

Transcript Prepared by Clerk of the Legislature Transcribers Office  
Revenue Committee January 22, 2020

**LINEHAN:** Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan, I'm from Elkhorn, Nebraska, and represent the 39th Legislative District. I serve as Chair of this committee. The committee will-- we've only got one bill up today. Our hearing is in your, our hearing is today is your part of the public legislative process. This is your opportunity to express your position on the proposed legislation before us today. If you are unable to attend a public hearing and would like your position stated for the record, you must submit your written testimony by 5:00 p.m. the day prior to the hearing. Letters received after the cutoff will not be read into the record. The better-- to better facilitate today's proceeding, I ask that you abide by the following procedures. Please turn off cell phones or other electronic devices. Move to the chairs at the front of the room when you are ready to testify. The order of the testimony is: the introducer, proponents, opponents, and neutral and closing remarks. If you will be testifying, please complete the green form and hand it to the committee clerk when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page, who I'll introduce in the second. We need 11 copies for all the committee members and staff. If you need additional copies, please ask the page to make copies for you sooner. If any of you need copies, the sooner you do that, the better. When you begin to testify, please state and spell your name for the record. Please be concise. Is my request that-- I'm gonna ask this, how many are gonna testify today? Can you show hands? OK, let's go three minutes. So the way it will work is your first two minutes you'll be on green, then a yellow light comes on and you should start to wrap up. And then when red, I'm going to try to be pretty strict today about when it's red you need to stop. There are a lot of-- OK, we did that. If your remarks were reflected in the previous testimony or if you would like your position to be known but not, do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. So there's forms-- so which corner do we have the forms in? Both sides, OK. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. To my-- I'd like to introduce the committee staff. To my right is legal counsel Mary Jane Egr Edson. To my left is research analyst Kay Bergquist. At the left end of the table is committee clerk Grant Lattimer. And now I'd like the committee members to introduce themselves, starting at my far right.

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**KOLTERMAN:** Senator Mark Kolterman, District 24: Seward, York, and Polk Counties.

**GROENE:** Mike Groene, Lincoln County, District 42.

**LINDSTROM:** Brett Lindstrom, District 18: northwest Omaha.

**FRIESEN:** Curt Friesen, District 34: Hamilton, Merrick, Nance, and part of Hall County.

**McCOLLISTER:** John McCollister, District 20: central Omaha.

**CRAWFORD:** Good afternoon, Sue Crawford, District 45, which is eastern Sarpy County, Bellevue, and Offutt.

**BRIESE:** Tom Briese, District 41.

**LINEHAN:** And now I'd like to introduce our pages, if they could stand up. Michaela is from University of Doane and so is Erin [SIC]. And they will-- no, well, OK. You're not from Doane. Where are you from?

I attend the University of Nebraska-Lincoln.

**LINEHAN:** Well, that's OK. We like them too. We like broad representation. That's excellent. Please remember that senators may come and go during our hearing as they may have bills to introduce in other committees. I think we have one senator who is going to have to do that today. Refrain from applause or other indications of support or opposition. I'd like to also remind our member-- committee members to speak directly into the microphones and also for our audience. Again, the microphones in the room are not for amplification, but for recording purposes only. Lastly, we are electronics-equipped committee and information is provided electronically as well as in paper form. Therefore, you may see committee members reference information on their electronic devices. Be assured that your presence here today and your testimony are important to us and critical to our state government. So we thank you for being here. And now I will introduce the bill. But this is because I'm chair, this is a Revenue Committee bill. Senator Friesen, do you want to--

**FRIESEN:** Yep.

**LINEHAN:** Good afternoon, fellow committee members. For the record, my name is Senator Lou Ann Linehan, spelled L-o-u A-n-n L-i-n-e-h-a-n, I represent the 39th Legislative District. I'm introducing LB974 for the

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Revenue Committee. LB974 is the Revenue Committee's property tax relief proposal. The purpose of LB974 is to reduce the property tax bills of Nebraska's farmers, ranchers, homeowners, and business owners while protecting our schools. Nebraskans do an admirable job of funding our public schools. However, Nebraska is near the bottom in state dollars for public K-12 education, which results in an overreliance on property taxes. The goal of LB974 is to reduce our reliance on property taxes to fund public K-12 education by providing a dollar-for-dollar reduction in K-12 property taxes while keeping school funding whole. In other words, we are increasing state aid to reduce the reliance on local property taxes for school funding. We are not reducing public K-12 funding, but changing the percentage of funding sources. The maximum levy will remain at \$1.05. However, as in the case now, any school district can, by a vote of their taxpayers, override the maximum levy. Three school districts in Nebraska have already done so: Westside, Millard, and Hastings. LB974 does not raise income or sales taxes, nor does it eliminate any sales tax exemptions. It does not repurpose or change the Property Tax Credit Fund. The Property Tax Credit Fund will continue to work as it does today. LB974 as, as the bill was introduced, will reduce the valuable taxable valuation for all school districts over a three-year period. Agricultural land will be reduced from 75 percent of actual value to 65 percent in the actual value in 2021; and then in '21-22, 55 percent. Residential, commercial, and industrial and centrally assessed land will be reduced from 100 percent of actual value to 95 of actual value in 2021. It will reduce from 90 percent of actual value in '21-22, and 85 percent of actual value in '22-23 and thereafter. These reductions in taxable value will reduce the amount of property value that is used in the calculation of the Tax Equity and Educational Opportunities Support Act aid. Consequently, equalization aid will increase for many schools. The statutory levy, excuse me, the statutory maximum levy for schools will remain at \$1.05. The base limitation or basic growable allowable growth rate will be that of the inflation rate for the school fiscal years. I have for the committee's benefit, though I think you have all seen it before, this is the number that we move frequently. It's at 2.5, but every year we can move it up or down. And if you look at the last 10 years, we frequently move it very close to inflation. So it's, it's something we're already doing, frankly. A new levy exclusion is being added to begin with the school fiscal year '21-22. If the January estimate of state aid is greater than the actual certification of state aid and if the change is due to a legislative enactment, the Board of Education may vote to access 75 percent of the difference as

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a levy exclusion. Meaning if the Legislature does not fund the formula according to this new law, we're giving the schools ability to go back and capture 75 percent of the lost funding with a supermajority vote of the elected board. The special building fund levy will be reduced to 6 cents per \$100 of taxable value. A vote of the people will be required if a school board wishes to lease, lease, purchase buildings, or build a new building from the special building fund. Foundation aid is created which will provide every student in Nebraska funding. Consequently, regardless of where a student lives, his or her public school will receive state funding for their education. The basic funding aid component of the foundation aid provides additional dollars for low-enrollment schools, which are located in our many rural areas which are sparsely populated across our state. The calculation of net option funding will be changed beginning in '21-22 to use the statewide property tax dollars per formula student. This will provide for property tax dollars to follow an options student. The averaging adjustment will be repealed beginning with the '21-22 certification of state aid. LB974 will provide transition aid. To qualify for transition aid, a school district must meet the following criteria. Have a combined general fund and special build-- building fund of \$1.05; have a reduction in the current year's budget that is greater than 1 percent of the prior year's budget; transition aid will be 100 percent of the difference in 2021, 75 percent of the difference in '21-22, and 50 percent of the difference in '22-23. The amount of transition aid will be appropriated by the Legislature and prorated to the school districts. Finally, unused budget authority is reset to zero, beginning with the '20-21 school fiscal year. When LB974 was introduced, we antic-- anticipated the components of the built to fit within the estimated three-year budget that is included in the Governor's budget. The Revenue Committee, in consultation with Senator Stinner and Governor Ricketts, understand there is a \$520 million available over the next three years. Again, Senator Stinner and Governor Ricketts agree that this amount is sustainable. Last-- late last week, 2019 property valuations were certified by the Department of Revenue, which changes the cost of LB974 compared to what the costs were when we use 2018 certified property tax values. For instance, between '18 and '19, residential valuations increased 9.5 percent statewide. So obviously different cities, Lincoln, for example, went up more than 7 percent, and I think some areas in Omaha went up more than 7 percent. Commercial and industrial valuations increased 5.64 percent. Agricultural valuations decreased 3.95 percent. The same would be true for ag, depending on where you are. Some went down, some stay even, but that's the state average. So we are going to have to

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make adjustments to the legislation to fit within the \$520 million available. We already are now in discussions with the Governor and the Fiscal Office on proposed amendments. To help pay for the bill, we will repeal the Property Tax Relief Act, which will generate approximately \$45 million over the three-year period, reduce all taxable valuation percentages over the three-year predate-- period. So instead of our original goal on residential, we'll go down the first year to nine-- from 100 to 95, the next year from 95 to 91, and 2022 thereafter to 87 percent. On agriculture and hort-- horticultural special, special valuation, currently at 75 percent, it will reduce in 2020 to 65 percent, 2021 to 60 percent, and 2022 thereafter to 57 percent. In each school fiscal year, 2023-24, each school district will have its own statutory maximum levy. The levy will be the lesser of 5 cents plus the local effort rate of \$1 or 5 cents plus the levy, which is based on the inflation rate plus real property growth. Transition aid will be calculated and certified by the Department of Education using the current year's Tax Equity and Educational Opportunities Support Act aid and the total property tax asking compared to the next year's Tax Equity and Educational Opportunities Support Act aid and the calculated Total Property Tax asking at \$1.05. For example, for the '20-21 calculation of transition aid, the comparison would be made between the 2019-20 state aid plus total property tax asking and the '20-21 state aid plus the calculated total property tax asking at \$1.05. Transition aid would be made in 10 equal payments beginning on the last business day in September and ending on the last business day in June. We would also allow schools to access 100 percent of the difference in the Tax, Equity and Educational Opportunities Support Act aid estimated in January and actual certification as a levy exclusion if the difference is due to legislative enactments. I would be happy to answer any questions.

**FRIESEN:** Thank you, Chairwoman Linehan. Any questions from the committee? Seeing none.

**LINEHAN:** Thank you very much.

**FRIESEN:** Proponents who wish to come up and testify?

**DOUG KAGAN:** Good afternoon. My name is Doug Kagan, D-o-u-g K-a-g-a-n, representing Nebraska Taxpayers for Freedom. Our taxpayer group endorses LB974 overall, conditionally understanding that the bill may be amended. Our members for too long have been angry, frustrated, and cynical about the lack of legislative progress on property tax relief. But we have confidence that senators understand that and now will

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offer us a measure of relief. One reason for our support: No increase in other taxes as an offset. Specifically, we support the valuation decreases, but would prefer residential valuations set lower at 80 percent of market value immediately and valuations for farmland set at the lower rates for all local taxing authorities. We also suggest taxing restrictions on public school districts at an earlier date and fewer exclusions from tax limitations. For example, construction costs. Exclusions from a school budget lid concern us because the current lid has so many exceptions that we call it a swiss cheese lid. Foundation aid is a high point in this bill, especially because most other states rely more on state aid than local property taxes to fund education. As written, school districts' ability to carry forward a budget amount to future budget years, we believe, would give them incentive to not spend every penny in their annual budget. However, we found the clauses revising the state aid to education are very complex and difficult for the average person to understand. Therefore, we advise rewriting several sections of the bill to clarify these provisions. The new formulas contained in LB974 will result in property tax relief, though limited, but nonetheless objectives worth endorsing. We believe that this bill offers a firm foundation upon which to build subsequent legislation in future sessions, further relieving property owners. Thank you.

**LINEHAN:** Thank you very much, Mr. Kagan. Are there any questions? Seeing none, thank you very much for being here. Thank you. Go ahead.

**JOE MURRAY:** Dear Revenue Committee members, my name is Joe Murray, that's J-o-e M-u-r-r-a-y. I'm here again as a beleaguered taxpayer still paying some of the highest property taxes in the country. We have to start somewhere to rectify this problem, and LB974 is a good start. LB974 is not a grand solution, but it clearly delivers on several things that people have been begging for this body to deliver. It provides property tax rate reductions for farmers, ranchers, and all property tax owners. It gives state aid to every school district, many of which have not been getting any help. It also has necessary limitations on the growth of spending tied to the rate of inflation. Delivers tax relief and school aid in sustainable amounts without any tax increases. It is a win-win situation. Revenue projections have been positive, but the actual numbers lately have been even better. December saw the actual numbers come in 12 percent over projections. That's around \$50 million above projections for just one month. It's not overly risky to do this with no tax increases because it provides a lot of more positives than any imagined risk. As FDR once said: All

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of us have-- we have to fear is fear itself. It is impossible to pass a bill that can predict the future in perpet-- perpetuity. I believe there are some grander proposals that might achieve greater reform. However, these face even greater opposition than this bill does. Passage of this bill does not preclude these other ideas, other ideas from moving forward. I'd also caution that similar legislation to limit spending and lower property taxes on the more than 2,000 other government subdivisions need to happen sooner than later. This does not happen, the savings from LB974 the taxpayers will soon be surpassed if the near 5 percent growth rate of more than a decade continues with these other property tax le-- levying subdivisions. To repeat, we have to start somewhere and LB974 as a start in the right direction. Even if a senator can't bring themselves to support this bill, it is good enough to justify giving it an up and down vote on the merits of the bill. Some senators need to stop being childish obstructionists, vote for cloture. Senators that continue to obstruct everything are against the will of the majority of people in this state that clearly want lower property taxes and more equitable state aid to schools. Nobody deserves reelection this year if you once again stand in the way of anything getting done. We're sick of it. You don't provide solutions when you just obstruct. Since the property tax crisis came to light several years ago, millions of relief has been left on the table because of this needless selfishness. It's time to stop. Thank you, Senator Linehan and the vast majority of this committee, for your leadership to come up with a bill that has support and is good for farmers, ranchers, homeowners, businesses, and schools. LB974 needs passed into law as soon as possible. Thank you.

**LINEHAN:** Thank you, Mr. Murray.

**JOE MURRAY:** Any questions?

**LINEHAN:** Thank you. Are there any questions for Mr. Murray? Seeing none, thank you very much for being here. Thank you for being here.

**LORAN SCHMIT:** Good afternoon, ladies and gentleman. Chairperson Linehan, my name is Loran Schmit, Bellwood, Nebraska. I appear here today in support of LB974. I appreciate the work of the Revenue Committee--

**LINEHAN:** Sir, you need to spell your name.

**LORAN SCHMIT:** Pardon?

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**LINEHAN:** I know we all know who you are, but you still need to spell your name.

**LORAN SCHMIT:** L-o-r-a-n S-c-h-m-i-t. I appreciate the work of the Revenue Committee to relieve the rural property tax burden. It is unfortunate that the available revenue limits the ability of the Revenue Committee to substantially reduce present rural property tax burden. I would therefore offer for the consideration of the Revenue Committee an amendment which will provide millions of dollars of revenue for rural property tax relief. The 2019 Legislature passed by 44-0 vote LB538, which was signed by the Governor. The bill provided a method for legalizing the operation of certain types of equipment that qualified as games of skill. I have met with Commissioner Tony Fulton who has informed me that more than 3,000 of these machines are in operation in the state today. They are located in bars, retail gas stations, truck stops, convenience stores, and in one instance in a stand-alone facility which was remodeled strictly to conduct games of skill. To the best of my knowledge, approximately 38 states and countless Indian reservations tax revenue which passes through the gaming equipment. That tax has raised billions of dollars to support many governments. Calling these machines "games of skill" should not exempt them from the payment of a reasonable tax. If the games are truly games of skill then the revenue an individual earns from that skill should certainly be taxed, as it is a revenue of farmers, attorneys, doctors, schoolteachers, and businessmen whose skill determines their income and is taxed. In my opinion, the machines are gambling devices. A tax on gambling is a voluntary tax. No one is forced to gamble. The state already taxes gambling activity. Why make an exemption of these machines? Again commend the Revenue Committee for your work and urge you to adopt the amendment to LB974. If I have time, I'll read the amendment. The Legislature shall impose a tax on 9 percent on the revenue which passes through the equipment which would provide with a path to legalization by the passage of LB538 of the 2019 Legislature. This tax shall be opposed-- imposed in addition to any other revenue collected by the Department of Revenue. The 9 percent shall be divided with 6 percent to the state of Nebraska and 3 percent to the cities or counties in which the equipment is located. The 6 percent collected by the state shall be designated for rural property tax relief.

