortion. That's hand out number one that you received. If you look at it, you have what, what yields have done over since 2000, the year 2000, I believe.

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And then we created a formula what, what total yields would have been if LB695 was in effect since 2020-- 2000 until today. LB695 proposes slow growth of the local effort yield by property taxes by creating a base year yield of 90 cents. That would be the first year that it takes effect, in the 2020-21 school year. In subsequent school years, growth will be limited by new construction growth and the consumer price index. Calculated inflation, the CPI calculated inflation rate from, from the most recent available year. So you got your growth, construction, new homes, multiplied and added to the base times the CPI creates the new max yield you can get from your property tax levies. In the future that this provision will stop the funding shift to property tax by alleviating the distorting effects of unreasonable valuation increases on the taxes paid by local property owners. Growth of school needs, D. LB695 uses factual economic data to adjust needs growth, instead of the present arbitrary base limitation that is used at the 2.5 percent allowable growth rate factor. In the future we will use the most recent available CPI calculated inflation rate. We do that now. In state law we're using the same number as we use in the Revenue Department does when they do, for example, the Social Security increase, which is not taxable. The inflation rate used for the allowable growth rate will not be allowed to go below zero percent or above 2.5 percent. If future Legislatures decide funding is inadequate, the provisions in statute 77-3446 still remains. The base limitation may be adjusted annually by the Legislature to reflect changes in the prices of services and products used by school districts. Now is a good time to correct an error that we have never funded TEEOSA. We always do. We always do. Because of this provision, when we change the growth rate from 2.5 percent to 1.5 and 2 percent, it's in TEEOSA, it's part of TEEOSA. So when we change it, it's part of TEEOSA. We fund TEEOSA. E, averaging adjustment. Handout number two, which you have. LB695 eliminates the average adjustments that favors the few large school districts. Now, if the needs are calculated for all districts, the average adjustment provision calculates the average base funding per student of all school districts with an enrollment of 900 more formula students. If a district's basic cost per student is below the average, the district receives an additional state aid in the amount of 90 percent of the difference. Education Committee chairmen before me have tried to eliminate the provision since its inception in 2008 with the enactment of Senator Raikes' LB988. Costed averaging adjustment for 2019-20 is expected to be \$26.9 million. The elimination of the averaging adjustment may be offset by need stabilization for many districts which would help to stabilize their TEEOSA. In other words, they

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wouldn't get an automatically huge deduction. They just wouldn't get the increases in the future. Those schools with large enrollments are a perfect example of the cost control benefits gained due to economy of size factors. When enrollment numbers near the capacity of a school's personnel and building resources their act there actually is no need for the averaging adjustments. It's worth noting on the last page on handout two, the variance in cost between 900 enrollment schools versus one with 51,000 students is over-- well, you'll have it there-- it's over \$3,000, I believe. Excuse me. It's \$2,386. But if you were to take the most well-run, most efficient-- not well-run, I won't, I take that back. But the most efficient economy of size schools that have enrollments over 2,000 students, there was only a \$406 difference. They were all in that \$8,800 to \$8,900 equation. There's your economy of size. There's no reason to reward those schools for the fact that schools in the 900 to 1,000 enrollment can't function as, as, as econ-- economically as, as the bigger districts do. So anyway, net option funding is another-- depends if you're gaining or losing students, if you like net option funding. Net option funding. LB695 changes the payment for net option students from the statewide per-student average of basic funding, which is now \$9,852 to the average per-student costs based on statewide general fund property tax revenue received. With the enactment of LB695 the foundation aid, \$3,474, follows the option student. So if an option student enrolls in Millard it follows them. It follows the option. Therefore, because the net option school district is now only lacking the property taxes paid by the student's parents, the correct thing to do is for the state to assist the school with an amount equal to the statewide average property tax costs. The average general fund property tax expenditure per student would be \$6,194 for the 2019 and '20. The biggest complaint is when taken on a student, their parents don't pay property taxes here. So if we're going to give them foundation aid and state aid all they need is the offset for the property taxes they did not receive. And I will make a point here. If you look at the override, the mill levy, operating fund override votes, they are high-option schools. They have taken on students not from their district and it broke the equation where if enrollment grows, valuations grow, because new homes are going up. So when you take on a lot of schools-- students, and it doesn't fit into the formula where at the same time your valuations are growing, like a Kearney or a Lincoln, you suddenly have a budget problem. So what do you do? You have an override vote of your levy. It's not lack of funding, it was a choice made by those school districts. Hold harmless. LB695 proposes to use the Property Tax Credit Fund for the initial funding source to start to change over

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to foundation aid. Property owners in a few world districts with a large property base and low enrollment already benefit from a low levy, school levy. Those taxpayers receive more benefit from the Property Tax Credit Fund than they would from the initial startup from the changes in LB695. If you keep them whole, it will be necessary-- to keep the taxpayers whole, schools will do just fine with LB695. But to keep the taxpayers whole, it will be necessary to hold them harmless the first year of the changeover. Over time the growth of the foundation aid will surpass the benefits received by the Property Tax Credit Fund. State revenues grew from 4 to 5 percent, 4.8 percent over the last 20 years, I believe. So, so then will foundation aid. How do we pay for the initial costs of enacting LB695? LB695 uses, as I said, the Property Tax Credit Fund as the pass-through mechanism for the tax dollars needed. By using the Property Tax Credit Fund we can ensure that there is a safe harbor for any revenue stream created to pay for any property tax relief. So if we pass another bill or Senator Briese's or somebody's in Revenue that says we do something with a tax or an exception, and say it goes to the Property Tax Credit Fund, we have a safe harbor. If it did, if it falls into the pit of the General Fund, it's, you don't know where it's gonna end up. And, as Senator Linehan said earlier, we raised income tax and sales taxes for property tax relief through the TEEOSA fund. It went into the General Fund and it somehow evaporating and went in different directions. We need to track this money, we need to track it through the Property Tax Credit Fund. We can track the money to its intended purpose by using the stagnant \$224 million already budgeted for the Property Tax Credit Fund as seed money. We can limit the additional cost shift created by LB695 to the biennium budget of \$341, of the \$341 million down to \$170 million. Let me rephrase that. If we didn't use the Property Tax Credit Fund over a two-year biennium, this bill cost \$341 million. It's a shift away from property taxes. If we used up \$224 million, \$341 million over two years. If we used the \$224 million the second year, it would cost would be \$117 million. By anticipating the use of the \$103.8 million additional funds to the Property Tax Credit Fund, which would take it \$275 from \$224 million recommended in the government-- Governor's budget, we can see how the much-needed long-range change to TEEOSA that LB695 offers are feasible. That would take it down to about a \$14 million cost of that additional money to put it into place over the first two years. If LB695 as written is perceived to not give enough property tax relief soon enough, the bill could be amended to begin, to begin all of its provisions in the first year of the budget. If done, the overall shift to the biennium state budget would be \$643 million. Again, by using the Property Tax Credit

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Fund's proposed two-year budget funding, an additional achievable \$194 million would be needed to be found. I think with the proposals out there, if you're going to sit down now, but you'll be laying down with the cost of some of the others. Spreadsheets, handout number three. Committee has been given spreadsheets showing the estimated effect that LB695 would have on individual district funding. And it was earmarked for each one of you because your, your school districts are highlighted. It also shows the overall savings to property taxpayers if school funding is shifted back to its rightful place: the state budget. Legal. LB695 will balance over time the ratio between state and local funding. State revenues have had a healthy annual 4.8 percent increase over the last 38 years annually. As those revenues grow, so will the 25 percent contribution to the foundation aid funding causing the reliance on property tax to continue to ease over time. LB695 also fixes a few of the inequities in funding that exist in the formula, primary changes to the averaging adjustment, growth allowance for needs, and the net option enrollment program. LB695 was enacted 20 years ago, the TEEOSA formula would have been a shining success with the passage developed by LB695 back then. Will be-- today, it will be a stabilizing success in the future. Before anybody talks about the averaging adjustment stuff, personally, what was explained to me by some old timers about the averaging adjustment was it was a political trade. It was a compromise to get the 33 votes with the urban senators. So it was just recently, which I voted for, community achievement allowance. When we rural senators agreed to help get rid of the learning community levy, that was the bargaining chip. If you look who gets the community achievement allowance, it's the 11 schools that were in the learning community. It was a tradeoff, political tradeoff. Not necessary to funding, but a political tradeoff. I actually think if we had extra money the best place for it would be special needs. Everybody gets that. Every school district gets it on their ability. So if we have \$26 million laying around, we do not need to reward those school districts which, if you coincided it with their pay scales, their administrative costs, their indoor swimming pools, they're doing just fine. They don't need that. When the TEEOSA formula started, we figured needs first. All 244 districts' needs are figured and calculated. It should stop there. There should not be a payola on the back end, that some school districts get and others do not. That, it needs to go away. It should have went away a long time ago. That's why this is the opportunity to do it. Also a point. On the first year, when you see the spreadsheet, we have a \$31 million negative to get it started. But also playing into this is the fact if we do nothing we, we all know, Senator Stinner has told me

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from the Appropriations Committee, the Governor has hinted that this committee will have to adjust the TEEOSA formula again because revenues are not coming in as forecast. So as we had to do, some of you were on the committee in the past, we had to do with LB409, adjust it. And I'm assuming it will be around that \$31 million or more and we'll have to adjust. Now remember, that's \$31 million less than the \$7, than the \$78 million expected increase. So it's still, we're still going to have an increase. We are going to adjust it. We were going to be-- well, we can tell Stinner and the Governor no, but that, that's not a real collegial. So but it will be brought to us. So that ends it, if any questions.