**LINEHAN:** Thank you.

**LORAN SCHMIT:** Thank you, members of the committee.

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**LINEHAN:** Thank you. You're a pro. You were right on the mark there.

**LORAN SCHMIT:** Thank you.

**LINEHAN:** Thank you very much. I'm sorry, do we have questions? I'm sorry. No questions. Next proponent. Don't be shy. If you're a proponent, move forward so. Good afternoon.

**STEVE NELSON:** Good afternoon, Senator Linehan and members of the Revenue Committee. My name is Steve Nelson, S-t-e-v-e, Nelson, N-e-l-s-o-n. I'm a farmer from Kearney County, where my son and I graze corn, soy beans, and hybrid seed corn. I also serve as president of the Nebraska Farm Bureau and I'm here today to testify in support of LB974, legislation which addresses our state's inequity in school funding and overreliance on property taxes as a funding source for K-12 schools. LB974 provides property tax relief for all Nebraskans and puts the state on a path of assuming more of its responsibilities for funding K-12 education. Only 81 of the 244 public school districts in Nebraska receive state equalization aid. In most of the other 163 unequalized public school districts, property taxpayers are responsible for the vast majority of the costs, even when it comes to basic education. We believe the state has an obligation to help pay for the basic education of all students, regardless of where they live. Actual property taxes on agricultural property have increased in most cases more than 128 percent, but in some cases more than 200 percent over 10 years. Overall, property taxes have increased more than 50 percent, which is why it is important to drive down property taxes for ag producers, as well as residential and commercial property owners. Nebraska Farm Bureau's preliminary analysis of LB974 indicates that compared to 2019 taxes levied, Nebraskans could see more than a 7 to 9 percent reduction in overall property tax collection once the bill is fully implemented. Combined with the Property Tax Credit Fund, which remains intact under LB974, Nebraskans could see a 15 to 20 percent reduction in their property tax bill. In addition to valuation changes, LB974 would send more state money to schools through per pupil foundation aid and a 15 percent basic funding guarantee. We support public schools large and small, and we believe they should have the means to pay for growing needs. We also believe state income and sales tax dollars should be more equitably distributed to all schools with appropriate spending restraints to assure that these dollars truly go to property tax relief. If we really care about keeping and attracting families in and to rural Nebraska, we must take this step to measurably reduce Nebraska's overreliance on property

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taxes. While this bill is not everything we might want, it is a very positive and important first step. No bill is perfect and compromise is key. I think it's safe to say that most Nebraskans want great schools, accountable and efficient government, and a balanced tax system that makes sense for everyone. I'm asking the committee to advance LB974 before more families and businesses are discouraged about living in this great state. Thank you for your hard work and dedication on this issue, and I'd be happy to answer any questions.

**LINEHAN:** Thank you. Senator McCollister.

**McCOLLISTER:** Thank you, Chairwoman Linehan. You indicated that not-- all bills are not perfect. Can you suggest ways this bill could be improved?

**STEVE NELSON:** You know, we-- the part, you know, connected to having funding for each student. We, we've liked the idea of basic education aid better than the, than the foundation aid. But there-- that would be one suggestion. I guess, you know, my-- this is a pretty good bill when it comes to addressing a lot of the issues that are important to us. And and I think that, that, again, as I said, compromise is going to be very important. We know that, that there are issues related to making this fit into the budget. We understand that, we're willing to work with the committee to, to find solutions to those questions and get this bill passed.

**McCOLLISTER:** Thank you, Steve.

**LINEHAN:** Thank you, Senator McCollister. Other questions for the committee? Senator Groene.

**GROENE:** Thank you. Would you say it's unanimous out there, your membership, that they are seeking property tax relief?

**STEVE NELSON:** Yes.

**GROENE:** Do a lot of your members, good citizens, sit on school boards in rural Nebraska?

**STEVE NELSON:** Yes.

**GROENE:** Do you think those members will make sure on the school boards that education is adequately pres-- given to each child?

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**STEVE NELSON:** Yes.

**GROENE:** If we enact this bill?

**STEVE NELSON:** Yes. Yes.

**GROENE:** So do you believe the schools belong to the people?

**STEVE NELSON:** Yes.

**GROENE:** And the taxpayers?

**STEVE NELSON:** Yes.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene? Other questions from the committee? Seeing none, thank you very much for being here, sir.

**STEVE NELSON:** Thank you.

**LINEHAN:** It's OK. Thank you, Mr. Slone.

**BRYAN SLOANE:** Chairman Linehan, members of the committee, my name is Bryan Sloan, B-r-y-a-n S-l-o-n-e, and I am president of the Nebraska Chamber of Commerce and Industry here today to testify supportive in concept of LB974. I want to thank this committee for all the work that you've put in for many months in putting together this bill. LB974 is a more balanced effort to address the property tax problem. It increases state funding for education to comparable levels with other states. It introduces additional spending growth controls to ensure local property tax requirements will in fact be reduced. The bill attempts to make school districts whole as much as possible, while retaining a significant degree of local control, all while not imposing new taxes on Nebraskans. We do nonetheless have some reservations about the bill as currently drafted. We are concerned about the 15 percent commitment in year 3 driving the cost of the bill beyond budgeting capacity, and that's something that we would want to look at based upon the Governor's budget capacity projections. We would also like to ensure that local voters have the opportunity to weigh in before any levy increases occur. We would want this body to consider at least a uniform mechanism to provide greater transparency on educational funding during the term of this legislation. Clearly, we want to see that the legislation is working and also that this body has the information three or four years from now to evaluate the

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success of this legislation. And finally, we need to initiate a new dialog with education on how we can create better, longer-term certainties and commitments to education necessary to develop a competitive workforce. I would also mention this bill has not been reviewed yet by our policy council and board of directors because our annual meeting and board meeting is next week. But we thought it was important that we testify today knowing that moving property tax relief forward is an important top priority for Nebraska. The Nebraska Chamber of Commerce is a top acts-- advocate for tax reform. Simply put, to remain competitive and grow our economy, we are going to have to pursue tax reform. And put bluntly, if we're going to remain competitive as a state and grow our economy for the next decades, property tax relief and a business incentives bill this year are not optional. It's what we need to continue to be compete-- compete in the national market. But our work can't stop there. We have to identify other vital economic strategies. We have to increase job growth, we have to increase our skilled workforce population, particularly in the 18 to 34-year-old range. We have to reform our state income taxes and we have to increase median household income and vastly expand research and development in this state. All of these are things that are on our agenda and need to be addressed. We know from history there's no easy or perfect solution to our current property tax problem. How it's-- however, it's time for Nebraskans to coalesce around a piece of legislation that's in the best interests for Nebraska's future. And in that regard, I would close, Senator, seeing my red light. It's time that these issues are not urban issues or rural issues. It's time for the state to coalesce around an economic strategy. And we've got lots of work to be done. Thank you.

**LINEHAN:** Thank you very much for being here. Do we have any questions for Mr. Slone? Seeing none, thank you very much for being here.

**BRYAN SLONE:** Thank you, Senator.

**ROBERT JOHNSTON:** Senator Linehan, committee, good to see you. I am Robert, R-o-b-e-r-t, Johnston, J-o-h-n-s-t-o-n. I am currently chairman of the Nebraska Soybean Association. But more importantly, I'm a farmer. Remember that number one industry in the state? A farmer from Clearwater, Nebraska, Antelope County, one of Senator Briese's. Mainly, I want to say that we have already turned in our support for this bill. So I'm not going to reread our support. I'm going to go to more of a personal comments. But thank you, committee, for, for getting this bill together. And the Soybean Association does, does

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support it. I'd like to say that there's, there's two things that I like about the bill a lot. Foundation aid for one, and leaving the money in the Property Tax Credit Fund for another. I carry this sheet of paper with me every place I go. It's public knowledge, you guys have it. It's that formula, the state aid certification formula. Most of my taxes go to the Unified-- Nebraska Unified District 1 school district. And if you, if you look online, or I can show you, I have a huge amount of zeros in this column. And so, as Senator Linehan, when you introduced the bill, you mentioned that some schools will get a, a check 10 times a year. My school district gets a check 10 times a year. Can you imagine this? The formula says that the kids in my school district are only worth \$3,000 a month, we get just short of \$40,000 in allocated income tax. So anyway, we would really appreciate the foundation aid. We appreciate the work that you guys are doing. So thank you. I would, I would take questions that I can answer.

**LINEHAN:** We would all like to have that option. Thank you very much for being here. Are there any questions from the committee? Seeing none, thank you very much. Next proponent.

**NICOLE FOX:** Good afternoon.

**LINEHAN:** Good afternoon.

**NICOLE FOX:** Thank you, Vice Chair Friesen and Senator Linehan. Chair Linehan, members of the Revenue Committee, my name is Nicole Fox, N-i-c-o-l-e F-o-x, and I'm director of government relations at the Platte Institute. I'm here today to support LB974. Nebraskans cannot afford for the Legislature to fail on property tax reform. In 2007, the Property Tax Credit Fund was created because, at that time, we were thought of as a high property tax state. At the time of the creation of that fund in 2007, total property taxes collected were \$2.5 billion. This most recent tax year, total property tax collections were \$4.3 billion. This outpaces inflation and the growth of the median household income. The Property Tax Credit Fund is not working for hardworking Nebraskans. This is not sustainable. If this trend continues, it will undermine Nebraska's quality of life and economic competitiveness. It will give fuel to voter initiatives that will take decision making power away from the Legislature and local governments. We will be stuck with a solution for lower taxes mandated by voters. We need a proposal that provides structural relief, and we support LB974 because the committee's proposal aligns with several recommendations we have made at the Platte Institute. It avoids tax increases in rates, it reduces school, local school district property

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tax assessment ratios with funding offsets provided by the state, and it provides foundation aid support for students enrolled in every school district. Of course, we all know it could be more robust if there was an appetite to reform sales tax exemptions. But most importantly, LB974 represents a first step away from merely subsidizing local property taxes and toward permanent reform of our tax structure, reducing assessment ratios, and funding responsibility for education. In exchange for additional state aid, local school districts will have to give up a portion of their property taxing authority unless there is a vote override. This is a tough pill for a lot of school districts to swallow, but the only way to significantly and sustainably reduce our reliance on property taxes is to reduce how much property tax is allowed to be levied under the current law. Sixty-two percent of Nebraskans we polled say they support stronger limits on property tax valuations or levies as this bill provides. LB974 is a good first step, but more changes will need to follow because the majority of Nebraska's property taxing subdivisions will still adhere to current tax limitations under this bill. If the state does not adopt additional policies to limit the growth of property taxes, such as a properly balanced cap on assessment growth, the gains reduced from school assessment ratios could be lost in the years ahead as other local property taxes rise. I want to take this time to say thank you. I know that this committee, Senator Linehan, you've worked tirelessly on these efforts, efforts and for in regards to this proposal. It's a complex issue, and the Platte Institute commends you for your hard work. And I'm happy to take any questions.

**LINEHAN:** Thank you very much for being here. Do we have any questions from the committee? Seeing none, thank you very much for being here. Next proponent.

**STEVE EBKE:** Good afternoon, Chairman Linehan and members of the Revenue Committee. My name is Steve Ebke, and that is spelled S-t-e-v-e E-b-k-e. I farm with my wife near Daykin, and I'm chairman of the Nebraska Corn Growers Association government relations committee, and I'm here testifying today in support of LB974. Reducing property taxes on agriculture land has been a long-- has long been a priority for the Corn Growers Association. Since 2013, when the 15 senator tax modernization committee hearings were held across the state, rural and urban constituents have filled countless hearing rooms to testify about the burden of regularly increasing property taxes. In my family's operation, property taxes have increased 211 percent since 2010, while the price of corn has declined by 37

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percent. We appreciate the work of Senator Linehan and the entire committee in crafting LB974. A vital component for us is lowering agricultural land valuations for K-12 educational purposes. This change provides relief for all agricultural and horticultural landowners. Our members pay commercial property taxes on livestock buildings and other farm site buildings, and residential property taxes on our homes. Therefore, reducing valuation for commercial and residential property is important as well. LB974 establishes a per student foundation aid, providing every public school district some finance-- some state funding based upon their student population. LB974 also provides a basic funding guarantee. Such a guarantee recognizes that the cost of providing a basic education for K-12 students differs for each dis-- Nebraska public school district. The guarantee provides a minimum amount of state aid, regardless of changes in the student population. The Nebraska Corn Growers Association members agree that LB974 should provide for some restriction on public school district budgets. Consequently, our members expect to see a direct one-for-one relationship between state aid and property tax reductions. For years, the Nebraska Corn Growers Association has worked on possible solutions to excessive property taxes. We support the state fund fulfilling its constitutional obligation of funding for K-12 education without overreliance on property taxes. We're in support, in full support of elements in this bill as an incremental step in lessening the burden of K-12 financing for property owners. We believe LB974 must move the General File, as our situation is critical. The economics of Nebraska agriculture continues on a downward trend line, due in large part to the burden of high property taxes. We ask the committee to advance LB974 and allow the full Legislature the opportunity to discuss an avenue for property tax reduction. Thank you, and I'm open for any questions.

**LINEHAN:** Thank you very much for being here. Do we have any questions from the committee? Seeing none--

**STEVE EBKE:** Thank you.

**LINEHAN:** --thank you very much for being here. Next proponent. Don't be shy.

**LAVON HEIDEMANN:** Senator Linehan, members of the Revenue Committee, my name is Lavon Heidemann, L-a-v-o-n, Heidemann is H-e-i-d-e-m-a-n-n, here on behalf of Nebraska Cattlemen today. Also testifying on behalf of Nebraska Pork Producer Association, the Nebraska State Dairy Association, and they also support this bill as we do. Thank you for

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the opportunity for listening to the concerns of Nebraskans. We have been before the Revenue Committee many times in the past years with the same message. Property taxes have a dispassionate impact on Nebraska agriculture's community. The situation is critical, as illustrated by the rapidly rising number of farm bankruptcies in Nebraska. The time for property tax relief is now. LB974 contains the framework to help fundamentally restructure and relieve property taxes burden facing all Nebraskans. Our organizations are very supportive of providing state funding for all K-12 schools. Every child in Nebraska deserves a quality education regardless of where that child resides. This is a very important for our members. As such, we strongly believe the state must assume a greater role in meeting this need. Nebraska Cattlemen would also particularly like to thank the Revenue Committee, this is also very important for me, for leaving the Property Tax Credit Fund intact. Our policy strongly supports maintaining the fund as the only, it's the only relief that our members currently receive. The fund helps mitigate or on the average approximately 11 percent of agriculture property tax total tax burden. This is not insignificant by any means, and in many cases it's the only thing preventing an operation from having to liquidate equity, let go of workers, or come up with some equally dire means of pay a tax bill. Nebraska Cattlemen supports this fund as a crucial component of overall property tax relief for Nebraska's property livestock producers. Last Friday we was on a conference call with Nebraska Cattlemen, what we gonna do with this bill. And it came to the conclusion there was, there was no other thing that we could do but support this bill, because it's the best thing going right now. It is the thing going right now. And we need to support this. We support it for two reasons. Those ones that I have said, we protect the Property Tax Relief Fund, and we need to do something this year on property taxes. And this is the vehicle to do it. I want to share a little bit about, about me, just really short. At the end of this year, I figured out how the farming operation-- I live on a farm, that's what I do for a living-- how it actually did. And after all my labor and work and the equity that I have in the farm, I got about a 1 percent return on my equity. And then the state of Nebraska does what do you? They said, give it to me. Because they take about 1 percent a year of your equity. That's not fair. This state needs to come up with some other way to tax, tax agriculture property. And that's one thing probably short in this bill that I personally think didn't get done, is we have to find a different way to tax agriculture property. I would encourage the Revenue Committee to advance LB974 and finally help fix the tax inequity facing Nebraska

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agriculture community. Thank you. And if you got any questions, I would sure try to answer them.

**LINEHAN:** Thank you very much. Do we have any questions from the committee? Yes, Senator McCollister.

**McCOLLISTER:** Yeah. Thank you for being here. You have a long history in this, this building, I know. You said this is the only train on the track. Is that correct?

**LAVON HEIDEMANN:** Looking from the outside and maybe having being involved before, yes. We have. We're supporting this bill because we think this is the one that's going to go forward. And this one is going to be the conversation where the final bill that helps with property tax relief in Nebraska is going to be. We think it will be LB974

**McCOLLISTER:** If we were to devote an equal amount of money to the Property Tax Relief Fund, adding, supplementing that fund, what would your thoughts be about that?

**LAVON HEIDEMANN:** I like that question, actually. I have, when I was in the Legislature, I was part of getting that fund up and running. Right now, I think it's at 275, if I remember right. We get about 10 or 11 percent return on that, as far as property tax relief. I have a little bit of concern, and I'm not quite sure on the numbers. I know there is people running numbers, and it's a little bit difficult, difficult by the time you get to year three, how much actually help it's-- what it's going to cost and how much help it's going to be. But if this bill actually costs \$500 million, and I was told that, you know, they're still working on the numbers, we're gonna get about maybe 10, 11 percent relief. It looks like to me that return on investment would probably be better in a Property Tax Relief Fund. There's a lot of numbers that have to be run on this yet. It's a work in progress. We support this bill because it's what's out there right now. Those numbers need to be looked at, I can't totally disagree with you there, if that's where you're going, about our return on investment in how much money we're spending and how much help we're giving-- getting.

**McCOLLISTER:** Thank you, Lavon.

**LINEHAN:** Thank you, Senator McCollister. Other questions from the committee? Yes, Senator Groene.

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**GROENE:** That's 11 percent on a district that has ranch ground and it has a low levy. That's not 11 percent in Schuyler, Nebraska, or a district that has a high tax levy with irrigated ground.

**LINEHAN:** Is it--

**GROENE:** Is that correct?

**LAVON HEIDEMANN:** I'm not for sure exactly where the 11 percent goes across. I was under the understanding that it was actually 10 percent across all taxing entities. But I'm not 100 percent for sure. But I encourage you to actually look into that.

**GROENE:** I have.

**LAVON HEIDEMANN:** OK.

**LINEHAN:** Thank you, Senator Groene. Other questions? Is your hand up, Senator Friesen?

**FRIESEN:** Just scratching.

**LINEHAN:** All right, thank you very much then--

**LAVON HEIDEMANN:** Thank you very much

**LINEHAN:** --for being here. Other proponents? Good afternoon.

**ED HERLEIN:** Good afternoon. My name is Ed Herlein, E-d H-e-r-l-e-i-n. The organization I represent is a farm in Waterloo, Nebraska, called Robinson Middlebrook. We look at things probably slightly different in the way that, that we farm is we look at land, landowners separately. So when it comes to property tax relief from a land standpoint, we just feel that we've been taxed way beyond our fair share over the last five to six years. So how I'm gonna express this as I'm going to take you on our 15-year tax, property tax story here. If you turn to page one, you will see in 2005, and this is expressed on a rate per acre, we paid \$19.98 per acre in property tax. Today we're paying \$81.09. The owners of the land own about 3,600 acres. So what's that mean when you turn it into real dollars? In 2005 we paid \$45,739, this last year we paid \$293,000. Think about that. With that said, we also got hit with flood this year. As a manager of the Robinson land entity, we paid more in property tax than we were able to pay the owners for their investment. Think about that. Then property tax is an income tax level, it's not based on income, it's based on what you're

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assessed. If you turn to page four, you can see our 15-- our 11-year history of commodity prices. Back when our state chose to escalate our property tax level 400 percent, we had prices that probably could fund it. Today, we're running at 50 to 60 percent of those commodity prices. Facts are the money just is not there. If you turn to page five. You can kind of see how that breaks out. Right now, in 2019, out of every dollar cash rent that we pay to the landowners, they turn around and pay 36.3 percent of that back in property tax.

**LINEHAN:** I think it's page four.

**ED HERLEIN:** Or-- OK, page four. OK. It's this page here. Yes, OK. So with that said, think about the landowner that invested their retirement in land. Think about the fact that they don't have 401(k)s, they don't have retirement plans. They don't have other entities for retirement. Five, six years ago, they were cash renting that ground for \$300 an acre, paying \$25 an acre for property tax. Pretty easy math, netting \$275. Today, they're lucky if they're getting \$250, paying \$100 in property tax. Their retirement incomes went from \$275 to \$150. I really would like to have somebody explain to me how that's fair.

**LINEHAN:** Thank you very much. Are there questions from the committee? Senator Groene.

**GROENE:** Just quickly, could you explain page five?

**ED HERLEIN:** That's this page? Yes, that's from the Farm Bureau. That's something called effective tax rate. And that compares Nebraska to all the other states. So what I did is just did a mathematical calculation. If you look on the next page, that explains that more so. So what it boils down to is if Nebraska is paying \$100 an acre, in Iowa you're paying \$35. And that math hangs together, because as a company, we are looking at investing in Iowa, possibly look at liquidating in Nebraska. Just looking at our options for investment. So that's, that's just numbers from the Web from Farm Bureau.

**LINEHAN:** Other questions from the committee? Seeing none, thank you very much for being here.

**ED HERLEIN:** You bet.

**LINEHAN:** This is a farmer in my district. Yeah. Good afternoon.

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**BUD SYNHORST:** Hello, Senator. Bud Synhorst, B-u-d S-y-n-h-o-r-s-t, president and CEO of the Lincoln Independent Business Association. LIBA is testifying today in support of LB974. LIBA represents more than 1,200 businesses ranging in size and across all industries right here in Lincoln. Lowering valuations by 15 percent for school funding on non-- on residential and commercial properties will result in immediate property tax relief for Nebraskans. In Lincoln, more than 60 percent of our property tax bill goes to the Lincoln Public Schools. A 15 percent valuation decline for schools will have a meaningful impact for Lincoln taxpayers, especially during a time when property tax values have skyrocketed in Lincoln during the past several years. Federal Reserve Bank says Lincoln home prices have increased at their fastest rate since 1994. In fact, home values are rising so quickly in Lincoln, the county assessor has to do reevaluations of property every two years instead of every three years to keep up with growth. Values released last year for the two-year reevaluation of Lincoln residential property increased on average by 10 percent. LIBA also supports the additional school aid that school districts will receive to offset the lost property tax revenue. It's no secret that school districts throughout Nebraska are too reliant on property taxes as a source of revenue. Nebraska ranks 48th in the nation in state funding for K-12 education and is second-highest in the proportion of school funding that comes from local taxes. LIBA appreciates that LB974 will help realign this disparity between state aid and property taxes. Reducing property taxes will also be a boon to our economy because it will lead to the availability, availability of more affordable housing and creation of more jobs. If landlords are paying less in property taxes, they will be able to offer more affordable rents to their tenants and slow the growth of rent increases. Similar, similarly, when commercial property owners are paying less in property taxes, it reduces the costs for businesses to lease their spaces, freeing up money for businesses to hire more employees. However, property taxes are only one side of the equation. In order for property tax relief to have long-lasting results, more has to be done to restrict growth in spending. As Governor Ricketts said in his State of the State address, local governments have raised local property taxes by a whopping 54 percent over the last 10 years, while inflation has grown by only 17 percent under the same period. This bill protects property taxpayers by capping increases to school districts base limitation and indexing the rate of growth to the Consumer Price Index plus real growth. Limiting increases to school spending to the rate of inflation is a good first step in getting runaway government spending under control. Having watched the debate over property taxes over the last several

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years, and since we live in Nebraska, I'll share a football analogy. We've watched the Legislature get the ball on their own 10 yard line with 12 minutes to go in the first quarter and throw Hail Mary after Hail Mary after Hail Mary, only to be batted down. It's time to move the ball down the field and do something to improve the chances of im-- property tax relief to taxpayers. As LIBA, we appreciate the Revenue Committee's efforts to reduce the property tax burden with this proposal. We support many elements of this bill and believe it will provide the meaningful property tax relief that Nebraskans are desperately seeking. Thank you.

**LINEHAN:** Thank you very much for being here. Is there any questions from the committee? Senator Friesen.

**BUD SYNHORST:** Senator Friesen.

**FRIESEN:** Thank you, Mr. Synhorst for coming. Could you tell me the number, what has been your actual 10-year history of, of property tax increase in Lincoln?

**BUD SYNHORST:** In Lincoln over the 10 years, I believe it said-- I got to look back here.

**FRIESEN:** I know valuations have gone up quite a bit, but--

**BUD SYNHORST:** I can tell you my personal property taxes went up 35 percent between 2018-- or 2019 and 2020. I just got my bill.

**FRIESEN:** But a 10-year--

**BUD SYNHORST:** Over 10 years, I would say-- I don't have my bill in front of me, Senator, but I can speak on my own, it has probably gone up about 65 or 70 percent on a residential property.

**FRIESEN:** OK. I was just curious what the average across the community.

**BUD SYNHORST:** I have not seen the average across the community. I don't have that data. I'm sorry, sir.

**FRIESEN:** OK, thank you.

**LINEHAN:** Thank you, Senator Friesen. Other questions from the committee? Seeing none, thank you very much, Mr. Synhorst.

**BUD SYNHORST:** Thank you very much.

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**LINEHAN:** Next proponent. Are we done with proponents? Seeing so, next-- first, I guess, opponent. Good afternoon.

**DAVE WELSCH:** Good afternoon. Good afternoon, senators. My name is Dave Welsch, D-a-v-e W-e-l-s-c-h, I serve as president of Milford Public Schools Board of Education. I have served on two school boards for a total of 27 years. I am also here representing the Nebraska Association of School Boards as one of their members. And most importantly, I am here as a farmer and ag land owner. I'm here to testify in opposition to LB974. While I applaud the efforts to try and reduce property taxes through increased state aid to education, I cannot support a bill which takes away the local control of locally-elected school board members such as myself and over 1,400 others across the state. The restrictions in this bill places on school spending and property tax requests is not needed. School board members are already restricting spending and tax requests. And I will show you this in handout number one. CPI is not representative of school spending. Schools are not consumers, they are employers. Labor costs make up 80 percent of our budgets, while the Consumer Price Index has no labor costs included. The best measurement of the needs of a local school is the locally-elected school board. And I'll show that in handout number two. The general fund operating expenses is a measure of how each school spends per student. LB974 would restrict us to continuing to be the lowest-spending school even if our needs changed. We are being punished for being fiscally responsible, and I can show you that in handout number three. Reducing the building fund levy from 14 cents to 6 cents takes away local control. Our district has chosen options other than bond issues to make additions to our school. We have saved thousands of dollars in interest by taking this more fiscally responsible approach. When senators try to less-- legislate fiscal responsibility, you fail. Take, for example, the required 95 cent levy requirement to receive equalization aid. Because of this legislative requirement, our district had to levy more in property taxes than what we needed so that we could receive our equalization aid. Fortunately, that requirement has been removed and I thank you for that. But the punitive requirements of the CPI inflation rate and the property tax asking limit should be removed from LB974 as well. The funding of LB974 is based upon projected increased state revenue. The only fiscally responsible way to provide property tax relief is to fund it with new state revenue sources, sales tax and income tax. Thank you, and I would be happy to answer any questions.

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**LINEHAN:** Thank you, Mr. Welsch. Are there questions from the committee? Senator Friesen and then Senator Crawford.

**FRIESEN:** Thank you, Mr. Welsch. You've been a regular attendee of our hearings, you've seen a lot of different proposals. I am looking through some of your spreadsheets here. But one of the-- one question, I guess, is it goes back to Milford Public Schools. In the past, you've received some praise for holding down costs. You've shown that you have not spent excessively. You have a low cost per student relative to your size. So how does LB974 affect Milford?

**DAVE WELSCH:** The probably the biggest impact it will have on us is the restrictions on our ability to spend. And some people say, well, there they go again, tax and spend school boards. You know, they're out of control. That just isn't the case. If you look at handout number one, and all of you I'm sure heard the quote from the Governor Ricketts. He's very consistent on this. In his State of the State address, and it was just mentioned a second ago by another testifier: We need local spending restraint because, over the last 10 years, local governments have raised local property taxes 54 percent, while inflation only grew at 17 percent. Now, obviously, this is consistent with what Senat-- Governor Ricketts has said over the years. But the problem is he's comparing spending to property taxes. He's comparing apples to oranges. And if you look at those numbers from Milford Public Schools from 2010-11 to '17-18, you will see that our general fund operating expenses increased \$828,000, 12 percent over 7 years, which is an average of 1.7 percent a year. Looks like spending restraint to me, not runaway government spending, as the previous person from LIBA just said. So those are the facts out there. And if you want to look at schools across the state, and this was a study done by NASB a year or two ago, you as legislators have increased our state budget about 3.3 percent a year over the last 10 years. School boards have increased their spending about 3.2 percent over that same time period. We're equals. We're holding spending at the same level.

**FRIESEN:** OK, let me, let me--

**DAVE WELSCH:** Thank you.

**FRIESEN:** --ask you another question a little bit.

**DAVE WELSCH:** OK.

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**FRIESEN:** So with the current spending proposals placed here versus what you've accomplished, again, how does LB974 impact Milford Public Schools? You've held spending down, could you live within those spending constraints of LB974?

**DAVE WELSCH:** No, that would kind of be the second handout where you take a sample school district-- we're around \$900 million in spending right now. If we had, even if the CPI was at 2.5 percent, the maximum available in this bill, our increased spending growth would be \$225,000. OK? Let's say CPI goes up 2.5 percent, wouldn't you want all your employees to have an increase of 2.5 percent so that their buying power in your local communities would be the same as it was the year before? So \$7 million out of our \$9 million budget, or 78 percent, is our labor costs. So naturally we're going to increase that 2.5 percent. That's \$225,000 that we have to spend total. But \$175,000 of that would go to our staff. That leaves us \$50,000 for everything else.

**FRIESEN:** Is sped funding underneath your budget lids or is that outside?

**DAVE WELSCH:** I don't believe I could answer that.

**FRIESEN:** OK. Thank you.

**DAVE WELSCH:** Yeah. And as you can see on the bottom of page two, I mean, look, look at examples of things that could go up and wipe out that minuscule \$50,000 that we would have.

**LINEHAN:** Somebody has to ask you a question.

**DAVE WELSCH:** Sure.

**LINEHAN:** That's OK. Are there other questions from the committee? I'm sorry, Senator Crawford, you had your hand up earlier.

**CRAWFORD:** Yes, thank you. And thank you for being here, Mr. Welsch.

**DAVE WELSCH:** Thank you.

**CRAWFORD:** I just wondered if you could speak to specifically what the impact of resetting unused budget authority would be?

**DAVE WELSCH:** Yeah, that would kill us. And it, you know, I wish I had set you guys all up with these questions because you're kind of

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rolling right into number three on the general fund operating expenses, which I appreciate. A year ago, I believe Senator Groene complimented our district on having a low GFOE, and we certainly do and we continue to do that. Along with handout number three, there's a printout from the Department of Education, and it shows Milford kind of towards the bottom there. And it shows the 10 schools larger than us and the 10 schools smaller than us that we are compared to all the time as far as operating expenses. As you can see, we're the lowest-spending district out of those 20. And while school districts across the entire state have held their spending to a reasonable level, or at least at a level similar to what the Legislature has, I guess we've, we've tightened our belts even more over the years. My understanding of LB974 is that, because we're such a low-spending district, we would be locked in permanently to be the lowest-spending district. Right now, our unused budgeting authority gives us the ability to spend more. And I, I wish I knew exactly what that was. I think it's between probably \$800,000 and \$1 million that we have chosen not to spend. But if you reset that and take away our unused budgeting authority, we won't have the ability to even raise our general fund operating expenses up to the average of what our peers are currently spending. So you've taken away the local control to assess our local needs and then create a budget that meets those needs because of this bill. So we're-- basically when I look at this bill, I say Milford Public Schools is being punished-- punished for being fiscally responsible. I don't think that's the intent of the Legislature. At least I hope not.