WALZ: Any questions from the committee?

GROENE: I would say Nicole is putting together a PowerPoint trying to explain this better. And when she-- when we let her start sleeping again, she will probably have it done. Thank you.

WALZ: Thank you. Senator Linehan.

LINEHAN: I'm sorry. Just want-- thank you, Senator Walz. Just one question. Can you, the handouts, there's two of them.

GROENE: Three.

LINEHAN: Three.

GROENE: Yeah, there should be three.

LINEHAN: So can you say again exactly which is what? I'm sorry.

GROENE: Handout number one. Handout number one, that's the one that looks like this.

LINEHAN: Oh, I'm sorry. I was, I was talking about the spreadsheets.

GROENE: All right. All right.

LINEHAN: OK, you go back to that too, I don't care.

GROENE: Well, handout number one, I wanted-- if you look at the blue column: yield from local effort rate from 2000-- 1999 to 2000, it started at \$781 million dollars back when TEEOSA was in place. That's the total yield. Call it your credit card limit. That's the total

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amount of, total school districts across the state could tax with local effort.

LINEHAN: At a dollar?

GROENE: At a dollar, not the \$1.05. At a dollar.

LINEHAN: OK.

GROENE: To their credit, most them do not. Especially now, since we got rid of the minimum levy. 2019-20--- it's \$2,581,000,000 and went from \$781 million to \$2,510,000,000. That's the valuation increases. If you go to the red column, inflation rate yield, if we, if we had a base year but plus construction growth, new growth plus CPI, that total would be \$1.6 billion. A \$900 million difference. There you have the property tax shift. So anyway, and handout number two is the base limit to aid funding and it goes from-- that's not total funding, that's the base number, base dollars. And that's what the average adjustment is based on. But it goes from lowest enrollment to highest enrollment. And it pretty much coincides low enrollment, high cost; high enrollment, low cost. Anyway, so that's what handout number two does. And number three is the spreadsheet, the first year of the biennium. Is that what you're asking? That's how it would affect every school district. The last column has a negative, everybody has a negative of course. That negative is caused by using 2.28 percent of the CPI. Well, let me start over. The basic limitation is a two-year because we're two years behind multiplier. And remember with LB409 we-- the first year would still be 1.5 percent because we passed that in LB409. And then the next year, instead of 2.5 percent, it would be 2.28 percent. That was the latest CPI, the last year's CPI, which would be, what, 2.2-- 2.2 less than the 2.5 percent. That creates some of the difference. That's probably what we're going to adjust again when we have, when we have to lower the TEEOSA. That's part of it. And then the other part would be the averaging adjustment. But those negative numbers on this side are not that, that large. And based on the size of each school's budget. And it's probably pretty close to what we're going to end up with when we do this. Because this, these spreadsheets are a comparison of TEEOSA in a perfect world if it was funded next year, not of reality. And then the second year shows the second year biennium, biennium shows when the foundation aid kicks in and the effect of using the Property Tax Credit Fund on each school district, what it is in the green column through the third-from-the-last column. All of this information is available to the press or school districts. We put some packets together down in

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the office, first come, first serve. We'll try to get it out to all the school districts. I mean, this bill has got as much chance of as, as the other ones do. But I'm going to pursue it. Who knows what can happen. The teachers union came in and testified in full support of a Groene bill yesterday. So anything can happen in this room. But, so any questions? Thank you. I will be around.

WALZ: Proponents? Do we have any opponents here today? Opponents? Welcome.

LIZ STANDISH: Senator Walz, members of the Education Committee. Senator Groene, my name is Liz Standish, spelled S-t-a-n-d-i-s-h, and I serve Lincoln Public Schools as the associate superintendent for business affairs. Today we offer testimony in opposition to LB695. LB695 proposes significant and substantial changes to the TEEOSA formula that will dramatically affect the ability of schools to fund the education of children throughout our state. LB695 proposes a new methodology and changes the way our maximum tax request and levy is established. It does not take into account several things, such as changing demographics. In Lincoln Public Schools in the last five years we've seen a 30 percent increase in our special education population, a 37 percent, percent increase in our English language learn, learner population. We've also seen an additional 4,167 students. So against that ever-changing backdrop, with a formula that recognizes student populations from diverse backgrounds at low thresholds, that tax methodology could be detrimental to our school district. In fact, we anticipate-- I've not seen the spreadsheets that the senator provided-- but we anticipate this bill could have had a gap in our funding in excess of \$10 million this year. The method of the formula also does not consider the fact that we have to pay the county assessor's office 1 percent of our tax request. And so all the dollars school districts ask for are not all the dollars school districts receive in their tax request. So trying to have it be a net zero game at the end of the formula would not work for school districts. Having a methodology in the formula that takes into account all the variables limiting the tax request through a maximum levy at the end of the calculation and maximum budget certified authority is the current reality for school districts. So you have school districts that are up against their levy lid and they're constricted by revenue, and you have school districts that are up against their spending live and they're constricted by spending authority. So this tries to go across all those variables and get to a net sum game that could have huge implications. In addition, this bill makes a seismic shift to

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foundation aid. Twenty-five percent of the state's revenue is a very big number. We estimate that that's like a \$4.8 billion number statewide, so you're looking at 25 percent of that. If you make that type of investment in foundation aid, we have just shifted the state funding formula for the state of Nebraska to foundation aid. Shifting to foundation aid will not be recognizing local school district wealth and ability to fund their system and it won't be recognizing the diverse needs across the state. When you think about equalization, for example, you think about the idea that what if we funded all school districts in the state at a \$1.05 levy? So let's just use that as a metric. Every school district in the state levies \$1.05. On average, nonequalized school districts would have access to almost \$24,000 per student and equalized school districts would have access to just under \$8,000 per student. So it's that spread, it's that dynamic that creates the formula trying to look at property wealth across the state to make sure each child's ZIP code does not dictate the quality of their education. Equalization is very important and it must be preserved going forward in the state formula. And we're very concerned about this significant shift. One last point that's had some discussion is the averaging adjustment. The averaging adjustment is actually tied to a school finance formula concept called a "J curve". And in 2008, when that was discussed, what we talked about was smaller school districts, less diverse needs have higher expenses because of economies for scale. But as you get bigger, more urban, more diverse needs, you get to that high-efficiency economies of scale but then you "J" back up. And it is more expensive to educate students with significant diverse backgrounds in an urban setting. And that's what the averaging adjustment recognizes. Thank you for your time, I think I'm about done. I'll be happy to answer any questions you have.

WALZ: Thank you. Senator Linehan.

LINEHAN: Thank you, Senator Walz. As I understand it, I've had this discussion with Senator Groene, he doesn't change the needs side of the formula with this. The needs side aren't changed. You said something about it cost more to educate low-income kids or kids with diverse backgrounds, minority children. But he doesn't change the needs side, the needs side is not changed in this.

LIZ STANDISH: Correct.

LINEHAN: So I don't know where you were going with that.

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LIZ STANDISH: The concern is when, when I did the math and said, what if this applied to Lincoln Public Schools this year and why do we need more than what the formula says we need? So he's trying to zero it out. And, and I'm-- so he's trying to zero out your tax request to your needs.

LINEHAN: OK. But it's not-- OK. Needs, there's two, as you clearly understand this.

LIZ STANDISH: Right.

LINEHAN: We, the needs side is in the formula.

LIZ STANDISH: Correct.

LINEHAN: And it goes through and it talks about whether you have poverty, talks whether you have English language learners, and you get more money for, I think you probably know this better than I. So over 30 percent poverty what additional funding do you get on the need side for each child over 30 percent?

LIZ STANDISH: I think, I think what we're having a gap of understanding on is for example I spend more on English language learners than the needs calculation generates for my school district.

LINEHAN: What is, what does the needs calculation generate for your school district for English language learners?

LIZ STANDISH: Oh, I, if I was throwing a number out I think it would be about \$17 million--

LINEHAN: \$17 million?

LIZ STANDISH: --is what we spend. Yeah, I mean, so--

LINEHAN: English language learners.

LIZ STANDISH: That's, I--

LINEHAN: Do you know how much it is for poverty?

LIZ STANDISH: Off the top of my head, no. I'd want to get my spreadsheets out to see. It might be on the spreadsheets in front of you of the current law model.

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LINEHAN: But I, I think that the point here is this proposal, LB695 doesn't change the needs side.

LIZ STANDISH: I agree with you 100 percent, it does not change the need side.

LINEHAN: OK. So then the rest of it, when you're saying \$1.05 all over the state, what you're saying is that you don't-- that would mean that we'd go out where there's fewer kids, more land, so their levies, they don't have to have their levies higher. But you think we should bring everybody's levy up to \$1.05.

LIZ STANDISH: No, I'm using it as a way to display the example of the property value behind each student in the state. For example, the school district that at \$1.05 has the most property value to educate that student behind them is about \$60,000 per student. And then you would have your Navajo Nation schools that would be your lowest, you'd have schools that only have \$2,000 per student. So I'm really getting at that ability to pay principal--

LINEHAN: You're really getting at the fact that the ag land ought to be taxed-- what you're seeing really in simple terms is you believe in equalization because it sends the money to the urban schools with more kids who generally, though I'm not sure this is true, tend to have a higher population of poor English language learners. And that's why we don't need to send it to the unequalized schools. Isn't that what you're saying?

LIZ STANDISH: Well, I'm saying I'm worried about resources to support each child learning. And so if property is part of that, you have to do something about the property wealth disparity unless we're going to raise a whole bunch more money to send out in the formula.

LINEHAN: So I, I think--

LIZ STANDISH: But I'm, I'm not proposing we're taking everyone to \$1.05. I was just using that as a metrics to indicate the disparity across the state of property wealth.

LINEHAN: You're arguing that we should stick right where we are, that 75 percent of our schools shouldn't get any money from TEEOSA.

LIZ STANDISH: Well, I don't believe they don't get any money. On average, nonequalized schools get about \$750 per child through the

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equalization formula. They also get apportionment, they also get special education.

LINEHAN: None of that has anything to do with this bill, right?

LIZ STANDISH: The \$750 would come through this formula, Senator.

LINEHAN: OK, but not apportionment.

LIZ STANDISH: No.

LINEHAN: And not special ed.

LIZ STANDISH: Correct.

LINEHAN: Right. Those are outside this formula.

LIZ STANDISH: Correct.

LINEHAN: OK, thank you.

WALZ: Other questions? Senator Brewer.

BREWER: All right, thank you for your testimony. My head's still spinning a little bit here trying to understand everything. The, the concern I see is that there's always the line of folks who want to come up and say that whatever the bill is, in this case Senator Groene's is gonna be bad and it's going to change things in a negative way. The problem is, if we continue doing what we're doing we've seen that it's not going to work. I mean, there will be a point of no return if the way we're taxing, especially the ag ground, but just property tax in general. Is there an idea that you have that we should be looking at as a technique to better manage the resources for the schools?

LIZ STANDISH: Probably the, the best way to look at income tax distribution through the formula is through the allocated income tax provision. And so I know under Senator Sullivan, as Senator Groene said, that was frozen for many, many years at a \$113 million or something like that, very close to it. Senator Sullivan changed it so it was a percentage. So the number would grow as income tax grew. It was originally intended to be 20 percent, but just like the foundation aid proposal here, that level of funding would shift it to a foundation aid approach. So the allocated income tax provision is the

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best provision in the formula to look at distributing allocated income tax across the state in my opinion.

WALZ: All right, thank you. Other questions? Senator Kolowski.

KOLOWSKI: Thank you, ma'am. Liz, what's the reimbursement rate for special education at the current time?

LIZ STANDISH: Currently for our reimbursement rate it's about 50 percent.

KOLOWSKI: Fifty percent. If we would just double that up to a 100 percent what would that do dollar-wise for the districts?

LIZ STANDISH: I'm, I'm not sure what those numbers would be. But that is a distribution channel that goes out to all school districts as well. Yes.

KOLOWSKI: That's much shortage we have in one particular area at the current time. Thank you.

WALZ: Any other questions? Senator Murman.

MURMAN: Yes. Thanks for coming in. If I understood you correctly, you stated that allocated income tax would be the most fair way to fund schools in the state?

LIZ STANDISH: Well, I don't want to put too many words in my mouth here today. But if there is a mechanism in the formula that goes to nonequalized schools, what mechanism would that be? And consistently that would be allocated income tax. I would advocate full funding for equalized schools because my school district, for example, with only access to \$5,000 per student is heavily reliant on the state funding to bring us even close to the state average of \$10,000, \$11,000 per student to be able to run a school district. So I don't have very-- I don't have anywhere to go to make up funding. I'm heavily reliant on the state. So I would advocate funding at the highest levels possible for equalized school districts if there are resources available. And if we want to distribute them to nonequalized school districts, one mechanism in the formula to do that is the allocated income tax provision.

MURMAN: OK, so LPS has a quandary just as rural schools have a quandary. LPS has nowhere else to go to get funding other than from the equalization aid and rural school districts don't have anywhere

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else to go except through property tax. So I think we've just identified the problem with the TEEOSA formula.

LIZ STANDISH: Or the resources available to fund it.

MURMAN: Yep, thanks.

LIZ STANDISH: That might be the root cause.

MURMAN: Yeah.

WALZ: Any other questions? Thank you for your testimony today. Other opponents? Anybody here on the neutral side?

CONNIE KNOCHE: Senator Walz and members of the committee, my name is Connie Knoche, K-n-o-c-h-e. I'm the education policy director at OpenSky Policy Institute, and I'm here to testify in a neutral capacity for LB695. While we support targeting state aid to the districts that are most reliant on property taxes to fund K-12 education, we have some concerns with the provisions of the bill that would resent-- result in spending cuts to school districts. First, we appreciate that this bill would address the overreliance of property taxes to fund K-12 education by increasing state aid in fiscal year '21. Every major tax study in our state has recognized our high reliance on property taxes to fund schools and this bill would begin to reverse that trend. Second, not only would this proposal benefit most districts, it is also targeted to the schools with, that are most reliant on property taxes and provides more property tax relief to the taxpayers in fiscal year '21 then the Property Tax Credit Fund would on its own. So now to the portions of the bill that we oppose. When LB695 is fully implemented in fiscal year '21, state aid is projected to increase by, I believe it's \$313 million. And there's not a mechanism to fund the difference between the property tax credit and the increased state aid. So we have a concern about that. The bill would lower the maximum levy from \$1.05 to 5 cents plus the levy rate for the local contribution. And under this component of the bill the average levy would be 95 cents. So if there are school districts that are not able to get to the 95 cents because they're currently at the maximum levy or above, they may have to go to the voters for a levy override to be able to get their levies down if there's not enough additional funding through the formula. And with LB695 it is actually going to impact fiscal year '19-20 state aid. So there would be 144 districts that would actually see a decrease in state aid compared to current law. And that is because of the change in the basic allowable

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growth rate. And under current law, the basic allowable growth rate would be 4 percent but then it would be dropped to 3.78 percent when you use the CPI. And then the following year, instead of a 5 percent basic allowable growth rate, it drops it to 4.51 percent. So the CPI rates will be fluctuating a bit within that range between zero and 2.5 percent from year to year. And it would make it difficult for schools to budget for these changes because they won't be able to anticipate what happens with the CPI. So they may have insurance rates that go up or there may be a ruling from the CIR that would cause their teacher salaries to have to be increased above whatever the CPI is, and it may cause problems for the districts. And then finally we disagree with the principle that school spending is the cause of overreliance on K-12 education-- overreliance on property taxes in K-12 education. And some state, cite that the high per-pupil spending is evidence that Nebraska spends too much on our public education system. However, the Fiscal Office has reported that high per-pupil spending is a result of a demographic shift and many of Nebraskans are moving from rural areas into the urban areas which is causing higher costs in the rural areas because you have fewer students and you still have to provide the same services; and then you have higher costs in the in the urban areas because they have to build the buildings and hire the staff to educate the children. Costs don't change significantly if the number of students per class decline. Larger growing districts are adding new buildings and staff to account for their growing enrollment. And then if you have a declining student population you're not going to get rid of a teacher because you still need to have a social studies teacher or a math teacher. So overreliance on property taxes is the result of relatively low state support and not the result of school spending. And therefore, we support the component of LB695 that would provide targeted increases in state aid to districts most reliant on property taxes but we oppose the use of the CPI to control spending because it's gonna restrict the school districts over time on their budget side spending, as well as on their state aid that they're going to get. Be happy answer any questions and thank you for your time.

WALZ: Questions from the committee? Thank you. Other opponents?