**CRAWFORD:** Thank you.

**LINEHAN:** Thank you, Senator Crawford. Are there other questions from the committee? Senator Groene.

**GROENE:** So when you budget, you budget way above what you spend, right? 'Cause you use your budget authority and your budget authority, you put it in your budget?

**DAVE WELSCH:** I believe that's how the, the report that we give to--

**GROENE:** That's the game that's played.

**DAVE WELSCH:** --the state is. Exactly.

**GROENE:** Yeah. But you don't spend near what you budget.

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**DAVE WELSCH:** Correct.

**GROENE:** That won't stop down. The budget, budget authority is set back to zero.

**DAVE WELSCH:** Right.

**GROENE:** And then it goes from there starting the very first year.

**DAVE WELSCH:** Right.

**GROENE:** But you can budget above it. And we got rid of that 2 percent requirement. You could have \$800,000, but you can only access 2 percent of it. Did you know that?

**LINEHAN:** OK, these are questions, sir.

**GROENE:** Did you know that?

**LINEHAN:** Senator Groene.

**DAVE WELSCH:** I didn't realize there was a limitation--

**GROENE:** Thank you.

**DAVE WELSCH:** --on how much you could access in any given year.

**GROENE:** Thank you.

**LINEHAN:** And everybody just-- this is very complicated, OK?

**DAVE WELSCH:** Sure.

**LINEHAN:** And we're all trying to get-- we're all trying to work together and find solutions here.

**DAVE WELSCH:** Absolutely.

**LINEHAN:** There-- the bill as introduced is not, you know, I said in my opening we've got a lot of fixes to do.

**DAVE WELSCH:** A work in progress.

**LINEHAN:** So it's a work in progress. So other questions? Senator McCollister.

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**McCOLLISTER:** Thank you, Mr. Welsch, for all the attention you've given this over the last year.

**LINEHAN:** Thank you.

**McCOLLISTER:** If you were to improve LB974, what would you do?

**DAVE WELSCH:** Good question. Yeah, someone in the education community posed that question to me on my drive in today, so I jotted down a few things. Obviously, some of the restrictions that are put in there on local control, like the CPI spending restriction, and the taxing authority restriction. We simply don't need those. I think schools have shown on average over the last 10 years they've been able to control spending as well as the Legislature has. So those simply are not needed. The, the building fund, which I haven't talked about here much, going from 14 cents to 6 cents. We had a bond issue about 18 years ago added on to our facilities. We quit levying on that bond levy this year because we've got enough money in the account to pay that off over the next two years. We've done a lot of renovations and actual building additions to our school system over the last 18 years that we did without bond issues. And, like I said in my testimony, we've saved thousands and thousands of dollars by going that route. And I've been on the school board for 22 years, so over that entire time that we've been added, adding to our school, I've never been voted off of the school board. Now there's another school board member that's been on this board for 26 years. We're both farmers, we're both fiscally responsible, and we're still on the board. So in essence, we've received local approval by being reelected to our board and being fiscally responsible in how we've handled our building needs. Other than that, a couple of things that should change.

**LINEHAN:** I think-- I can't, because we're going to be here till midnight if--

**DAVE WELSCH:** OK.

**LINEHAN:** We got to keep some kind of--

**DAVE WELSCH:** A couple bullet points. Lowering, lowering residential and commercial outside of TEEOSA, I do not agree with that. And-- because it still skews the ag versus residential and commercial that we tax against. And the last thing, you need to add new revenue to fund this thing.

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**LINEHAN:** OK. And you've already said that.

**DAVE WELSCH:** Yeah.

**LINEHAN:** So OK, are there other questions from the committee? Seeing none, thank you very much, Mr. Welsh, for being here.

**DAVE WELSCH:** Thank you for your time. I appreciate it.

**LINEHAN:** You're welcome.

**LIZ STANDISH:** Good afternoon, Senator Linehan and members of the Revenue Committee. My name is Liz Standish, spelled L-i-z S-t-a-n-d-i-s-h, I serve Lincoln Public Schools as the associate superintendent for business affairs. We offer testimony in opposition to LB974 today. It's important to note that transitioning from reliance on property taxes will require additional funding from the state. So we do recognize in this proposal that is what you're attempting to do. That additional funding does need to be sustainable. Lowering the valuation for school districts is a funding loss. We do know, and we'll talk about the foundation aid component. And for a resident in Lincoln in the first year, it would be \$50 of tax relief in year 1; \$100 in year 2; and \$150 in year 3 per \$100 valuation. Eliminating the allocated income tax and putting in foundation aid as a mechanism to make up for that loss when modeled by the Fiscal Office in January 13 of 2020 showed a compounding \$4 million loss. Senator Linehan, I fully recognize this is a work in progress and you've already said these numbers are being evaluated and will likely change. When I did review the fiscal note today and looked at the foundation aid amount per student, I was still generating potentially a slight loss for Lincoln Public Schools. I would love to spend some time and look at some models to see what the impact truly would be. Decreasing valuations will shift to the state. Schools are concerned for good reason with lots of history that the state will not be able to meet that obligation. So there's two things here. One, the local board can make up 75 percent of it, but then that's also not counted as an expenditure in the formula for the following year. That will have a declining impact on schools because that spending will not be counted for the future year. That's a very important note with that provision. Elimination of the averaging adjustment will impact large urban schools serving diverse populations of students. That element must be maintained. That will impact Lincoln Public Schools. The maximum levy in year 2020-2023 switching to the concept of local formula contribution with a set percentage on top disconnects the

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property from formula needs. That will also be a challenge and what we see as a big investment in PK-12 education here, but also a shift. And this is a shift away from our urban centers and that will impact large school districts serving diverse populations. The transition aid only goes into effect if you have decreased your budget by 1 percent. So transition aid as a solution requires a district that's demographically changing, potentially growing, having increases in special education populations to decrease their budget by 1 percent when the cost of staffing will be going up. That will be programming cuts. Our communities desire investments in career education, early child education, and will be significantly limited in accomplishing that.

**LINEHAN:** Thank you very much for being here. Do we have any questions from the committee? I have one just-- I'm sorry. Oh, Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. So when you look through LB974, what, if you had to prioritize key things and how to make this bill better, what would your number one priority be?

**LIZ STANDISH:** If I could be so kind as to pick two, Senator, because I think in order to talk about both equalized and nonequalized, you have to pick two because there is no one element that could hit both populations of school districts. So in the past, most recently, Senator Sullivan shepherded a solution for allocated income tax that increased funding to nonequalized school districts. The mechanism that could be looked at for equalized school districts, because allocated income tax will not reach additional funding to equalized school districts, would be the local effort rate. I think those are two variables that could be looked at if we were trying to distribute more money through the formula to both equalized and nonequalized school districts.

**FRIESEN:** OK, thank you.

**LINEHAN:** Thank you. Other questions from the committee? I know that you're-- I'm assuming that you got the new certification evaluations, the changes between 2018 and 2019. Have you looked at those yet?

**LIZ STANDISH:** Yes.

**LINEHAN:** OK.

**LIZ STANDISH:** And I think we're talking about '19-20 to '20-21.

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**LINEHAN:** No, I'm talking about, I think, and I've got staff here. I'm advantaged. I'm talking about the certified valuations, but which people we tax on. So certified valuations for 2018--

**LIZ STANDISH:** OK.

**LINEHAN:** --versus the certified valuations for 2019.

**LIZ STANDISH:** OK. So those would have been the valuations I received in August of last year. I would have received those August 20 of 2019 and used them to build my 2019-2020 budget, is what I think we're talking about.

**LINEHAN:** I don't-- well, what I think we're going to find out here is you aren't aware.

**LIZ STANDISH:** Yep.

**LINEHAN:** The valuations, residential valuations, are you aware that residential valuations across the state last year went up 7 percent?

**LIZ STANDISH:** Yeah, and Lincoln was just over 7 percent for Lincoln Public Schools. Yes.

**LINEHAN:** So how will that affect your aid?

**LIZ STANDISH:** It will go down.

**LINEHAN:** Do you know how much your aid is going to go down under the current formula?

**LIZ STANDISH:** Under current law we have some estimates from NDE. We're still, we're still looking into that. But--

**LINEHAN:** Round numbers.

**LIZ STANDISH:** Current law state aid, there's multiple factors going on. So the valuation alone would not talk about this, but current law would be maybe \$20 million.

**LINEHAN:** Twenty million? OK, then I think you said something--

**LIZ STANDISH:** I'd go 15 to 20.

**LINEHAN:** --about your needs would change. I just want to clarify. You understand that, or I hope you understand, that LB974 we didn't touch

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the needs side as far as-- because you mentioned English language learners and diversity and poverty. We didn't touch those form-- that part of the formula.

**LIZ STANDISH:** Right. My purpose for bringing up those populations is when everyone talks about, why does your budget grow? When my special education population grows, when I need more speech language pathologists, when I need more occupation therapists, the formula doesn't recognize that until the next year when it gets-- two years later when it gets in GFOE.

**LINEHAN:** OK, I just wanted to make sure we understood we didn't change those things.

**LIZ STANDISH:** Correct. But we did change the averaging adjustment.

**LINEHAN:** OK. Senator Crawford.

**CRAWFORD:** Thank you, and thank you for being here. So I, one of the stated goals is to try to hold schools whole. And so I wondered what that would look like to you, if we were to adjust the bill in a way that you feel would more accurately make schools whole.

**LIZ STANDISH:** OK. So I think I can answer that with how this bill does not make Lincoln Public Schools whole. So if we start there, first of all, is doing the analysis and getting modeling on whether the foundation aid increase truly does offset the property taxing authority. When we have studied it, there has been a gap there. And so there could likely be a gap there. I think the bill anticipates there would be a gap there because the bill offers transition aid. So let's assume for Lincoln Public Schools there's a gap there. And so now in October of this year, I get to apply for transition aid. I'm only eligible for transition aid if I've decreased my budget of expenditures from the previous year by 1 percent.

**CRAWFORD:** From previous year, not, not where you were before? Or where you would be.

**LIZ STANDISH:** Yeah. From the-- where I was last year, I would decrease by 1 percent is my understanding. Now, I understand we've all only had this bill for a week, so I'm doing the best I can. But that's my understanding. So in order for me to decrease my budget by 1 percent, my staffing cost with a 2.69 salary and benefit package, which includes health insurance, includes all those things, could go up to

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\$10 to \$15 million in any given year. So my budget would go up 2 percent if I did the exact same thing, nothing different in the next year. So I'd have to cut 3 percent from my budget to get to negative 1 percent to qualify for transition aid. In the next year, I would lose the averaging adjustment. Losing the averaging adjustment will impact my needs, which will draw my needs down. So then I'd see further cuts. So those are some of the short-term elements that would have to be looked at if we were going to keep schools that are urban, diverse, and large whole. The other one is I'm highly concerned about the shift to the lesser of the taxing authority in 2023 hanging out there. The local formula contribution method concerns me greatly.

**CRAWFORD:** Thank you.

**LINEHAN:** Thank you. Other questions? Thank you, Senator Crawford. I'm sorry. Other questions from the committee? Thank you very much for being here. You are very knowledgeable about this. It's helpful.

**TERRY JESSEN:** Good afternoon, senators. My name is Terry Jessen, T-e-r-r-y J-e-s-s-e-n, I'm an accountant and a farmer in Garden County. First reason that I'm speaking adverse to this legislation is the fiscal note. So the fiscal note does show \$106,000-change [SIC] cost year one and \$184,000 [SIC] year two. I feel a little awkward speaking adverse when six of the committee has supported this. I don't want you to feel like I'm, I'm adverse to you as individuals, so I want to tell you what I do like about the bill. So what I do like about the bill is the proposed change in assessed value dropping agriculture over two years from 75 to 55 percent. That is a 27.7 percent decrease in the tax evaluation if nothing changed. However, I feel that decrease should be for all taxing purposes, not just for schools. I think you're going to create problems in other ways. If you have it just for school purposes. If I read this right, and it's a complicated bill, the proposed language on page 6, lines 23 to 29 would allow school districts over a 6 percent tax increase with the extra 6 cents per \$100 of valuation. Maybe I've read that wrong. I think most of us know that the TEEOSA formula is not fair. It should be fair per student across the state of Nebraska. That is, that's been a problem and it needs to be corrected. What Nebraska needs in order to attract people to Nebraska and companies and investment is substantial reduction or elimination of real estate taxes. The 35 percent proposal that Nebraska has there, that is before your committee last year as LR3CR [SIC] is the 35 percent. Nebraska at all levels has a spending problem which has led to a taxing problem. This

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bill does not do enough for the citizens of Nebraska. We need to follow the constitution where it says the Legislature shall provide for K-12 education. I do not believe that that should be real estate taxes. That's been the strong support over the years and it's time to change that formula. Thank you.

**LINEHAN:** Thank you very much for being here, sir. Do we have any questions from the committee? Senator Groene.

**GROENE:** Terry, I wish you was right, if it was \$106,000, \$184,000 we wouldn't be here today, if that's all it cost. But anyway, it's million. I'm confused. How do you expect to get property tax relief is we-- if this-- if there isn't a shift to the, to funding from the state, from income and sales taxes?

**TERRY JESSEN:** There's only two ways to do it. Either that shift that you're talking about or a combination of that shift and reduction in taxes. I will just make one little thing. If, if there's some substantial reduction in real estate taxes, what will the people, the farmers, the businesses do with that extra money? They're going to spend it. And as they spend it, it's going to turn over, depending who you talk to, seven times. And there will be sales taxes paid on that. And those people that get employed in those businesses, they're going to pay income tax. So there will be a tax from that.

**GROENE:** Just a follow-up question. So you don't think pumping, just an estimate, \$200, \$250 million into rural Nebraska through the payroll of the schools onto main street will not be an economic boon to rural Nebraska?

**TERRY JESSEN:** Absolutely it is. That's huge.

**GROENE:** That's what this bill does.

**TERRY JESSEN:** That's huge.

**GROENE:** That's what this bill does.

**LINEHAN:** Questions. Questions.

**GROENE:** Thank you.

**TERRY JESSEN:** I understand. Thank you.

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**LINEHAN:** Other questions from the committee? Thank you very much for being here.

**TERRY JESSEN:** Thank you.

**LINEHAN:** I appreciate it.

**JOHN SCHWARTZ:** Good afternoon, Senator Linehan and members of the Revenue Committee. My name is John Schwartz, that's J-o-h-n S-c-h-w-a-r-t-z, I'm the superintendent for Norris School District. I'm here today as a representative of STANCE and the Nebraska Council of School Administrators STANCE is comprised of 19 mid-sized school districts who collectively represent more than 25,000 students. STANCE is unique in the fact that we have districts spanning the geography of the state from as far west as Chadron to as far east as Blair. We have equalized and nonequalized school districts with general fund levies that range from 60 cents to \$1.05. Individually, our member districts range in size from 800 to nearly 4,000 students. We submit this testimony in opposition of LB974. On behalf of our membership, I would like to begin by acknowledging the Revenue Committee's continued work to address property tax relief. We agree that schools have been forced into an overreliance on property taxes as a result of inadequate funding by the state. LB974 attempts to address this issue by providing more state funding for schools, but in doing so also includes provisions that we believe would reduce school revenue to serve students over time. Our primary concerns with LB974 are as follows. First, funding for LB974 is not sustainable. While STANCE generally supports the concept of foundation aid, we do not believe using projected short-term revenue surpluses to fund the proposal is sustainable over time. Since there is no new revenue tied to the package, we fear that future budget cuts would be required when surpluses have been exhausted. We would suggest considering other forms of revenue to support foundation aid. Schools currently have levy lids and spending caps that work. These regulated maximums have already worked to ensure reduced spending in schools, as evidenced by the 3.05 percent increase in spending by our STANCE schools over the previous seven years. Third, we do not believe using CPI to control school district spending growth is appropriate. Simply stated, what the CPI measures and what drives changes in school spending are not aligned. And fourth, reducing special building fund levying authority from 14 cents to 6. STANCE member schools use a special building fund to plan for general maintenance, improvement of existing structures, and the phased obsolescence of often-costly facility infrastructure.