JACK MOLES: Good afternoon, Senators. My name is Jack Moles, I'm the executive director for the Nebraska Rural Community Schools Association. On behalf of NRCSA I'd like to testify in a neutral capacity on LB695. Our members do recognize and appreciate Senator Groene's work on developing a, developing a fair school finance system. One hundred seventy-five out of 244 public school districts do

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not receive equalization aid, we believe we have a problem. A neutral stand on LB695 is not necessarily the direction I wanted to go, but in a few points I'm gonna to try to explain that stand. First of all, we are very appreciative of Senator Groene's efforts to direct state dollars to all districts, whether they be equalized or nonequalized. Again, 175 of our 244 public school districts did not receive equalization aid. We think we have a problem. Second, we are also appreciative of his efforts to reduce the heavy burden on the local property owner, whether they be ag land owners, business owners, or homeowners. Third, we do believe in the concept of aid per student or foundation aid, as Senator Groene refers to it. We believe this to be a fair for, this to be fair for all districts and would like to see it incorporated into any package that is eventually adopted. We do appreciate that, while he lowers the net option funding amount for option students, he does make up for that loss in foundation aid. Those are the things we do like about the bill. In spite of those positives we see in LB695 for a rural school districts, our members have voiced concerns. These concerns, in spite of the aspects of the bill we like, cause our neutral stand on this bill. These concerns include: Our main concern is that the fiscal note shows that about \$179 million dollars would come from the General Fund to fund the bill. We're concerned about what happens when available state dollars are diminished. After all, TEEOSA has not in actuality been fully funded very many times. Our members are concerned also that when state funds are low then they will not have the opportunity to make up for the lost funding if the cap exists on levies, especially in times when the Consumer Price Index falls closer to zero. In closing, I would like repeat that NRCSA does thank Senator Groene for his attempts at finding a solution for a fractured school finance system and for helping our property owners, especially our lag-- ag landowners. However, we can't get totally behind the bill as there are too many unanswered questions in our members' minds. Thank you.

WALZ: Thank you. Questions from the committee? Senator Linehan.

LINEHAN: Thank you, Senator Walz. OK, this is a ball going back and forth and you're a perfect person to answer this question. And I do appreciate that you, in your letter you-- the way you said it "actually been fully funded." So we hear it's not been fully funded, and then if you talk to the Fiscal Office they will tell you: we fully fund it every year. We do move the numbers up and down.

JACK MOLES: Right.

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LINEHAN: So when you say, when you say "actually fully funded," what do you say? What do you mean, that it should go up 2.5 percent every year regardless?

JACK MOLES: That's what the law calls for, yes.

LINEHAN: Well, that's 2.5 percent a year, right?

JACK MOLES: OK.

LINEHAN: So that's really what, when people say it's not fully funded, they mean it didn't go up 2.5 percent every year?

JACK MOLES: Well, it seems to me that many times the Legislature has, has taken money available and set that at the limit of what will be used in the funding process.

LINEHAN: Right. But regardless of what the Legislature had done, the definition that schools use when they say fully funded means that if it doesn't go up 2.5 percent a year then it's not fully funded.

JACK MOLES: OK.

LINEHAN: Not what-- I mean, is that right? I don't know, I don't know what it means. I think part of our whole problem with all these conversations is we all use different definitions.

JACK MOLES: We used to see print out, or models of what the fully funded total would be and how it would affect districts.

LINEHAN: You've got all the other automatic increases.

JACK MOLES: Exactly, exactly.

LINEHAN: So it's, this is the very least of what it would be. Because then, if you don't have all the-- because there's several. Because you've been here for a while and you understand this well and the history of it. Because when we started this wasn't part of the original LB1059 to catch Nebraska up? There were some inflationary factors built into TEEOSA to catch Nebraska up because at the time we were far behind in teacher salary and what we spent per student. So the formula was written to try and get us up to where we actually should be. Is that, I mean, that's what I've read.

JACK MOLES: That's the way I've understood it, yes.

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LINEHAN: All right, thank you very much for being here.

JACK MOLES: You're welcome.

LINEHAN: It's always helpful.

WALZ: Darn, I had a questions off yours and now I can't remember it? Any other questions while I'm trying to think of my question? All right, thank you.

JACK MOLES: Thank you.

WALZ: Anybody else in the neutral position? OK, we have a few letters for the record. Proponents: Mike Drinnin, president of Nebraska Cattlemen; and Steve Nelson, president of Nebraska Farm Bureau. Opponents: Virgil Harden, chief financial officer for Grand Island Schools. What? Oh, it's the wrong word, sorry. Let's try this again. Thank you. Proponents: Sarah Curry, policy director for the Platte Institute. Opponents: Wendy Birdsall, president, Lincoln Chamber of Commerce; David Brown, president, Greater Omaha Chamber; Bryan Slone, president, Nebraska Chamber of Commerce. And letters from neutral: none. Senator Groene, would you like to close?

GROENE: Yes. Thank you. Pretty obvious the state chambers aren't for property tax relief. They like all that high tax dollars from North Platte flowing into their schools in the cities. But a couple of comments besides that one. The business manager, I appreciate, appreciate her. She does come in a lot to testify on these bills and gives us an idea of what some of the business managers are believe. Actually, her comment about the 1 percent fee, the less money that comes from the, from the property taxpayer, the less money they will lose on that fee. And the more they will make up dollar for dollar in state aid. So it's actually a plus to them that they would lose less state aid. I mean, property tax-- or revenue because less of it's good to be coming from the, from the property tax. So as for the \$1.05 levy on limit, going to that, that comment was-- I'll repeat what I often say. We do not pay our taxes in levies. And until you show me what a levy is and the hamburger I can buy for-- buy with it, I will still buy my hamburger with dollars and pay my taxes with dollars. Levies are meaningless. If you really wanted fairness in the world, let's go to a head tax. Every citizen, man, woman, and child is charged \$1,000 to support the public schools. Us rural people would gladly do that. Would the urban people. That would be the fairest tax if you want to get to that point of supporting the schools. So you see the

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foolishness of claiming valuation of land is a fair way to tax to fund the schools. The poverty adjustment, as Senator Linehan straightened out, we did not touch the needs sides of this. The assumption is the state's going to do their duty and fund it and fund their share. And they should because that's the constitution says the state, not the local property tax. As one-- we got to stop this mentality of the local districts and the business and the education establishment, as one chiseled old administrator told me, he said, Groene, he said, we have the property taxpayer by the neck up against the courthouse. We're going to get paid with property taxes, there's a guy loses his farm or his house. We don't trust the state. Dishonest as you can get. That is why the push is always to never touch the property tax part of the formula. They want that taxing authority. But in order to get property tax relief, we're going to have to do it. This body is going to have to address the levies. LB695 gives property tax relief to everybody. And long-range, everybody will get property tax relief as the shift continues or the equalization part of it goes into full force with the foundation aid. As far as 25 percent of the revenues, that's, we're at 20 percent. We were at 20 percent of income. We brought in, you know, TEEOSA, with Senator Friesen's comments was, I read some of those, that report issued back in 1990 or whatever before TEEOSA was created. It was a three-legged stool, we've always left out the sales tax. We did the 20 percent on income tax. We left out the corporate income tax, it was just personal. This brings in all three, all three revenues that the state brings in. There's four revenue chains but the other one is fees. And the first thing we do rob when we rob when we have a budget crisis. But it brings that property tax relief and it brings that component in of internet sales tax that we're going, we're going to dedicate sales tax also to the, to property tax relief for state funding. Special ed comment on 50 percent, most of that comes from the feds. As I said, if you want this senator to support any additional aid to education, I would consider the Special Education Fund. Everybody gets it. And you keep hearing, as the Lincoln business manager said, that's their big increase in expenses is special ed. But we can track that, it's a set amount of money. And I'd be willing to-- and everybody, no matter what your racial, property taxes, state aid, you get paid on your special education. Everybody across states equally. But that's not in my bill. And, yes, how do we pay for it? That's up to the Revenue. Senator Linehan and Briese and, and I have one bill in there that we need to correct some of the-- to raise some revenues. And I would like to see them all dedicated to the Property Tax Credit Fund so we can track it. So we make sure it does what it's supposed to do, is give property tax

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relief and isn't, isn't siphoned off for the reason the individuals when, some of them were against this bill, so that they can have it for economic development programs or some other purpose. But let's track it. I expect it about this. My bill isn't here to please anybody or offend anybody. If you have a bill where both sides come in and testify for it, taxpayers, sell your house and move out of state because your taxes are going up. This bill is supposed to get the response it did. It's long-term correction. Quickly, some immediate fix. But over time it will do what the TEEOSA formula was supposed to do: keep that balance. Nowhere in this bill do we cut increased spending on education. Nowhere. Or decrease the present spending. It will go up. It's what Senator Linehan and what I've been told, as she stated, TEEOSA was geared toward the catch up. Nobody put a braking mechanism on it. We are in the top 12 or so nationally funding our schools overall. We need a braking mechanism so that, and to stop that graph from on the, on the trend it's on and to level it off some. And at any time that a school district deems it necessary to fund their schools more, we have that stop gap in there where they can have a vote of the people to raise their levies for a short period time, five years. The system works, we just need to-- we just don't have enough money to increase spending and at the same time to give property tax relief. We need to, we need to just fix what we got. Thank you. Any questions?

WALZ: Senator Brewer.

BREWER: Thank you, Madam Chairman. Well, first off, thanks for all the work you've put into this. I apologize that sometimes I struggle to completely follow everything you're saying because I think you're at a 400 level with your knowledge and I'm at about a 100 or 100 level in understanding. But you put it in a format where you can digest it with a little bit of time. I also liked the fact that you identified all my schools and, and kind of showed what the impact is. In your personal opinion, are there winners and losers out of this?

GROENE: There's always outliers in anything you try to do with that complicated formula. But we have some of your districts that have done, that done their due diligence and have consolidated. And because of depopulation have very few school-- few students. Everybody looks at the average cost per student but that's meaningless, because if you got it, if you're spending a million dollars revenues and you only got five students it looks pretty bad that what you're spending. But the reality is the number is for the property taxpayer isn't that big. So

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their levies are low, get to the point where their levies and low. They have a huge base. And right now, the Property Tax Credit Fund is headed in the direction that someday they might get a, actually a refund on their property taxes because they've done such a good job of consolidation and they run a tight ship. But, but over time, not within a couple of years, if this went into effect, that the foundation aid would grow fast enough, it will outgrow the stagnant property tax credit. Because it's stagnant. It's \$224 million divided by total state valuations. And guess what, that's shifting east because farm values are going down and new buildings and new homes are going up and Lincoln and Kearney and Sarpy County. So, so if they're patient, they're doing OK now, some of those districts, because they have low levies, but in the long run there'll be a lot better off.

BREWER: Thank you.

WALZ: Senator Murman.

MURMAN: Well, I also want to thank you, Senator Groene, for bringing in this, these ideas. I think we can all agree that the TEEOSA formula is not working. Some of us would say it's broken. But you've got some good ideas here on how to, to correct that. And I really appreciate that.

GROENE: There is no magic bullet. And this, I think, it gives hope that over the time-- we can't fund some of the ideals we have. But over time this gives the shot in the arm to property tax relief and then, and then shifts it as we go. As we go. And I want to keep the TEEOSA formula around. My wife said, what are you going to do after \$12,000 a year? I said, I'm gonna start me a consulting firm on TEEOSA because I think I'm becoming an expert. One of the four in the world that understands it.

WALZ: I do have a question for you. And I know Senator Linehan asked this question to the testifier before. But the last, he said: after all TEEOSA has not in all actuality been fully funded very many times. There have been 27 changes in over the last few years. Can you, can you tell me what you think-- can you explain that to me? The "not in all actuality." What's your opinion on that?

GROENE: Because they always read the first part of that statute that says 2.5 base limitation. The second sentence says this: At the discretion of the-- you know, not using the exact words. At the discretion of the Legislature they shall-- they can change that to fit

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present economic situation. And that's what we did. So we always funded TEEOSA. We never shorted it, we adapted it as we should be doing in the Legislature. But if you look at that historic statewide deal from local effort rates and you look at the local effort rate, how, how it varied, you can pretty much figure in that, that, that, that BAGR varied too. I would almost guess if, we didn't run the numbers, but I would almost guess if you ran that over the last 20 years, what the Legislature did, went to 1.5, 1.5 to 0, whatever, from 2.5, probably came out pretty close to what the BAGR is-- I mean, what the CPI is.

WALZ: And then I--

GROENE: The CPIs follow, follow economic growth and revenues too. They're in correlation with each other.

WALZ: The other thing that just keeps popping into my mind is that, do you feel that there are a lot of needs that the schools are addressing today that aren't being reimbursed at all? Like mental health for example?

GROENE: That's a local choice. It's not in our constitution, not in our statutes. It's, it's a medical issue and I'm going to debate you all day long on that. Any funds there should be coming from, from the federal government, if they want to get involved.

WALZ: Well, I just-- they're providing these services though.

GROENE: Or HHS.

WALZ: Any other services that you think might be being provided that aren't being reimbursed?

GROENE: As I said, if you wanted to talk to me about special education funding. But when you have extra money over the last 20 years to hire a psychiatrist, social workers, assistant superintendents, assistant-- don't come to me and tell me we never gave you enough money to fund the classroom, because you had extra money for that.

WALZ: Any other questions from the committee?

GROENE: Thank you. We will continue to pursue it.

BREWER: Well, now that you're all happy.

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GROENE: Don't wait for me. Go ahead, Senator Brewer.

BREWER: Thank you, Chairman Groene. And good afternoon, fellow senators of the Education Committee, I'm Senator Tom Brewer. For the record, that's T-o-m B-r-e-w-e-r, I represent 13 counties of the 43rd Legislative District of western Nebraska. I'm here today to introduce LR5CA. This bill is 100 percent my idea and wasn't brought to me by anyone else. And I should probably assume no one else really is interested one way or the other. The, the thing that we need to come to an understanding on is the issue of property tax from this morning's discussion with Senator Briese, Briese; with what we heard from Senator Friesen; from just now, what Senator Groene had to say; and what you're going to hear now with LR5CA. It would be easy to figure out a way to fix smaller parts of education. The issue that we have though is the property tax piece of it is affecting everyone in one way or the other. And even though it's been more the ag sector, it's gradually shifting to be a problem for everyone that owns property. We can't stick our heads in the sand, we have to come up with a solution. So keep in mind as we listen to what I'm describing with the LR5CA, and this is about how we come up with the big check. It isn't about all the details of, of the moving parts of TEEOSA, it just simply talks about how we figure out how to take care of that that large amount we need in order to do it right. So with that, let me address the heart of the matter. Property taxes are too high in Nebraska because the Legislature does not appropriate enough money for K-12 education. Now, I'm going to say some things that seem abusive to the Legislature. I would prefer none of you guys take it personal. The, the huge overreliance on property tax to fund schools has developed over the last 50 years and now we have nearly the highest property taxes in the country. The Legislature has no incentive to correct this problem. It's obvious the Legislature realizes that whatever amount of money over and above what the school districts get from federal and state sources they can just simply raise through local property tax the amount they need for the difference. This overreliance continues and will keep us going for another 50 years because there is no constitutional limit on how much property tax can be used to fund schools. We've talked about of all the different taxes. If it's a sales tax then you have to make the conscious decision to buy it. If it's income tax, you have to make income to pay the income tax. The issue with property tax is you can simply exist and, whether you make income or not, you're gonna pay property tax. And if you don't pay the property tax they simply take your property. So it is the cruelest of all the taxes and that's the one we're

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talking about here. Therefore, the only way to stop this continued overreliance on property tax to fund schools is to put a limit on it. That is what this resolution does. We've all read Article VII of the Nebraska Constitution but I will quote it. The legislation, "The Legislature shall provide for the free instruction in the common schools." This language has been in our Nebraska Constitution since 1875. The problem my resolution addresses is the meaning of the words "shall provide." We spent the summer researching what these words actually mean. I had my LA make an appointment with the Chief Justice of the Nebraska Supreme Court and ask him what these words mean. Over the history of Nebraska, starting with 18, in 1869, the Supreme Court has heard a number of cases dealing with the "shall provide" language in Article VII. So let me put this in, in simple sand-- Sandhills language. The Legislature shall provide laws that give school districts the power to assess, levy, collect, and spend property taxes to fund the free institution, instruction in the common schools. Using that definition that has been established by the Supreme Court, we have to answer the issue of "provide." Given the court's longstanding opinion on the meaning of this constitutional language, if we don't amend the constitution and limit how much property tax can be used to fund schools then the problem we have will never end. This resolution limits how much property tax can be used for funding of schools to 33 percent. That means the other 67 percent of the funding of schools is required to come from other sources. Let me tell you what this measure does not do. Those that are here to testify in opposition to this need to listen carefully. Nebraska is 14th in the country in terms of how much money they spend per pupil on K-14-- K-12 education. It's clear Nebraskans are willing to spend a lot of money on K-12 education and I'm, and I'm good with that. And to a degree, I agree with what we spend because that, it's a local control issue as it should be. This bill does not lower the amount. It simply says that there is a limit on how much can come from property taxes. Those who testify in opposition to this bill, or this LR, should know that there are no easy options right now for us and property tax has been the primary tool used to collect revenue to support our schools. They know that if the people of Nebraska are given the opportunity to vote a limit on how much of their property tax can be used to fund schools, they may very well do so and some may not like the way that vote goes. Opponents of this bill may not want any limits placed on where the money for schools comes from. If I was a paid lobbyist, I might be here testifying in opposition too. But understand that I'm not. I'm a paid lobbyist for the people my district and Nebraska who are screaming for property tax relief. I'm not trying to reduce school

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funding with this resolution. I'm trying to get the Nebraska Legislature to properly fund K-12 education. We are 49th in the country on a per-pupil basis. Forty-eight other state legislatures appropriate more money for K-12 than Nebraska does. Everyone always ask how much everything will cost. Since this is a proposed constitutional amendment, it doesn't have a fiscal note with it. So let me close by touching on some numbers that I know everyone is interested to hear. From all sources, all sources-- federal, state, local-- we spend about \$3.2 billion on K-12 education in Nebraska last year. Of this amount, about \$1.94 billion came from property tax. Using last year's numbers, about a third of the total K-12 funding comes to about \$1.26 billion. Take 33 percent of that and we're at \$670 million. If this LR passes, this body-- and was to be put on the ballot, ratified by the people-- the \$670 million would have to be found in order to support K-12 at current levels. I'm hoping that this bill can be voted out of committee and be added to other bills to address property tax. I think the more property tax bills that we have on General File, the more ideas that are out there, the better chances that we'll come up with a solution. Now, again, if we backtrack to last year, what happened? Senator Smith's bill was the only one that got out and it turned into a cat fight at the end and we ended up with nothing. We can ill-afford to do that. I will tell you that no matter who you are no matter where you travel in Nebraska the number one issue people are going to tell you about is property tax. And if we fail to do anything, I think there will be a lot different complexion to this body in a couple of years because the people are going to go and vote those out that don't take action. So with that said, I'd like to close and ask if there are any questions.