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Reducing the special building fund maximum reduces local control of the elected board of Education to balance community and educational needs. STANCE believes it can support, can support the following concepts within LB974 if sustainable revenue is identified. Foundation aid by student up to 15 percent of state sales and income taxes. Second, the lowering of ag land valuations within the TEEOSA formula to increase the number of equalized school districts. And third, the combination of foundation aid and lowering the valuation within TEEOSA would increase state revenue to schools and allow districts to lower property tax requests. In conclusion, STANCE and NCSA is in opposition to LB974, but we appreciate the work of the Revenue Committee to tackle property tax relief without jeopardizing the funding for Nebraska schools. Thank you.

**LINEHAN:** Thank you very much. Are there questions from the committee

**GROENE:** One quick one.

**LINEHAN:** OK, Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. So what kind of number would you look at as revenue needs to be raised to make this sustainable? I mean, our Revenue chair or the Appropriations chair and the Governor's budget people have looked it over and said, this is the number. So if it's not the number, what, what is the sustainable number or what do we have to raise?

**JOHN SCHWARTZ:** Can I ask a few questions for clarification? So is the number you're referring to the projected surpluses in the coming years?

**FRIESEN:** Yeah. I mean, we're, we're, we're going to have a revenue, our reserves over \$500 million. There's the budget shows we have \$520 million available for-- so if it's-- how far out can we go? I mean, I know we're always dependent on everything on revenue, but our projections show that we are, pretty consistently, that this would be available. So if-- what number is there that would be sustainable? I mean, I, I-- we've tried to raise revenue in the past and that hasn't worked. And so, I mean, I guess give me a number.

**JOHN SCHWARTZ:** Sure. Well, I don't know that I'm prepared to give you a number today, Senator Friesen. But what I could share is one of the things that many of our members believe as we've, we've studied the topic, is that oftentimes those projected surpluses are very

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inconsistent over time in terms of hitting those surpluses. And they don't necessarily bake in variables like the potential for a recession and other needs that are, that will drive the, the state dollars and where they need to go to meet those obligations. And while I'm not prepared to give you a number right now, I think the fear is that those variables could crowd out state aid to schools.

**FRIESEN:** Do you feel that down the road, if projections wouldn't meet our requirements here, there would be, since more schools now are suddenly getting some state aid, would there be a push to actually raise revenue if it was needed?

**JOHN SCHWARTZ:** You know, I-- there would be a push to raise revenue. Whether or not it's something that would occur, obviously, is a legislative process. And I don't know that I can necessarily project with confidence that, that that revenue would be there. And I think that's the fear of our membership. Without the increases being hitched to a more sustainable revenue stream, I think the fear is greater that that revenue would not be there when it needed to if those projected surpluses did not come to fruition, or if those-- if there were other competing priorities the state had to balance.

**FRIESEN:** Thank you.

**LINEHAN:** I'm just going to clarify something here, and I understand all the confusion because we, we're, I think it probably stems from the idea that we just went through three years of stagnant revenue growth. So just for everybody's information, including people who might be watching, when the Fiscal Office figures out our budget, they use a 20-year average of revenue increases. So the 20-year average is 4.5 percent. So we had two years where we had basically very little growth. I mean, '16, the first two years I was here. Then last year, it bumped up a little bit. And then, not surprisingly, this year we have what looks like is going to be over 8 percent. So we're right on that line of 4.5 percent average growth. So what you're referring to, I think, as a surplus, is not a surplus, it's what our average growth is. If you go back 20 years, revenues increase on average 4.5 percent a year, because we-- I don't need to get too far down in the weeds. But we're, we're missing-- and it's not nobody's fault, because we started-- we have been talking about surpluses all year because it's over and above the projected 4.5 percent. It's above what we generally set our budget on. So it's, it's, that's what I think we're confusing

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terms. And I understand, because it's been confusing in the paper. I work here and I have trouble following it so.

**JOHN SCHWARTZ:** Sure. Well, and I would just say, in all fairness, I think the analysis of the 20-year state budget is probably better answered by members that will follow me in testimony. As a school superintendent, that wouldn't necessarily be something that I would be able to answer with the specificity that I--

**LINEHAN:** And I'm not--

**JOHN SCHWARTZ:** Yeah.

**LINEHAN:** It's just been, it's been brought up a lot today. And I just think we need to clarify for people what surplus is versus general revenue. Senator Groene.

**GROENE:** Clarification, the building fund is not taken from 14 cents to 6 cents. It stays at 14 cents. The change is not that, correct, that if you want to go to 16 to 14 cents to build a structure like west Douglas County did a brand new school, Springfield Platteview did a brand new school with the building fund that they have to go to the vote of the people. But the building fund still remains at 14 cents, is that not correct?

**JOHN SCHWARTZ:** The provision of the bill, as it's worded now, would require a vote of the people to go above the 6 cents. That is correct.

**GROENE:** Fourteen.

**LINEHAN:** OK, I see.

**JOHN SCHWARTZ:** To 14, yep. And, as Mr. Welsch mentioned in his testimony, I think to provide that limitation would reduce some flexibility at the local level to do a cost-benefit analysis of different strategies to fund those needs.

**GROENE:** So let me get this straight. School districts, it's up against their levy of \$1.05. To build a new school, is it unfair to them to have to have a bond election? But a school district that's under \$1.05, they should be able to build a school district without a vote of the people? Is that what you're saying?

**JOHN SCHWARTZ:** You're going to have to--

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**GROENE:** There should be that unfairness factor in the, in the TEEOSA formula?

**JOHN SCHWARTZ:** You're gonna have to repeat that question for me, Senator Groene.

**GROENE:** School district right now that's up against its levy limit. If they want to build a new building, they have to go to a bond election. Is that not correct?

**JOHN SCHWARTZ:** Correct.

**GROENE:** If you're at 80 cents and you want to build new school and you want to take your building fund to 14 cents to build a new school, can you do that without the vote of the people? I can name you a list of schools with that.

**JOHN SCHWARTZ:** Sure.

**GROENE:** You think that's fair to those taxpayers in that one district versus the other district who gets to vote on it?

**JOHN SCHWARTZ:** What I do think is fair is that those districts that are able to use the special building fund to that effect are able to work through the process, evaluating different ways to fund their needs and take those steps strategically. And I think as a member of STANCE, for example, there are many of our districts that have used the special building fund strategically in order to be good stewards of taxpayer dollars and meet needs that exists in their districts. That's what I do feel comfortable responding to, Senator Groene.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? Thank you very much for being here. Appreciate it.

**JACK MOLES:** Good afternoon, Senator Linehan and members of the Revenue Committee. I am Jack Moles, that's J-a-c-k M-o-l-e-s, I'm the executive director for the Nebraska Rural Community Schools Association, also referred to as NRCSA. On behalf of NRCSA, I wish to testify in opposition to LB974. Testifying in opposition in LB974 is not a matter that NRCSA takes lightly. It was a decision with which we struggled. There are components of the bill that NRCSA very much supports. Foundation aid and or a minimum state funding of a district's basic needs are concepts NRCSA appreciates. We believe those two concepts should play a central role in fixing the state's current school funding mess. We also believe it is a positive move to

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lower valuations, especially ag land valuations inside the TEEOSA formula. However, our members are opposed to LB974 for two main reasons. First, is we believe the combination of new controls further erode local control from locally-elected boards of education, and we are concerned about the sustainability of the funding. NRCSA believes that locally-elected rural boards of education have worked hard to meet the needs of their school districts, even in the face of rapidly diminishing state funding. They have done so using the current levy and spending limitations that are in effect. We believe that those current limitations are effective. The greatest example I can provide for you would be that most rural districts are not close to where they could possibly be in terms of property tax limits-- or levies, I'm sorry. Part of the reason for that is that a great percentage of the board members in rural districts are from the ag sector. A survey I conducted a year ago of NRCSA members showed that about 60 percent of the board members in Class C and D size schools are from the ag sector. So the people hit hardest by the high ag land valuations are the very ones making the decision on how to make-- how to levy each year. The promise of funding for the bill is built on projections of positive increases in state revenues. With no new sources of revenue, such as was provided in LB289 last year, our members find it difficult to trust that the state funding will always be there. That lack of trust, of course, is a product of the fact that, over the past decade, scores of rural schools have lost all equalization aid. When state revenue diminishes in the future, our districts are concerned they will be right back where they are today with little or no, or no state funding, but with less ability to meet their needs. In closing, while NRCSA appreciates the hard work that Senators Linehan and Groene, as well as the rest of the Revenue Committee have done in an attempt to get more state funding to our rural districts, our members believe that the tradeoffs cause too many concerns for the future funding of their schools. NRCSA is willing to be part of discussions on addressing the issues in this bill.

**LINEHAN:** Thank you. Are there any-- excuse me. Senator Briese.

**BRIESE:** Thank you, Chairman Linehan. Thank you for being here, Mr. Moles. Appreciate that. You indicated earlier current spending restrictions are effective, and we've heard other testifiers suggest that school spending in the aggregate has been 3.1, 3.2 percent a year. And I think you and I have had this conversation in the past. But what would you say to the skeptic that looks at school spending

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data and sees the outliers? You know, the 8 percent and the 12 percent and the 6 percent? So what do you attribute those outlying numbers to?

**JACK MOLES:** You know, I don't, I don't know the answer to that. Every school has got its own story.

**BRIESE:** OK.

**JACK MOLES:** I did a study last year of school spun-- spending over a 10 to 12-year period and looked at what happened in their, their GFOEs. And a large part of what we saw was, was sped spending just skyrocketed.

**BRIESE:** OK.

**JACK MOLES:** But there are other issues. There are a lot of, you know, some of the districts in my study, give you an example of Gretna was one. They just a lot more kids come in, you know, they had, they had to, you know, expand their budget that way. But others were aging buildings were, you know, things. Districts that held the line and then all of a sudden had a little bit of access to some money so they could expand some programs that they thought were good for their kids. So every school has got its own story is the problem.

**BRIESE:** Student growth, sped and--

**JACK MOLES:** Right.

**BRIESE:** --needed, needed construction projects. OK, thank you.

**JACK MOLES:** Well, and some of them weren't construction. A lot of the Class C and D schools especially, they couldn't pass bond issues. So just maintaining old buildings is a very expensive, very expensive thing to do.

**BRIESE:** OK, thank you.

**JACK MOLES:** You're welcome.

**LINEHAN:** Thank you, Senator Briese. Other questions from the committee? Thank you very much for being here.

**JACK MOLES:** Thank you.

**LINEHAN:** Good afternoon.

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**MARQUE SNOW:** Good afternoon. Senator Linehan and members of the Revenue Committee, my name is Marque Snow, M-a-r-q-u-e S-n-o-w. I'm the president of the Omaha Public Schools Board of Education. The Board of Education and I very much appreciate the efforts that the members of the Revenue, Revenue Committee have made throughout the interim to include our superintendent, Dr. Logan, and the Omaha Public Schools in your discussions relating to property tax relief. We understand that providing property tax relief is an incredible, complex undertaking, and we're thankful for the opportunity to share with you the impact of LB974 will have on our district. My colleagues and I wake up every morning dedicated to providing the highest quality education to the 54,000 states-- 54,000 students that are in our district. We strive to ensure that our workforce is fairly compensated and highly competitive in the education environment in Omaha. Unlike any other district in Nebraska, we do all of this while remaining committed to providing all of our employees and retirees with the retirement benefits that they were promised. While we agree that the additional state resources should be included in the Nebraska states funding formula, we cannot support an approach that appears at this point to be a significant impact, negative impact to our students. In response to your requests from the Fiscal Office, our financial officer, Scott Roberts, modeled the projected impacts of LB974 on our school districts. While we cannot say our modeling is as precise as the modeling prepared by the Department of Education that the Legislature has historically relied upon, it does not paint a good picture for our district. Under LB974, our district will lose funding immediately, and over the first three years of the plan, we project an overall funding to be reduced by \$26.7 million. To put that in concrete terms for you, that is an equivalent of approximately 335 teachers, 907 paraprofessionals, or at least 1 additional ARC payment for our retirement system. To say that the funding loss will be significant is a very mass understatement. Said inside all the overall losses to the districts, LB974 dramatically shifts the funding mechanisms for school districts. For better or worse, property tax is the most stable and predictable tax for-- source. Property valuations in our district already lag behind those of surrounding school districts. Prior to the adoption in 2016 of LB1067, which repealed the common levy, OPS's budget was funded at 45 percent by state aid and 55 percent property taxes. Under LB974, it appears that OPS's budget would be funded more than 59 percent through state aid. That change alone gives us great concern because TEEOSA is such a significant portion of the state budget that the Legislature has a long history of manipulating the formula to balance the state's budget. This creates

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risk for schools. We're very concerned that the state will struggle in the long-term to fund the existing TEEOSA commitments, along with the new 15 percent basic funding and the foundation elements created in LB974. LB--

**LINEHAN:** Mr. Snow.

**MARQUE SNOW:** Yes, ma'am? My time is over? Oh, I apologize.

**LINEHAN:** No, you were doing very good.

**MARQUE SNOW:** Oh, man.

**LINEHAN:** I don't have it, so I don't know how close you are to the end.

**MARQUE SNOW:** No, I was reading very slow. It's very intimidating to sit in front of you.

**LINEHAN:** That's better than when they come and read very fast--

**MARQUE SNOW:** It's been three years since you invited me to lunch, so I'm very nervous. I apologize. That is a true story. Yes, sir?

**LINEHAN:** Yes, Senator McCollister. Questions?

**McCOLLISTER:** Thank you, Chairwoman Linehan. If you have something profound to say at the end of your message, go ahead.

**MARQUE SNOW:** At the end of my message, I would like to say, as our district grows, so do our commitments to our students, our employees, and our retirees. Our superintendent, when she arrived at our district, she did a deep dive in our district's financials. I'm sure you read the Omaha World-Herald, how we had a significant surplus in our budget. We are using those tax dollars wisely. And that is something our board and our superintendent and our entire district takes very seriously. We do know we have an underfunded pension system and we're working with current senators, as well as everyone in the Legislature, to make sure that we can meet those obligations. And right now, we're currently meeting the state statute of funding that as well.

**McCOLLISTER:** Thank you, Mr. Snow.

**MARQUE SNOW:** Thank you.

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**LINEHAN:** Senator Briese-- thank you, Senator McCollister. Senator Briese.

**BRIESE:** Thank you, Senator Linehan. Thank you, again, for being here. Did you say under your analysis that the state would fund 59 percent of your operating expenditures under this bill?

**MARQUE SNOW:** Through state aid, yes. And that's through our district's CFO analysis. Yes.

**BRIESE:** Those are numbers we only dream about out in rural Nebraska. Thank you.

**LINEHAN:** Other questions for Mr. Snow? Senator Crawford.

**CRAWFORD:** Thank you, Senator Linehan. And thank you, Mr. Snow. When you are talking about your projections and losing, I think you said \$26.7 million, is that compared to what you were making, what you were making the year before? Or is that compared to where you would otherwise be without the impact of the law in that year? Does that make sense?

**MARQUE SNOW:** Can you explain a little bit more?

**CRAWFORD:** Sure. So can you explain your, your loss of \$26.7 million?

**MARQUE SNOW:** That--

**CRAWFORD:** Is that, is that compared to a previous year or is that compared to where you would be in a current year if the bill was not in effect?

**MARQUE SNOW:** That would be in the current year.

**CRAWFORD:** Current year. OK.

**MARQUE SNOW:** Yes. So give you an example of whether allocated income tax or the eliminating the averaging adjustment, adding all those things in, that is where the majority of that loss comes. I think our district receives a little under \$9 million with, I believe, allocated income tax. So having that, that's a loss that will have to be covered in state aid.

**CRAWFORD:** So that's the hole that you see in terms of making it whole?

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**MARQUE SNOW:** Correct.