GROENE: Any questions for Senator Brewer? Senator Kolowski.

KOLOWSKI: Thank you, Mr. Chairman. Senator, among all the tools that you might want to use you've chosen the constitutional amendment. Why that compared to some other direction?

BREWER: I think the lack of hope that we're going to be able to come to a realistic solution within the body. I think last year maybe tainted my belief that, that we're going to actually be able to do that. I think bringing it to a vote of the people will let them have a voice and will tell us the truth about how passionate they are or they aren't about property tax relief.

KOLOWSKI: Thank you.

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GROENE: I have a question if I can get to the number.

BREWER: If I can hear you.

GROENE: Anybody else have a question? Senator Murman.

MURMAN: Thanks, Senator Groene. And thanks, Senator Brewer, for bringing this forward. I do think this would be a longer-term solution to the problem we're in. We have it in the constitution that should guarantee that only a third of the funding comes from property taxes. I assume the other third would come from sales tax and another third from income tax possibly? But that would do what TEEOSA was designed to do originally. I just wondering if you have any comments on that.

BREWER: Keep in mind the idea is to change the overall amount of money not, again, to subdivide that. So if we look at how that overall amount that we pay for our education is, is collected we could, I mean, that number could be a 20 percent, 40 percent, and you know, I'm sure there's, there's solutions on how much goes either way. But it's gonna have to go to one of the other. There has to be a source. But again, if we look at what we consider fairness in how we're taxed, we really have picked the worst of our options with allowing the property tax to become so out of balance. In my district, it's, it's 75 percent in most of the counties. I mean, there's a point where you can't, you can't say there's any fairness to it. It's out of control and it's not getting any better. I mean, I understand why they're up in arms. You know, we just have to look at solutions. And this forces the issue. If we take it to the people and get a vote then guess what, it becomes the law and we have to follow it. And just like Medicaid expansion, there, there was unknowns with it. How are we going to pay for that? Well we're gonna figure out a way to pay for it because the people spoke. It would be no different with this. We'll figure out a way to pay for it. And it may mean, you know, doing some, some calisthenics with mathematics to figure it out. But it's gonna have to be done if that's what the will of the people is.

MURMAN: Yeah, thanks a lot. My district is very similar to yours, we have exactly the same problem.

GROENE: Senator Brewer, we put this chart together to keep updated about where the funding comes. Overall funding for the schools is, the last available data was over \$4 billion when you throw--

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BREWER: Over \$4 billion?

GROENE: When you throw the feds in. And then the percentage is 57 percent property taxes but at 37 percent state, the rest from the feds. But is this per district? What's to stop the urban areas to outvote us and change the TEEOSA formula, that 33 percent comes mostly from the rural areas like it is now?

BREWER: Well, but if it, if it passed--

GROENE: Is it total amount of spending or is it per district?

BREWER: No, it would be the total amount of spending.

GROENE: They could just shift it right back to us.

BREWER: Guess I'm not tracking with you on that.

GROENE: Well, they could shift it to 33 percent come-- of that 57 percent now, a large percentage of that comes from, from, from or, from rural because of the ag. And what I'm saying is they could, we can manipulate the formula, TEEOSA formula that that 33 percent is heavily rural. I'm just saying.

BREWER: So you're saying that if we had a, if LR5CA passed and that we had a, what would be an addition to our constitution that said only 33 percent of the funding that was collected for schools can come from property tax that they would be able to contort that to do what again?

GROENE: Well, they could move it to-- if you're going to spend \$1,000 and \$330, \$330 is coming from property taxes, you could make \$250 of it come from rural and only so much from the urban areas if you manipulated that, that formula.

BREWER: OK, well, two points. On the \$3.2 billion, that was my LA who did that. I'll beat him later for it. And on the, on the other issue, I guess, we'll talk later because I, I did not mathematically think through that that would be doable if it became--

GROENE: It would be nicer if it said per district. No school district could get funded by more than 33 percent, I think would be--

BREWER: All right. I'll take that, also make a note on that.

GROENE: Thank you.

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BREWER: Any other questions? All right, thank you. And I'll stick around for closing.

GROENE: Any proponents? Any opponents? Opponents.

RENEE FRY: Chairman Groene, members of the Education Committee, my name is Renee Fry, R-e-n-e-e F-r-y, I'm the executive director of OpenSky Policy Institute. We recognize the very real challenge that this constitutional amendment seeks to address and we share the goal of reducing our heavy reliance on property taxes to fund K-12 education in our state. But much like Senator Erdman's LR5CA [SIC], we do not believe this is a fiscally responsible mechanism through which to accomplish meaningful and sustainable property tax reform. Nebraska is an outlier in how much our school districts rely on local property taxes for funding. The U.S. Census Bureau's most recent survey of school system finances found that local property taxes make up 48.9 percent of school funding while the average across 50 states is 32.4 percent of school funding. So we do appreciate that this amendment would bring Nebraska in line with the national average. But LR5CA provides no clear pathway for schools to pay for such a substantial reduction of property tax revenue. While Nebraska is an outlier in its reliance on property taxes to fund schools, restricting the amount that they can raise through property taxes to 33 percent would leave a hole of over \$1.4 billion in school funding. The constitutional amendment has no mechanism to ensure that any of that lost funding would be picked up by the state or any other source. We believe you have better options for provide, providing meaningful property tax relief. For example, LB420 calls for the enactment of a property tax circuit breaker which would provide targeted property tax relief to Nebraskans whose property taxes are high in relation to their incomes. Several measures, such as LB314 and LB614 aim to reduce the reliance on property taxes while offering revenue offsets that would help prevent major cuts to school funding. Another way to approach more systemic property tax relief would be to undertake a comprehensive review of school funding formulas as proposed in LB679 and LB314. In the late 1980s and early 1990s, such a process led to an overhaul of Nebraska school funding formula that did have initial success, success in reducing our reliance on property taxes by increasing state aid to K-12 education. The school funding formula has since been tweaked many times which has contributed to increased reliance on property taxes to fund the schools. Another comprehensive review could help state leaders once again make meaningful changes to school funding that may lead to lower property taxes and more stable funding for K-12 schools.

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Nebraskans deeply value our public schools. We know that a strong K-12 education system that expands economic opportunities for all is foundational to the strength of our economy today and in the future. LR5CA puts that in jeopardy and takes what has been a very difficult revenue situation over the last few years and makes it monumentally worse. In conclusion, while we agree with the goal to reduce our reliance on property taxes to fund our schools, we don't believe that this is a responsible approach to get there. Senator Groene, I would add that you raise a concern that we have as well. And I think the point that you asked Senator Brewer is exactly that. We don't know how this could be manipulated in the future, and so we see that as only half of the solution. And without the rest of the solution we believe that it would be a poor choice to make at this point. Thank you for your time. I'd be happy to answer questions.

GROENE: Renee, I've always wanted to ask-- oh, Senator Linehan. I've always wanted to ask you this question. Most-- you do great work, by the way, your group does and I appreciate it and trust it. I don't always agree with your conclusions. But you keep saying that we, funding schools, we're inadequately funding schools. Give me a number of what we should, we should increase funding.

RENEE FRY: So I don't think--

GROENE: We're at 4 point-some billion, we're 14th in the nation per student.

RENEE FRY: So it's not necessarily the full funding of schools but it is the share that's coming from the state. So we are very heavily reliant, as Senator Brewer said, on property taxes to fund K-12 schools. So we do believe that we should reduce the reliance on property taxes by increasing state support. LB314, LB614 both do that and so--

GROENE: But they also add more money into the funding also.

RENEE FRY: They do raise sales and income tax revenue, get rid of a lot of exemptions, primarily, is how that revenue is raised and used to reduce property taxes.

GROENE: But they also increased spending.