**CRAWFORD:** Thank you.

**LINEHAN:** Thank you, Senator Crawford. Senator Groene.

**GROENE:** Your talking overall funding, you're not talking state aid. Because in every model I seen, OPS gets more state aid for the first, second, and third year. Quite a bit more

**MARQUE SNOW:** It's overall funding.

**GROENE:** So you're talking overall funding?

**MARQUE SNOW:** I apologize. Yes.

**GROENE:** And I fail to see how the income tax allocation affects OPS.

**MARQUE SNOW:** So under-- if I, if I'm staying correct, under LB974, it eliminates the allocated income tax. And right now, our district receives money through that. So we wouldn't--

**GROENE:** But it's a local resource.

**MARQUE SNOW:** What I'm--

**GROENE:** So if it disappeared, you would just get more state aid.

**MARQUE SNOW:** The objective is the state will have to cover that. And if I read a little bit faster and read through my thing, I would have explained that.

**GROENE:** But it more than covers that with foundation aid, is that correct?

**MARQUE SNOW:** Correct.

**GROENE:** Thank you.

**LINEHAN:** Other questions from committee? So I'm going to ask you the same question I put to Lincoln Public Schools, because I don't know, and I don't really-- because I just saw this information in the last few days. So the new certified property valuations came out from the Department of Revenue. So they looked at what the certified valuations

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were in '18 and what they are in '19, which affects your equalization aid. So have you--

**MARQUE SNOW:** I will have to get that--

**LINEHAN:** Right.

**MARQUE SNOW:** --information for you.

**LINEHAN:** My information--

**MARQUE SNOW:** Yes, ma'am.

**LINEHAN:** --you're gonna lose significant-- well, depending, it's about-- it's several million dollars because what's happened over the last, between '18 and '19 is residential, especially in Omaha and Lincoln went up. And that's the way the formula currently works: your valuations go up, your aid goes down. So it's just something else. But I didn't expect any of you to know it because it's just, we've only had it for a handful of days. Any other questions? Thank you very much for being here, Mr. Snow.

**MARQUE SNOW:** Appreciate it.

**LINEHAN:** Charge.

**RANDY GILSON:** Good afternoon. My name is Randy Gilson, R-a-n-d-y G-i-l-s-o-n, and I'm the superintendent at Blair and I also represent STANCE, who both are opponents of LB974. We appreciate Senator Linehan and the Revenue Committee for seeking a solution to provide immediate property tax relief, but we are concerned that LB974 will jeopardize the basic education for 2,200 students at Blair Community Schools. According to the legislative fiscal analysis-- analyst, Blair would lose \$1 million next year, \$2 million the following year, and \$2.5 million in year 3. LB974 has no new revenue attached to cover the losses, only a promise. A promise that if the state has revenue surplus money, it will be fed through the foundational aid back to schools. The Legislative Fiscal Office estimates that this component alone will cost the state nearly \$715 million by year 3. The state's predicted revenue is to grow about \$400 million during that time, so where will the difference come from? Budgeting a child's basic education on a predicted surplus is problematic. Blair is equalized and has had to impose the limit \$1.05 levy since 2008 because our district property valuation does not produce enough revenue to meet our students needs. Like other equalized districts, Blair relies on

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the state's promise, a promise to fund TEEOSA. Unfortunately, TEEOSA has not been fully funded in five of the past 10 years. As a result, Blair receives 4 percent of its revenue from state aid. This has had a profound and devastating impact on our students. Last year, Blair reduced \$1.5 million as part of a second expenditure reduction plan. That reduced math classes; science classes; teachers in the high school; a kindergarten section, which left 26 students in a class this year; and closed a second building since 2014. Blair has been responsible in its spending. It's one of the lowest 10 costs per pupil districts over the past decade. If you look back at general fund spending, we've averaged, had an average increase of 0.5 percent from 2010 to 2018. But LB974 using the CPI factor calls for reducing spending even further. It's very thoughtful that LB974 has transitional aid and foundational aid components. I urge the committee to keep working on this bill to add revenue sources like, for example, broadening the sales tax base or reducing tax exemptions. Let's continue to work together so Nebraska can continue to improve its number six ranking as one of the best for providing education in the United States. And it's also our fourth-highest graduation rate in the country. Thank you for your time.

**LINEHAN:** Thank you. I'm sorry, I wasn't watching the light. Thank you. Questions from the Revenue Committee.

**GROENE:** Just a quick clarification.

**LINEHAN:** Yes.

**GROENE:** When you-- \$750 [SIC] million, what was that referring to?

**RANDY GILSON:** That, that was a study of projections that we ran in terms of the need to fund the foundation aid for all school districts. In year three, it really, it significantly jumps.

**GROENE:** You understand that foundation aid is a resource. So if you're an equalized district, that just offset dollar for dollar. Equalization aid would go down the same amount as foundation aid.

**RANDY GILSON:** Yeah. Our concern is, is we-- like right now we just received-- we haven't-- so the LER has increased five out of the last 10 years in the TEEOSA formula. So that's reduced about \$350 to \$360,000 a year for us. So that inconsistency, that's our concern. We

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count on what property we-- because we're locked at that \$1.05. We've been locked there since 2008.

**GROENE:** This bill doesn't mess with the LER. It keeps it at a dollar.

**RANDY GILSON:** Well--

**GROENE:** \$1.05.

**RANDY GILSON:** My concern is it hasn't been a dollar. And when it hasn't been a dollar is when we've had to reduce. Like this last year, reduced \$1.5 million. Four years prior to that, we reduced \$1.2 million, I mean, and so that's our concern is if we're going to rely on state aid like we have to rely on-- it hasn't, it hasn't support, helped us.

**GROENE:** So have you ever-- I don't know how long you've been in the business-- have you ever had the opportunity when that happens to you, to have a super majority vote of your school board to recoup? Let's say they start at 75 percent of what the state aid adjustment had did to you. That million, what would you say, \$1.5 million?

**RANDY GILSON:** Right.

**GROENE:** Because we went to two on BAGR this last year.

**RANDY GILSON:** I believe we'd have to do a levy override. And it's hard for-- because we're--

**GROENE:** That's what you have to do now. But if this bill is passed, it would be a supermajority of your school board. You do understand that?

**RANDY GILSON:** Yeah, I understand that.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? I'm just going to mention again, and this is clearly not-- it's just the way this funding has rolled up. We're not depending on a surplus on this bill, but because-- but I understand why everybody is saying that. But it's, it's not, that's not what this is based on. It's based on Fiscal Office and the Governor's office general projections. We can only hope we have surpluses every year.

**RANDY GILSON:** Right.

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**LINEHAN:** It's not likely.

**RANDY GILSON:** Yeah.

**LINEHAN:** OK. Thank you for being here.

**RANDY GILSON:** Thank you.

**JASON BUCKINGHAM:** Good afternoon, Chairperson Linehan and members of the Revenue Committee. My name is Jason Buckingham, J-a-s-o-n B-u-c-k-i-n-g-h-a-m, I'm the business manager at the Ralston Public Schools and a member of the Greater Nebraska-- Greater Nebraska Schools Association. I appreciate the opportunity to appear before you today to speak on behalf of our students, staff, and the Ralston community. I appear before you today in opposition of LB974. Ralston Public Schools understands the great difficulties facing the Legislature at this time in regards the imbalance that exists in properly funding public education in our state. The current model of funding puts a heavy burden on property owners and specifically owners of agricultural land. We would like to see some adjustments made to the current funding mechanism, but we feel the proposals outlined in LB974 would have a negative impact on our district and many districts like ours throughout the state. Changing the current TEEOSA formula as presented in this bill is problematic for districts like ours. First, LB974 suggests changes to the formula that are inherently disequal-- as disequalizing. The TEEOSA formula as we know it works on the premise of ability to pay. Currently, districts with greater resources in the form of higher property valuations per student are provided with fewer state-funded resources, as they have the ability to generate more funds for public education at the local level. Some districts like Ralston have a relatively low level of valuation per student and are unable to raise enough funds locally due to current levy limitations. This is where the equalize, equalizing portion of the formula works. It helps us to bridge the gap between our needs and our resources. We are not in a disagreement that our current method of school funding has left our state with a property tax issue. We do, however, want a solution that is created to be responsible in the way it allocates state funds to school districts. Secondly, we're in opposition to the language drafted regarding net option funding. Funding for net option enrollment was reduced three years ago through the passage of LB409. During that two-year period for the bill's sunset, we received 95.5 percent of the statewide average basic funding per student allotment. This cost our district \$443 per student, so '18-19 total was \$251,487. Currently we're back to 100

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percent of average basic funding. And though, as this bill proposes, we do recover some of the lost funding through foundation aid, we fear that the language of LB974 will again reduce the funding for net option students as the bill itself reduces significantly the valuations of residential, commercial, and agricultural real estate. See I'm about out of time, so let me wrap up here. Another concern with LB974 involves a mechanism for slowing spending growth. In the previous legislative session, you may have heard the opposition in the use of the CPI as an allowable percentage growth. One of the major concerns that we have is the unpredictability of using this index. A look at CPI over the last 10 years shows that there are some years that the index is very near zero. Almost every school district functions with greater than 75 percent of their budget in the cost of personnel. Freezing growth within a district is simply not feasible without adversely affecting staffing or the benefits it provides. In summary, we are in agreement that our current state funding is in need of adjustment. I see I'm out of time, so thank you for your time and continued commitment to the people of the state of Nebraska. I'll try and answer any questions you have for us at this time.

**LINEHAN:** Thank you very much for being here. Do we have any questions from the committee? Senator Groene.

**GROENE:** Do you realize you are an equalized district?

**JASON BUCKINGHAM:** Yes, we do.

**GROENE:** So any changes to option funding has no effect on you?

**JASON BUCKINGHAM:** Well, our concern, Senator, if I may, we quite honestly have a trust issue. So as we look at what we receive in net option funding, we're finally back to 100 percent, we're receiving 97, 97 per student. OK? If we take the leap of faith that the state is going to meet their obligations and we run into shortfall and, if I may expand a little bit, Senator Groene and I, and I have had this discussion time before in the past. My understanding is, if the state ever gets to a point where we have a shortfall in funding, if the funding for TEEOSA has to be cut back, it's going to be cut back across the board. It's not going to be cut back specifically for foundation aid first and then equalization second. It's gonna be cut back in all different areas. For us, that's a little bit untenable because we are extending ourselves. We are making an agreement to provide school choice for these students that are net option students.

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And our fear is that we're going to have more students than we can possibly serve if that net option funding is impacted.

**LINEHAN:** Can I jump in here? Senator Groene.

**GROENE:** I had one more question.

**LINEHAN:** OK.

**GROENE:** But do you know, this year, I think you're one of them that got hit pretty hard on the average adjustment, didn't you, about \$200,000-some?

**JASON BUCKINGHAM:** Yeah, and we're at a projection about \$1.1 million loss in state aid for next year too.

**GROENE:** That has nothing-- that's this famous TEEOSA formula just comes up with this formula and all of a sudden decides you're going to get this much average adjustment in this much, and you're going to lose a couple hundred thousand dollars, has absolutely nothing to do with what we're doing here.

**JASON BUCKINGHAM:** Right.

**GROENE:** Trying to put security in your state funding.

**JASON BUCKINGHAM:** And we would greatly appreciate that. But again, to go back, we have, have a little bit of an issue taking guaranteed funding and turning that over to the hope that the state is going to meet those obligations down the road. So when we look at the amount of financial commitment that this bill is going to require on the state, boy, it's awfully hard to trust that.

**GROENE:** What about the superintendents and administrators of 47 states who get a lot more state aid? Do you think they have those fears?

**JASON BUCKINGHAM:** I don't think they do, because the state has proven that they're meeting those needs. Now, if you go to Kansas, I bet they do.

**GROENE:** You are claiming other states have never cut state funding for schools?

**JASON BUCKINGHAM:** I'm not. I'm not claiming that at all, Senator.  
But--

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**GROENE:** --freemarket system.

**JASON BUCKINGHAM:** --we're in a position where we have about as close to guaranteed funding as you can have in local property taxes. It's just hard for districts like ours to give up what is pretty reliable funding for the promise that it's going to come.

**GROENE:** I understand, but it's-- did you ever hear from a taxpayer saying it's hard to pay their property taxes?

**JASON BUCKINGHAM:** I do, Senator. And I agree with you, something needs to be done.

**GROENE:** Appreciate that.

**LINEHAN:** Thank you, Senator Groene. Are there other questions from the committee? I would just-- one comment on your, on your basic funding. There's no guarantee we won't cut that now.

**JASON BUCKINGHAM:** Correct. And we've had that happen.

**LINEHAN:** OK. So that's, it's a little confusing to say this would, this would do it more than--

**JASON BUCKINGHAM:** So--

**LINEHAN:** I don't-- I understand your concerns.

**JASON BUCKINGHAM:** Sure.

**LINEHAN:** I get it. And I get that we have monkeyed with, historically and currently, and too often with funding. I get that.

**JASON BUCKINGHAM:** So I guess to address the, why our concern is so high with this, let's say, and I'll make up a number here, let's say that 45 percent of our funding currently comes from state aid and 65 percent of it roughly comes from local. Those numbers are out of whack. But just for--

**LINEHAN:** It's close.

**JASON BUCKINGHAM:** --purposes.

**LINEHAN:** Yeah.

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**JASON BUCKINGHAM:** If we take that number to, let's say, 45, and that obligation isn't met and we no longer have the ability to recover 100 percent of it, only 75 percent of it as this bill states, that's an even larger funding gap for us. And that results in us having to make some decisions with people.

**LINEHAN:** But you would have, and this hasn't come up very much, but you would have-- we have not touched the school's ability, any school's ability to do a levy override--

**JASON BUCKINGHAM:** Correct.

**LINEHAN:** --as Westside has done and Hastings has done and Millard. So that, that all still is there for every school district to do a levy override. OK. Thank you very much for being here.

**JASON BUCKINGHAM:** Thank you, senators.

**JEFF SCHNEIDER:** Senator Linehan and members of the Revenue Committee, my name is Jeff Schneider, J-e-f-f S-c-h-n-e-i-d-e-r, I'm a superintendent for the Hastings Public Schools. And first of all, thank you. We do appreciate the fact that you're trying to solve a very complex issue. And I have heard several elected officials mention we're trying to do this without harming schools. So thank you for that. I am here to testify in opposition of LB974. In our district, 62 percent of our students are on free or reduced lunch. Last spring, our school board approved \$850,000 worth of budget cuts, 17 positions, if you will, and we passed a 7 cent levy override, 68 percent to 32 percent. Thanks for men-- mentioning the override, Senator Linehan. And oh, by the way, as a side note, one of our fears of this bill is this devalues part of our override because when you lower our valuation, the language in an override is for an amount of levy, not amount of dollars. So it will devalue that, which hurts us. And we budgeted the next five years based on that override. And we went to our community and explained it and asked for permission, and they gave us to do so. Which I think earlier Senator Groene was saying what we should have to do. I'm going to summarize mine because you've heard all the points. But in short, our concern is that, and I appreciate we're not counting on a surplus, we're counting on the projections.

**LINEHAN:** Thank you.

**JEFF SCHNEIDER:** But the fact is, if we're really going to have meaningful property tax relief, we need more revenue from other

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sources. And this does not do that. The second thing I'm going to talk about is districts like ours that are up against the levy lid, at least until 2023, as I studied it, based on the legislative fiscal note, and I'll admit there could be something I'm misunderstanding, but it appears to me that districts like ours are going to suffer the most between now and '23 because we can't raise our levy to make up the losses. The numbers I look at, look at Hastings looking at losing about \$1.4 million over those three years. And then finally, I again, I want to mention that I've heard officials say we're trying to do something without harming schools. And I appreciate that. I would respectfully disagree that LB974 doesn't harm schools. Our district has been a very low spender, we've made budget cuts. But yet this is asking us to take more. We've approved a levy override. It won't even recognize all of that. So in closing, we'd ask you to consider those. I appreciate that you're saying it's a work in progress, and I'd try to answer any questions that you had.

**LINEHAN:** Thank you very much for being here. Do we have any questions from the committee? Thank you very much.

**JASON HAYES:** Chairwoman Linehan and members of the Revenue Committee, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s, director of government relations. And I am representing our 20,000 NSEA members. NSEA is opposed to LB974. I'll be brief, I know you've heard a number of concerns in the opposition. First, we're concerned the bill will cut school budgets by imposing a new spending limit that's based on the consumer price index, which the bill also caps at 2.5 percent. The CPI is based on what a family purchases, not on what it takes to run a school district. Also, we are concerned that reducing the taxable value of real property will cost some school districts to lose more in property tax revenue than they will receive in state aid. Although transitional aid is intended to ensure that this does not create a hardship, it is only available to school districts with the \$1.05 levy and would only bring a qualifying district to the same budget of disbursements as the prior year in year one. Transitional aid declines to 75 percent in year 2 and 50 percent in year 3. As a result, schools are not guaranteed to be held harmless. NSEA stands willing to work with senators to help find a workable solution that will provide property tax relief while ensuring adequate funding to ensure every child has access to quality public education. And I thank you for your time.

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**LINEHAN:** Thank you very much, Mr. Hayes. Do we have questions from the committee? Senator McCollister?

**McCOLLISTER:** Yeah, thank you, Chairwoman, Chairwoman Linehan. Do you have ideas, Jason, on how we can make this bill better?

**JASON HAYES:** Well, two things that I kind of alluded to in my testimony was, one, keeping the current 2.5, 2.5 percent budget spending cap, as well as perhaps increasing the amount of transitional aid available perhaps at 100 percent. But I think that would be the two main things that I would point to.

**McCOLLISTER:** You see an issue with sustainability?

**JASON HAYES:** You know, budget wise, it depends on projections of the budget. I mean, you look at just in the last year with, when there was a budget shortfall that the cost-growth factor was changed. I think it was basically adjusted state aid by about \$11 million. You know, that would be something now that there is more state aid, you know, to perhaps put back in to where it was before. You know, I think people have raised issues in terms of trust in state aid. That would go a long way to show that state aid is restored in years when, when there is budget surpluses.

**McCOLLISTER:** Thank you.

**LINEHAN:** Thank you, Senator McCollister. Other questions from the committee? Thank you very much for being here, Mr. Hayes.

**BRIAN ROTTINGHAUS:** Hello, members of the Revenue Committee. My name is Brian Rottinghaus, spelled B-r-i-a-n R-o-t-t-i-n-g-h-a-u-s. I serve as the superintendent and elementary principal at Pawnee City Public Schools. I strongly support comprehensive property tax reform, but I testify today in opposition to LB974. I feel the bill is structurally flawed. As first a teacher in Kansas and then an administrator there, I learned firsthand both the good and bad aspects of per pupil aid. When fully funded, per pupil aid works great. But when it's not, the implications are catastrophic. I became a, I became a high school principal in, in Kansas in 2008, which I'm sure you recall was not a good year for state budgets. That was especially true in Kansas. The legislature had spent down cash reserve following massive tax cuts by Governor Graves in the late 1990s and then the recession of 2000. When the Great Recession hit, the legislature refused to raise income or sales tax and instead made drastic cuts to essential programs. In

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2012, when the economy was beginning to recover, Governor Brownback passed the income incentive and tax cut plan, commonly known as the "Kansas experience-- experiment." Those can't-- tax cuts never delivered the economic windfall that they promised. Ultimately, in 2017, Democrats and Republicans in both houses rescinded the 2012 tax cuts and then overrode Governor Brownback's veto. Corporate tax incentive, incentives were repealed and high-earner income tax rates returned to their pre-2012 levels. Kansas schools suffered because school boards lacked local control to adequately fund schools. School boards had strict limits on generating necessary property tax revenue in times of crisis. LB974 would likewise take away local control from Nebraska school boards. When the next economic correction occurs, which is inevitable, inevitable to happen, revenue promised in LB974 would disappear. That burden would be placed back on local, local governing boards to raise property tax to offset their losses. For Nebraska school districts that are fiscally responsible, LB974 would punish them for their own thriftiness. This bill would limit each district's tax asking to the prior year expense with less than bare minimum revenue. Schools would not be able to comply with Nebraska statutory obligations such as special education and teacher CIR negotiations. To make ends meet, schools would have to be forced to cut so-called nonessential programs like art, music and vocational education. That's what Kansas did. Nebraska should learn a lesson from Kansas' mistake. Like Kansas, Nebraska has a revenue shortage because of tax cuts and incentives implemented over the last several years. Now LB974 intends to offer property tax relief based on overly optimistic revenue projections. Per pupil state aid, if done properly, would result in dollar for dollar property tax reductions. However, the only way to ensure sustainable structural property tax reform is with revenue-neutral tax shift that provide sources of dependable sales and income tax revenue to offset much-needed reductions to property tax.

**LINEHAN:** Thank you very much.

**BRIAN ROTTINGHAUS:** Thank you.

**LINEHAN:** Thank you. Are there any questions from the committee?

**GROENE:** Just a quick one.

**BRIAN ROTTINGHAUS:** Yes, Senator Groene.

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**GROENE:** Compare us to Kansas, we're not cutting any taxes here.

**BRIAN ROTTINGHAUS:** I understand that.

**LINEHAN:** OK, let's--

**GROENE:** I just wanted to make sure you understood that, that we're not cutting any taxes.

**BRIAN ROTTINGHAUS:** But I just wanted to draw the comparison to--

**GROENE:** There's no comparison. Kansas cut taxes.

**LINEHAN:** Question.

**GROENE:** Thank you.

**LINEHAN:** Question.

**GROENE:** Thank you.

**LINEHAN:** Any other questions from the committ-- any other? I grew up down there, you know, close to Pawnee City.

**BRIAN ROTTINGHAUS:** Did you?

**LINEHAN:** Yes, I did. I went to Lewiston. I think you have kids that opt-in from Lewiston to Pawnee.

**BRIAN ROTTINGHAUS:** A few, yeah.

**LINEHAN:** Other questions from the committee? Thank you for being here and drive safe, OK?

**BRIAN ROTTINGHAUS:** Thank you.

**JORDAN RASMUSSEN:** Good afternoon, Chairwoman Linehan and members of the committee. My name is Jordan Rasmussen, J-o-r-d-a-n R-a-s-m-u-s-s-e-n, I serve on the policy staff at the Center for Rural Affairs. The Center for Rural Affairs is grateful for the Revenue Committee's efforts to bring forward LB974. Although we recognize that farmers and ranchers are vital to our community and bear the greatest burden of the property tax issue, our mission is to support policy that builds strong rural communities and provides opportunity for all rural people. This bill makes strides towards that effort. However, adjustments are needed and can and should be made to ensure that this

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is a policy that works for all Nebraskans. On the surface, the intentions of LB974 are commendable: more state aid to schools in order to reduce the school's reliance upon property taxes for funding. Yet the mechanisms and funding sources outlined fall short. With an estimated price tag and a lesser projected, lesser projected revenues, where will the additional dollars come from? Or perhaps more importantly, what programs and services will be cut as a result in order to meet the state's obligation to fund our schools in years three and beyond? Rather than relying strictly on blips in revenues and historically unreliable forecasts from reports, Nebraska's taxpayers, students, and educators need a reliable source of funding of education. The opportunity for tax modernization exists. While our state's economy remains reliant on agriculture, we've moved away from manufacturing of goods into a more knowledge and service-based economy. Nebraska's task-- tax code does not reflect that decades, decades-long trend. True reform and modernization of our tax system and how we pay for education in Nebraska will require a further broadening of our tax base. Drawing in additional revenues by ending exemptions on services along with closing other tax loopholes would generate a more consistent revenue stream and basis for funding of education. All Nebraskans, rural and urban alike, deserve a more fiscally responsible plan to res-- resolve our property tax problem. Another point of concern for us is the reduction in the valuation of agriculture land and the residential and commercial elements. We understand that on its basis, but we feel that if we would not-- would limit that just to ag land within TEEOSA that we would have a better result without creating further inequities, and there would be that draw down of the ability for those schools to become equalized so there would be greater balance. In conclusion, recognizing the need for schools and services that are the heartbeat of our communities, rural Nebraskans are ready to pay for their share of these assets. They're simply asking for more sustainable balance in the way in which our state meets its obligations to pay for education. LB974 is a start, yet it falls short of broadening the tax base and making some of those more proactive measures that we need to ensure equity in school funding and develop the workforce that we need in our rural communities and our state. Thank you.

**LINEHAN:** Thank you for being here.

**JORDAN RASMUSSEN:** Any questions?

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**LINEHAN:** You're a pro. You made it through that light. Do you have any questions from the committee? Seeing none.

**JORDAN RASMUSSEN:** Thank you.

**LINEHAN:** Thank you very much for being here.

**CONNIE KNOCHE:** Good afternoon, Chairwoman Linehan and members of the Revenue Committee. My name is Connie Knoche, C-o-n-n-i-e K-n-o-c-h-e, and I'm the education policy director at OpenSky Policy Institute. We're here today to testify in opposition to LB974 for three main reasons. First, it is a complicated and fundamental shift in the way we fund schools. Second, it results in a loss of funding for schools that educate most of the state's students. And third, it exacerbates budget uncertainty for schools. First, the plan is complicated. Despite my experience with the TEEOSA formula, the proposal is difficult to model because modeling beyond three years, you have to look at real property value growth that's certified by the property tax administrator that's not currently collected. Lowering assessed value while anticipating increases in valuation when you're trying to see what the fiscal impact is in future years is difficult, and it hasn't been reliably predicted in the state aid formula before. So it makes it nearly impossible to model, so we know for sure that for what the long-term consequences of such a fundamental shift in our state aid formula may be. One thing we do know is that it would flip our funding formula on its head over just a few years, taking us from an equalization aid-based formula to a foundation-based, based one. This is an issue because equalization aid helps ensure all districts have equitable educational opportunities regardless of local resources, and foundation aid doesn't consider the diverse needs of students and districts. This would harm large school districts with significant amounts of poverty and ELL students. Second, LB6-- LB974 will result in the loss of funding for the state's largest school districts through a number of elements, including reducing the taxable value of real property and the elimination of the averaging adjustment. Reducing the taxable value will shift funding from property taxes, which is a stable source of revenue, to state aid, which has been unpredictable over time. While transition aid is available to some school districts in the first three years, it isn't guaranteed to hold schools harmless. It's based on our appropriation by the, the Legislature and it goes away in three years. Third, the totality of this plan is, will exacerbate existing budget issues beyond budget predictability for schools. Tying foundation aid to state revenues,

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which can be unpredictable, means that districts have to change their levies annually in order to make up for a drop in state aid. Losing unused budget authority and being unable to predict assessed valuation growth while assessed valuations are being reduced simultaneously will make it hard for districts to stay below the maximum levy limit. When assessed value goes down only for school districts, their levies will go up more than other taxing entities unaffected by the valuation change. This would make it appear as though schools are spending more than they actually are.

**LINEHAN:** Thank you very much.

**CONNIE KNOCHE:** Thank you.

**LINEHAN:** Do we have any questions from the committee? Senator McCollister.

**McCOLLISTER:** Thank you, Chairwoman Linehan. What do you think the long-term impact of this bill would be?

**CONNIE KNOCHE:** It will make it very difficult for school districts to budget because you don't know what's happening with the valuation as it's being lowered. So what we've seen in our, our modeling is that levies are going to be going up for school districts even though valuations are lowered. So it's going to look like school districts are spending more when they're actually not, even if they're actually at the same level. When you tie the CPI growth for the basic allowing growth rate, it's going to restrict how much the total state aid is going out to schools, which will hurt them further. So they're going to lose taxing ability, plus they'll use-- lose state revenue as well.

**McCOLLISTER:** How about long-term tax equity? We're changing valuations. You see any, an issue with that?

**CONNIE KNOCHE:** Changing valuations outside of the state aid formula is problematic because it's the only political subdivision that is having their valuations lowered. So you're going to compare political subdivisions and it will look as though schools are spending more when they're not, their valuation base is just lower.

**McCOLLISTER:** Thank you, Connie.

**LINEHAN:** Any other questions? Senator Crawford.

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**CRAWFORD:** Thank you, Chairwoman.

**LINEHAN:** Excuse me. Thank you, Senator McCollister. Senator Crawford.

**CRAWFORD:** Thank you. Thank you. And thank you for being here. I wondered if you would just speak to, a little bit to the unused budget authority. Like in your experience, when you were at OPS, why would you budget more than you are going to spend. Like where-- what, what, what did you-- why did you create an unused budget authority and then what purpose did it have?

**CONNIE KNOCHE:** Well, when you budget for your, your personal expenses, and also when you budget for a political subdivision, you don't know what things are going to be unanticipated that come up that you're going to have to pay for. So you may have a plan of what you're going to spend for the year, but you have to have it a little bit higher because there are unknowns that happen throughout the year. Unused budget authority helps school districts, so they're able to smooth out those, those changes that happen in their budget. If you exceed your budget authority, you have to go to a hearing of the public and you have to explain why you're, you're exceeding the maximum budget, but there's no additional revenue that's available. So revenues come in less than what you budget for in some cases, sometimes you get more revenue. So there's a lot of unknowns when you're budgeting, because it's all on predictions.

**LINEHAN:** Thank you, Senator Crawford. Senator Groene.

**GROENE:** But at OPS, unused budget authority in the years you were there, you never used it, did you? Because your limitation was that you were at \$1.05. You couldn't reach it or spend it anyway, could you?

**CONNIE KNOCHE:** That's true. But there's not-- that's not a reason to take it away.

**GROENE:** But OPS has \$40, \$50 million of unused budget authority and they will never, ever use it because they're at \$1.05. Is that true?

**CONNIE KNOCHE:** Yes. They're at their maximum levy.

**GROENE:** So it means nothing to OPS to lose the budget authority, unused budget authority.

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**CONNIE KNOCHE:** It means something to some schools. Possibly not OPS, but--

**GROENE:** Clarification. You said it looks like they're raising their taxes, but people judge their taxes in the dollars they pay, not the levy. So all of those school districts that will get foundation aid is-- and those people will look at their school taxes and it will be less, will it not?

**CONNIE KNOCHE:** School taxes will be less.

**GROENE:** The levy will go up.

**CONNIE KNOCHE:** But taxpayers don't always look at what they pay in taxes. They'll look at tax levies as well. That's been my experience in the school district.

**GROENE:** I have more respect for the taxpayers--

**LINEHAN:** Mike.

**GROENE:** --and their checkbook. Thank you.

**LINEHAN:** All right, we're going to stick with questions from the committee. Thank you very much. Oh, we have one. Thank you, Senator Kolterman.

**KOLTERMAN:** Thank you, Senator Linehan. I just have a-- so it's a pretty simple question. In my, in my district, there are some schools that get very little state aid. As we come into the metropolitan areas, some of our schools get over 50 percent of their budget from the state of Nebraska. You think it's fair for the taxpayers in the state of Nebraska to spend all their money to Lincoln and Omaha so that they can educate those kids when, and then continue to pay 100 percent of theirs without getting any state aid back? You think that's a fair equity?

**CONNIE KNOCHE:** Well, the state aid formula, the Educational Opportunities Support Act, it looks at the resources of each school district, what they're able to provide for their students. And if you look at per pupil costs across the state, there are schools spending \$3,700 per student because they have the resources to do so. Where if you're in a larger metropolitan area, you don't have the resources.

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And so state aid comes in to equalize that. So there's equal educational opportunities through that mechanism.

**KOLTERMAN:** But what we're trying to do here is we're trying to give every school a minimal amount of money on an annual basis through the foundation aid.

**CRAWFORD:** Yeah.

**KOLTERMAN:** You think that's a fair way to do it?

**CONNIE KNOCHE:** We're not opposed to that. The only issue would be tying that to state sales revenue and income taxes because that goes up and the equalization formula is set. So that's going to outpace equalization aid in the short period of time.

**KOLTERMAN:** Do you believe, and I, I firmly think I know the answer to this. Is this more a lack of trust on the part of the Unicameral being able to meet our obligations from year to year?