RENEE FRY: No. So schools do have property-- do have spending limits and levy limits. So school spending has not been out of control.

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GROENE: This ain't the place to debate that.

RENEE FRY: OK.

LINEHAN: I just want to ask to make sure that the people who are listening clarify. So in your third paragraph. The U.S. Census Bureau most recent survey of school system found that local property taxing 48 nation, nationally. That's the national average?

RENEE FRY: No, no, no. Forty-eight point nine percent in Nebraska, 32.4 percent of school funding. That's just the property tax piece. When you add in local revenue those numbers-- all local revenue-- those numbers are going to be higher.

LINEHAN: OK, so you're saying-- what, what are you saying, that 32 percent is what the national average is?

RENEE FRY: Yes.

LINEHAN: OK.

RENEE FRY: So Senator Brewer's bill does get us right at about the national average. It's just that it's only part of the-- it doesn't tell us how we make the rest of it work, right? It just creates that hole.

LINEHAN: I thought the, I thought the national average was around 50 percent of state funding was 50 percent.

RENEE FRY: That may be--

LINEHAN: Came from the state and then from local.

RENEE FRY: No, I don't think that's correct. No. States, the state's average would be more, a higher number. I don't remember right off the top of my head right now but I can get that to you very quickly.

LINEHAN: Well, I'll go back and check that because I was, I have looked at these numbers, maybe I've been looking at them wrong. Because what, in our larger school districts for the most part we are picking, the state is picking up about 50 percent of the total cost.

RENEE FRY: Yeah.

LINEHAN: So the schools, I mean, and property taxes are too high everywhere. I understand that. That's what Senator Groene is trying to

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address with his bill with 10 percent reduction in urban areas. But don't you think it's a problem that we're picking up 50 percent of the cost in the bigger schools and maybe 10 percent of the cost in the smaller schools?

RENEE FRY: So both LB314 and LB614 both address that. So for example, I think both of those bills have an increase in the reimbursement for special education that Senator Groene talked about earlier, which goes to all schools.

LINEHAN: That's outside of TEEOSA. That has nothing to do with TEEOSA.

RENEE FRY: But it goes, it's state funding--

LINEHAN: Right.

RENEE FRY: --for all school districts.

LINEHAN: Right but--

RENEE FRY: LB, LB314 it increases the allocated income tax which goes to nonequalized districts. LB614 has a supplemental state aid which would go to all school districts, it operates much like a foundation aid. So both of those bills--

LINEHAN: So how much do all those bills increase funding for K-12 education?

RENEE FRY: Well, LB314 increases-- well, LB314 increases, increases revenue by between \$700 and \$800 million and puts some of it toward the allocated income tax special education funding and then puts the remainder into the property tax credit program while the Department of Ed would do a study on school financing. The intent would be--

LINEHAN: So \$700 to \$800 million more in taxes.

RENEE FRY: Yes, cigarette taxes, sales tax, getting rid of a lot of exemptions.

LINEHAN: So if we raise taxes in Nebraska by \$800 million would we be equal, average, or above average nationally?

RENEE FRY: We would be slightly above average. I think it's around \$600 million that would get us to the, get us to average. So LB614

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raises about \$400 million and all of that is distributed to schools. So if you go between the two you'd be right about the states' average.

LINEHAN: OK, thanks. Thank you, Chairman Groene.

GROENE: Any other questions? Thank you.

RENEE FRY: Thank you.

GROENE: Any other opponents? Neutral?

JOHN SKRETTA: Good afternoon, Chairman Groene, distinguished members of the Education Committee. My name is John Skretta, that's J-o-h-n S-k-r-e-t-t-a. I am the superintendent of the Norris School District. I'm here representing Norris as well as STANCE. STANCE is a coalition of 20 mid-sized public school districts in Nebraska. We are here to testify in a neutral capacity on Senator Brewer's proposal. Wanted to note that the member school districts of STANCE are Ashland-Greenwood, Aurora, Beatrice, Blair, Chadron, Crete, Columbus, Columbus Lakeview, Fairbury, Gothenburg, Holdrege, Neb City, Norris, Plattsmouth, Seward, South Sioux, Wahoo, Waverly, and York. So we're a combination of equalized and nonequalized school districts. I think there's about 65 or so school districts out of the 240-plus who are receiving equalization aid. Basically we're here, I'm here on behalf of our coalition to say thank you to Senator Brewer for his commitment to recognizing and dignifying the importance of property tax relief in Nebraska. And the concern that we wanted to share about this and the reason we're here in a neutral capacity is we're in unanimous agreement as a STANCE group, so all those districts mentioned, that there is an overreliance on property taxes to fund education in Nebraska. The challenge is that it's unfunded as written as a constitutional amendment. So you would have a challenge, whether it's in the neighborhood of \$770 million up to \$1.4 billion-- based on some estimates I've seen-- hole to fill. So the state would have to look at a combination of cuts to education, increases to sales and income taxes, et cetera, in order to offset the lost reliance on property taxes. Just wanted to share with you some things that I think add context and color, sort of color in between the lines of what Senator Brewer has asserted here in his opening comments, which really resonated with me and I think would with our STANCE group. Half of your STANCE school districts derive more than 70 percent of their general fund revenue from local property taxes. Give you a couple examples: Holdrege. During the past decade, Holdrege has seen a 94 percent decrease in total state aid to education. Their general fund

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has increased in terms of budget growth expenditure increases an average of only 1.5 percent per year. When I look at state aid certified for this year, 2018-19, the STANCE group would-- we could also be referred to, to borrow a popular TV series, as the "biggest losers" because we tend to be the group that does not, has not seen or experienced any substantial help from the state but continue to experience annual cost increases that are a reflection of salaries and wages for staff, health insurance costs for staff, transportation cost increases, and more. The Norris School District, as a specific individual school district example, has had cuts in TEEOSA six of the last eight years, an average cut of over 10 percent for those years where we've had a reduction. The last time we had this amount of state aid that we've received for this year, \$4.2 million, Norris had-- I would have to go back to '04, '05 when we received \$4.4 million and we had 1,700 students at the time. We now have 2,400 students and are receiving less state aid than we were in '04, '05. When you go back in time to '06, '07, Norris was reliant on state aid for 42 percent of our general fund revenue and 45 percent derived from local property taxes. So we had much more of a balance. We all know what's happened. Senator Brewer referred to it, and it's the unsustainable increases in assessed ag valuations. And the real deal is that farm income has gone down now five-plus years in a row and we're getting to that point where ability to pay is a real issue and it's a real strain at the local level. So with that, we just wanted to again thank Senator Brewer for bringing the concept forward, but urge caution related to the implications for funding education from the state. Thank you.

GROENE: Any questions? I have one, sir. What's the range of the enrollment of your group?

JOHN SKRETTA: That's a great question. Norris is one of the largest schools in STANCE with 2,400 students. I'm not sure who our smallest member is. We actually also have South Sioux and Columbus who are larger than Norris is. But probably smaller in enrollment: Holdrege

GROENE: I was just looking at enrollments.

JOHN SKRETTA: Yeah.

GROENE: Don't know where Holdrege sits.

JOHN SKRETTA: So a range. A lot of us were, you know, we were in an equalization aid, you could go back just seven years, and have fallen out. Waverly is an example. Seems ironic, Waverly, given the fact that

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they're right here in Lancaster County, but they receive virtually no equalization aid anymore because of the ag land in their districts.

GROENE: Don't think Ashland and Greenwood does either, do they?

JOHN SKRETTA: Yeah, I think that's correct.

GROENE: Thank you. Senator Murman.

MURMAN: Thanks a lot for coming in. My question is you are testifying in opposition, is that correct?

JOHN SKRETTA: No, we're, we're neutral.

MURMAN: Oh, neutral. OK, well good that, I appreciate that. Because at the end of your presentation there you mentioned that ability to pay was getting to be a big problem with property taxes so I can see why you're in neutral then because we don't have necessarily the pay-fors in this legislation. I was just wondering, since we don't have the pay-fors here, are you in favor of any certain bill? LB497 or LB314 or all of the above?

JOHN SKRETTA: Yeah, there's a, there's a number of different proposals that are before you that, and Senator Brewer alluded to, hey, this isn't about the particular mechanism of and the details of deriving that revenue. But I think LB314 reflects something that STANCE and a lot of other-- Norris, a lot of other school districts have pledged their support to Nebraskans United and that collaborative process between ag producing groups and agribusiness interests as well as schools. That looked like a palatable solution, and I'm sure on Thursday there will be a long parade of people saying why it's not.

MURMAN: OK, thanks a lot.

JOHN SKRETTA: Yeah.

GROENE: Foundation aid, a base solid aid, what's your stance on it?

JOHN SKRETTA: We, we have not taken a stance as a group. As a school district, historically Norris has long been a long member of GSA, which supports equalization aid. And I think a lot of what Liz Standish up here earlier said about equalization makes sense. The challenge is that I don't know that there was anything in TEEOSA that foresaw the increases that Nebraska has seen an ag land valuations,

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you know? They've just been unprecedented and so something's got to give.

GROENE: So you're for equalization aid.

JOHN SKRETTA: Yeah.

GROENE: And your members don't get equalization?

JOHN SKRETTA: We have a mix. We have a mix. There's some, some of our members like Crete, Plattsmouth receive a pretty substantial equalization aid. Norris received some.

GROENE: Wouldn't it be better to have a set amount that's guaranteed of state aid?

JOHN SKRETTA: Yeah. You know, your, your predecessor as Chair on the Education Committee, Senator Sullivan, always spoke about wouldn't it be nice if we could get to predictability and sustainability with TEEOSA? And I think that that would be great because Norris, you know, the six of the last eight years it's a, it's quite a roller coaster. But not, not a fun one.

GROENE: But wouldn't foundation aid be that base?

JOHN SKRETTA: I think, I think it would conceivably.

GROENE: If you knew you did your budget this amount was going to come every year?

JOHN SKRETTA: Oh man, you know, if we knew upfront it, it would be great. I think there's-- don't you have a bill to maybe delay certification coming up?

GROENE: I just didn't see it testifying for that earlier bill what you just said would be great.

JOHN SKRETTA: No, I, I think, I think, you know, what-- if, if it were knowable earlier that would be great. I think the concern historically among equalized districts about foundation aid has been that the concern that it's a zero-sum game and there will be this much money available and that it will just get dispersed out more widely and be actually less healthy.

GROENE: I know 174 districts know all about a zero-sum game.

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JOHN SKRETTA: Yeah, yeah, correct.

GROENE: Thank you. Any other questions? Thank you, sir.

JOHN SKRETTA: Thank you.

GROENE: Any other testifiers?

LARRY SCHERER: Good afternoon, Senator Groene, members of the Education Committee. My name is Larry Scherer, L-a-r-r-y S-c-h-e-r-e-r, and I'm not representing anybody today but myself. Not, not even getting paid to be here. So that feels great, strangely. And I would just say I like the concept of a constitutional amendment to resolve this problem. I think it's almost to the point where it appears it can't be solved within the politics of the Legislature. And I think we need some guidance. The one change I would suggest is that we do need something in the bill that would be the pay-fors. Whether you, whether you say 45 percent shall come from state resources or whether you say some, some equal concept, the funding shall be equally locally levied and state levied so that it's an equal partnership. I like that concept a lot. I would hate to lose local control of school districts because I think our school boards are great and so is local control. But I think it's going to take a bigger discussion and a constitutional convention on this particular provision, while I'm, you know, always afraid of runaway conventions and all of that stuff, you know, I think it would make sense for Nebraskans to really come to the table and define what this means in 2020. You know, it's not the same as it was when the 1875. So thank you. Appreciate your listening to me and I'll try to answer any questions.

GROENE: Any questions? I have one. You're not working with NSEA anymore?

LARRY SCHERER: No, no. I retired September 1, 2018. In fact, I have a t-shirt that says that. And it says, I worked 50 years for this t-shirt. So I'll wear it some time. But I did, I worked for the NSEA for 12 years. I worked for the Coordinating Commission for Postsecondary Education for 12 years; I worked for this institution, the Legislature, for about 15 years; and I was a private consultant, stay-at-home dad for two or three years until I got fired from that job.

GROENE: Questions for you. You were probably a little kid like I was back in 1960 when they did the constitution where, changed it, didn't

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they, where they said the state shall-- does not have the authority to issue a property tax for state purpose.

LARRY SCHERER: Yeah, yeah.

GROENE: What good would this do, we've ignored that? When the, when another part of our constitution says the state shall provide for free instruction in our public schools, in our common schools.

LARRY SCHERER: I think they're, I think they're truly in conflict and that--

GROENE: All it takes is a judge to claim that the state has the ability to, to dictate.

LARRY SCHERER: Our courts have not wanted to decide that issue, and they have said it is up to the Legislature.

GROENE: Well, they didn't say, because the constitution said, no, you're not supposed to do that. So the court did decide it.

LARRY SCHERER: Did decide what, pardon?

GROENE: That the state could force local taxpayers to fund a state mandate.

LARRY SCHERER: Yeah, the, the challenge to the current formula has been resolved but it didn't resolve any underlying issues about funding. Do you, I mean that, is that a fair statement.

GROENE: Well, the constitution is pretty clear. The state shall not use the property taxes as a sword for state purpose.

LARRY SCHERER: And, you know, I think, I think part of it is everybody needs to have skin in the game, you know, locally.

GROENE: That's fine, but the constitution doesn't say that.

LARRY SCHERER: That's, that's why I support a constitutional amendment.

GROENE: To try to--

LARRY SCHERER: Thank you.

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GROENE: Yeah.

LARRY SCHERER: And the court, and the court would interpret it, and I'm quite convinced that we have a very knowledgeable court and could do a pretty decent job of that.

GROENE: Thank you.

LARRY SCHERER: Thank you.

GROENE: Any other questions? Any other neutral? Where is my list? We got correspondence. Proponents: the Agricultural Leaders Working Group. The opponents: Colby Coash, Nebraska Association of School Boards; Rob Winter, Greater Nebraska Schools Association; Michael Dulaney, executive director of Nebraska Council of School Administrators. In neutral: none. Would you want to close, Senator Brewer?

BREWER: I do. When you were reading off the proponents and opponents, who were the opponents?

GROENE: The Nebraska School Board Association; and the Greater Nebraska School Association, which is GNSA, the mid-range size schools; and Nebraska Council of School Administrators.

BREWER: All right. And the Farm Bureau, Cattlemen, Corn Growers--

GROENE: They're part of the Agriculture Leaders Working Group.

BREWER: Soybeans, Pork Producers, Wheat Growers. Those are all in proponents, correct?

GROENE: In one correspondence.

BREWER: And actually one neutral, we're going to, we're gonna give a hats off to John from Norris. He's probably the best neutral person I've ever had on a bill.

GROENE: But he testified, so it wouldn't be read here.

BREWER: Yeah. Well, I'm still saying he's the best neutral testifier I've ever had.

GROENE: He's an honest individual.

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BREWER: Well, and he's, he's clear, he's articulate. I mean, there's times when you have, you know, the paid guns that come up here and read the standard package of information. It's, it's just a routine they go through. But when someone comes and actually is living it every day and understands the problems and is willing to share, it's refreshing. Because you kind of feel like maybe you're starting to understand the issue a little better. I'm not saying that there isn't challenges with doing this. All I'm saying is that we're gonna have a number of property tax bills. Most of those are gonna go to Revenue. Fortunately, we have an incredibly bright Chairman of the Revenue Committee. I mean, we've got we've got an above average one here too. But what I'm thinking is that if we get enough property tax bills out there to look at, there has to be a solution somewhere in the works. And I still think that the Speaker was pretty clear at the end of the year last year that he was pretty disappointed on where we ended up. This is just another tool in the toolbox. If it's hanging out there as an option that we can put to the people, if we can't do anything else, it's at least there. We've tried. But I'm telling you, if we don't show a passion to try and fix this, there's gonna be hell to pay in the next election. And there should be. I just want to try and make sure that we don't get to the end and we don't have options and we go through another year without being able to fix the problem. That said, I'm open for questions.

GROENE: Any questions for Senator Brewer? Thank you, Senator Brewer. Appreciate your efforts. This is a basically a technical bill, so I asked Nicole, our research assistant to introduce it. Go ahead, Nicole.

NICOLE BARRETT: Chairman Groene, members of the committee, my name is Nicole Barrett, N-i-c-o-l-e B-a-r-r-e-t-t, and I am the research analyst for the Education Committee. And I'm here to introduce LB430. This bill changes the certification dates for TEEOSA this year, and this year only, from March 1 to June 10. These dates are for certifying state aid budget authority and applicable allowable reserve percentages. This change of date is necessary so that we don't reach the March 1 deadline before the Legislature has had a chance to take action on legislation to address the current budget situation or, as Chairman Groene indicated earlier, there may need to be some TEEOSA bills or some changes to the formula. And so this change of certification date will allow the Legislature to make those decisions before we expand resources on certifying the formula only to redo it. This change of certification was done in 2017 and in years prior. So

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it's sort of the, the norm when we have this situation. Thank you for your time and I ask you to advance LB430 to General File.

GROENE: Any clarifications you need from Nicole? Thank you, Nicole. Any opponents? I mean, any proponents? Opponents? Neutral. In lieu of Nicole closing, this is brought to us by the Department of Ed usually, the committee, when there is a sense that maybe there will be changes to the full funding-- not full funding but the funding for TEEOSA. And the certification date of March 1 just does not match the cycle of the budget which will be maybe the very last day of the session. So the certification date moves to that date. But that's basically our closing, so thank you. That ends LB430. The committee is going to go into Exec Session, so we'd appreciate if everybody--