**CONNIE KNOCHE:** I believe there is some lack of trust in that regard, yes.

**KOLTERMAN:** That's what I've been hearing all afternoon.

**CONNIE KNOCHE:** Yeah.

**KOLTERMAN:** Thank you.

**LINEHAN:** Thank you, Senator Kolterman. Other questions from the committee? Thank you very much for being here. Next.

**KYLE FAIRBAIRN:** Senator Linehan, members of the committee, my name is Kyle Fairbairn, K-y-l-e F-a-i-r-b-a-i-r-n, I'm the executive director of the Greater Nebraska Schools Association. Let the record show, I did submit written opposition testimony from Columbus Public Schools, Elkhorn Public Schools, Gretna Public Schools, Norfolk Public Schools, and Kearney Public Schools. I'm not going to touch on, Senator Kolterman, it's a trust issue. Within my 24 schools, I will tell you, it's almost unanimously a trust issue. Every year when the, when the Legislature needs money to budget their-- balance their books, it comes out of TEEOSA. It did last year and it has for years and years and years in the past. So I will tell you, it's a trust issue. I won't go into the money side of it. The CPI piece, I will touch on. Imagine recruiting teachers to this state, which we're going to have a problem

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with soon. And we're going to be able to say, well, CPA-- CPI went up 0.5 percent. Teachers are going to get a 0.5 percent raise off the \$35,000 they're making right now. That's a real incentive to recruit teachers to this state. That's very difficult. But that's, that's the fact of what this bill will do. CPI is not a measurement of salaries and benefits, and that's what schools spend on, 80 to 85 percent of their budgets. Makes it very difficult. The only other piece I'll touch on, everything else has been touched on. The averaging adjustment is a way for schools that are spending below their peers to spend at the level of their peers. The districts around this table represented Omaha, Elkhorn, Millard, Westside, North Platte, Ralston, and Bellevue will lose a combined \$16 million in the averaging adjustment. There is no make up for that money. It's a loss. That money is real money. It's outside the state aid, so it doesn't come back into the state aid formula. It gives those schools an ability to spend at their peers' level. State aid is based on what your peers spend. So if you're not spending what you are right now because of the reduction in this, it lowers state aid going forward for every one of the schools in your peer group. So it lowers the amount of money, those schools already spending very little on-- on, on per-pupil costs are going to be able to spend less because of the averaging adjustment being taken away. That's all I have to say.

**LINEHAN:** Thank you very much for being here. Senator Crawford.

**CRAWFORD:** Thank you, Chairman Linehan. And thank you for being here. I just wanted to clarify. I understand that there is a trust issue and you're highlighting the reason why there is a trust issue. But if it were the case that there was no trust issue, would you still have concerns with the bill?

**KYLE FAIRBAIRN:** Absolutely.

**CRAWFORD:** And so, so it is not just a trust issue?

**KYLE FAIRBAIRN:** No. We look at it, it's \$594 million, the cost. Revenue looks like \$520, that's still \$70 million difference. We haven't talked about prisons. We haven't talked about the new research project in Omaha. The LB720 bill. So there's lots of things that make up that that's got a share in this, this \$520 besides just state aid for schools.

**LINEHAN:** I just have to clarify, the \$520 million that's in the Governor's budget is for this, is for property tax relief. The other

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things you mentioned are also in the budget. They do not affect the \$520 million. And I just, I know there's a lot of confusion, and I've been saying this all afternoon. And I feel bad that there's a lot of confusion, because we got a lot of numbers and they get reported and misspoke. But it, but it's not-- that money is not surplus and it's not-- so that just I think, you know, one of the problems we have here is because we're trying to put the train together in a short session. And we got new numbers last week. So I understand the confusion on numbers. But if we could leave the hearing with one thing today, is the \$520 million is not surplus, it's in the Governor's budget. And that Fiscal Office and the Chairman of the Appropriations Committee have agreed to the number. So that in itself, since you don't work here wouldn't know that, but that in itself is a pretty big deal. So thank you. Other questions? Yes.

**CRAWFORD:** So I just wanted to clarify. If it were fully funded, so again, I want to take out the question about the sustainability, if it, if it were fully funded, would you still have concerns about whether schools are made whole?

**KYLE FAIRBAIRN:** Absolutely.

**CRAWFORD:** With the bill as it is?

**KYLE FAIRBAIRN:** Seventeen of the schools that get the averaging adjustment are GNSA schools. So, yes, those-- that, that funding goes away. There is no make up for it.

**CRAWFORD:** OK. Thank you.

**LINEHAN:** Thank you, Senator Crawford. Senator Groene, would you like to ask a question?

**GROENE:** On the comparison groups, 10 above, 10 below.

**KYLE FAIRBAIRN:** Yep.

**GROENE:** All of the ones that get averaging adjustments are in the 10 below, right?

**KYLE FAIRBAIRN:** Correct.

**GROENE:** So the averaging, the comparison group works brings everybody to the middle.

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**KYLE FAIRBAIRN:** Yes, sir.

**GROENE:** So those individuals are getting a big bump already by the average, and the ones on the end who don't get any averaging adjustment with the high salary are the ones that need it, don't get it. You guys come up to the middle and then you get the averaging adjustment on top of that. Is that not true?

**KYLE FAIRBAIRN:** That is not true. You get the-- you get with what you're-- the averaging adjustment brings you up because you're not spending at the level of your peers.

**GROENE:** One question. Have you looked at the salaries of the teachers and administrators and the top ones of the 244 and compared them to your list of the averaging adjustment? You might find those 17 sitting at top.

**KYLE FAIRBAIRN:** Senator, that's neither here nor there.

**GROENE:** It is there.

**KYLE FAIRBAIRN:** No, it's not. That's--

**LINEHAN:** OK, we're not going to have back and forth.

**KYLE FAIRBAIRN:** --a negotiated idea.

**LINEHAN:** We're questions, and it's both. We're just-- so do we have any other questions? OK, thank you very much for being here.

**KYLE FAIRBAIRN:** Thank you, Senator.

**LINEHAN:** Appreciate it.

**JOEY ADLER:** Afternoon Chairwoman Linehan, members of the Revenue Committee. My name is Joey Adler. J-o-e-y A-d-l-e-r, and I am here on behalf of the Holland Children's Movement, a nonpartisan, not-for-profit organization that strives to fulfill its vision for Nebraska to become the national beacon in economic security and opportunity for all children and families in opposition of LB974. LB974 seeks to restrict some local control funding used for schools. The Holland Children's Movement believes taking control away from local school districts to make decisions and provide for resources that they need is the wrong approach to addressing property tax issues in Nebraska, and one that could be harmful to our communities and

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children. According to the Nebraska Voters' Outlook, which is research done by the Holland Children's Institute in 2019, 59 percent of Nebraskans say that the state is currently underfunding education and believe that is why property taxes are so high. While only 35 percent of people believe Nebraska's education system is adequately funded and property taxes are high because of mismanagement and waste on a local level. LB947 [SIC] attempts to address the lack of resources available from the state, but it doesn't do so entirely and we believe this would lead to a cut in educational opportunities for Nebraska schools and children. We also found that 51 percent of Nebraskans would rather see education adequately funded over a tax cut for property owners and businesses, and only 45 percent said otherwise. It's for these reasons that we oppose LB974 and I would be happy to take any questions you may have.

**LINEHAN:** Did we get behind here, and is your testimony getting passed out?

**JOEY ADLER:** No, I can, I can send that along.

**LINEHAN:** I would appreciate having a copy of it. Thank you--

**JOEY ADLER:** And I can send a copy of our [INAUDIBLE] one too, if you'd like that.

**LINEHAN:** OK. Thank you very much. Do we have questions? Any questions?

**JOEY ADLER:** Thank you.

**LINEHAN:** OK. Thank you for being here.

**ANN HUNTER-PIRTLE:** Good afternoon, Chair Linehan, members of the committee. My name is Ann Hunter-Pirtle, A-n-n H-u-n-t-e-r-P-i-r-t-l-e, I'm the executive director of Stand For Schools, a nonprofit dedicated to advancing public education in Nebraska. We appreciate the hard work that's gone into this proposal, but Stand For Schools opposes LB974. Most of our points have been touched on, so I'll be quick here. First off, we have concerns about relying on one-time projected revenue to make lasting changes to the TEEOSA formula. A few of the assumptions included in the revenue projection include a roughly \$80 million savings from DHHS, 2.5 percent growth in corrections. We believe that number could be a lot higher, and it does not into-- not take into account a possible recession. Second, the Consumer Price Index doesn't reflect schools

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main costs, which are salaries and benefits. And because the CPI can vary greatly from year to year, even being zero, it makes budgeting very difficult for school districts and will hurt their ability to recruit and retain excellent teacher, teachers. Third, LB974 reduces local control and restricts the ability of locally-elected officials to determine how best to use revenue and plan ahead for their districts needs, including projects necessary to accommodate a growing number of students with growing needs. For these reasons, Stand For Schools opposes the bill and we urge the committee not to advance it. Thank you, and happy to take questions.

**LINEHAN:** Thank you. Are there any questions from the committee?  
Senator Friesen.

**FRIESEN:** Thank you, Chairwoman Linehan. So looking at the bill and prioritizing what in that bill-- what would you do to make it better? What would be your top two priorities to improve the bill?

**ANN HUNTER-PIRTLE:** There's a lot of things, so it's hard to pick two. But, but top two in my mind would be tying school spending to the CPI. I think that's a pretty huge problem. And, you know, what this bill does is it then hamstring's ability, schools' ability, local school boards' ability to raise funds for themselves into the future. So I think the CPI piece is problematic and-- it's hard to pick one other thing.

**FRIESEN:** I think that's why-- I know there's, you have multiple issues.

**ANN HUNTER-PIRTLE:** Sure.

**FRIESEN:** Sometimes in compromise, we're going to have to--

**ANN HUNTER-PIRTLE:** Sure.

**FRIESEN:** --figure out where is the, where is the biggest problem. And when you look at it, I mean, I'm--

**ANN HUNTER-PIRTLE:** We also have concerns about the, the foundation aid component rapidly outpacing equalization aid in terms of the way that schools get funded in Nebraska. I believe equalization aid out-- excuse me, foundation aid outpaces equalization aid within four years. And we have concerns about the fairness of that. And then, you know,

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whether resources are really getting to the children that need them the most.

**FRIESEN:** OK. Because, I mean, I've heard over and over and I know there's distrust here. I understand. And there's a question on the funding. So if--

**ANN HUNTER-PIRTLE:** Sure.

**FRIESEN:** --if you let us worry about the funding and just assume that's off the table and the funding is there, going back to the bill, you know, what of the things, I guess, that schools are the most concerned about? And as we go forward, I mean, that's what I want to hear about is which ones are the most important? And then rank them down, and somewheres in the middle we're going to have to meet to somehow pass a bill.

**ANN HUNTER-PIRTLE:** Sure. CPI and foundation aid outpacing equalization aid are pretty big concerns for us. Earlier you asked the question of like, what's the number? And I think, with respect, I would rephrase the question to what's the mechanism? How is money being raised to support this bill going forward to give schools confidence that it's actually going to be funded? I think that's the big question here. And even then, schools will have concerns. But, but that's a huge one.

**FRIESEN:** Thank you.

**LINEHAN:** Thank you, Senator Friesen. Are there other questions from the committee? Senator Crawford?

**CRAWFORD:** Thank you, Chairwoman Linehan. And thank you, Mr-- thank you, Miss Hunter-- Hunter-Pirtle, for being here today. So the CPI is really the bill two places. One is the spending limit, then the other place where it occurs is the year four and out. I don't know if you're familiar with that part of the bill, when it shifts in year four and out, where you're basically, you're asking then becomes only--

**ANN HUNTER-PIRTLE:** Right.

**CRAWFORD:** --what you had last year plus CPI.

**ANN HUNTER-PIRTLE:** Right.

**CRAWFORD:** Are you concerned about that CPI provision there?

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**ANN HUNTER-PIRTLE:** Both. Yes.

**CRAWFORD:** Both. OK.

**ANN HUNTER-PIRTLE:** Yep. Both of those are pretty big concerns.

**CRAWFORD:** OK.

**ANN HUNTER-PIRTLE:** Again, because the CPI has very little to do with what schools actually spend money on, right? It's salaries and benefits, not the market basket of goods that the CPI looks at.

**CRAWFORD:** Thank you.

**LINEHAN:** Thank you, Senator Crawford. Are there other questions from the committee? Thank you very much.

**ANN HUNTER-PIRTLE:** Thank you.

**LINEHAN:** Other opponents? I see a lot of colleagues out there. Other-- no opponents? Do we have neutral? Are you all coming in neutral or did I miss one of you?

**CRAIG BOLZ:** Neutral.

**LINEHAN:** Are you both neutral too? OK. OK, perfect. It's all working the way it's supposed to.

**CRAIG BOLZ:** Senators, my name is Craig Bolz, C-r-a-i-g B-o-l-z, and I really want to thank you for giving me my three minutes. The really good thing in this bill is that all students in all districts get state aid. I've been pounded on this forever. The problem is, is that I don't understand why that we have to take three years to do this. Why do we have to get up speed? Is this because we need an out if it doesn't work? And gets up, if I am, if I'm right, I think it gets up to about \$2,500, it should start at about \$4,000. The other thing why I'm neutral is this is not near enough tax relief and it's really not fast enough. Another thing I want to say to you, and this is gonna be really hard. I haven't told my kids this yet, but we're doing the research of 1031 exchanging our family farm to farm ground in Missouri. It was my grandfather's farm, it was their great grandfather's farm. It was my granddaughter's great-great grandfather's farm. I've had enough. I can't, I can't, I can't make one and one add up to two farming in the state in Nebraska. Lastly, and not leastly, when I leave here today-- and I might not do it

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tonight because I'm late-- I'm headed to Council Bluffs where legalized gambling or sports gambling is legal. And I'm gonna put a lot of money on the Chiefs, and I'm gonna put a lot of money that the Nebraska State Legislature at the end of the session will not have any tax relief. And I dare you 50 people, the 49 senators and the Governor, to please, I'm begging you, prove me wrong. Thank you.

**LINEHAN:** Thank you very much, Mr. Bolz.

**CRAIG BOLZ:** Thank you very much.

**LINEHAN:** I'm sorry, did we have questions? Thank you. Thank you.

**MERLYN NIELSEN:** My name is Merlyn Nielsen, M-e-r-l-y-n N-i-e-l-s-e-n. My residence is Seward. Besides being an ag landowner, I am on the board-- I'm a board member of Fair Nebraska, an organization that is known to you. We appreciate Senator Linehan's leadership and the efforts, efforts of the other senators on the Revenue Committee for bringing this bill and continuing the narrative on how Nebraska can modernize in using more state-collected tax dollars and reducing, therefore, locally-collected property taxes to support our K-12 education. We support the position-- portions of this bill ensuring that all school districts will receive funding from the state, and especially the effort in the third year when the portion of basic funding is assigned so that our more sparsely-populated districts, those that can not avoid high costs per, per student, are assured stronger support enabling clearer state fulfillment of Article VII of the constitution. We also support the portions of the bill that limit the growth of local K-12 budgets to reasonable levels. Our main concern, and the reason that we take a neutral position after these positive comments, is that Fair Nebraska is committed to achieving a major change in how we fund K-12 education. Somehow we need to align taxation more closely to benefits received. Taxes paid should be commensurate to some degree with benefits received. Some folks have either heard me before or read some of my writings on property taxes. The status quo developed over decades has been to only tax what we can see. Intangible assets that we accumulate are not taxed annually like our held tangible property. As an ag landowner, I can understand why we would not tax intangibles for the county, NRD and other things. Again, to be commensurate with benefits, my ag land does receive benefit from county, NRD taxes, and so on while holding intangible assets would not. But education is different. Taxing ag land for education and not taxing intangible assets for education creates a highly unfair economic playing field, as well as a highly unfair

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decision process. Ag land is the main retirement savings for many farmers and ranchers. It is taxed while intangible retirements are not. Also, it makes it very easy to approve a bond issue or a school budget when economic representation bears little correlation to voting representation. I'll say my quote again: Life is easy when you're spending someone else's money. Last year, Fair Nebraska financed an independent study by Dr. Ernie Goss of-- on property tax and our school funding system in Nebraska. And we provided this directly to all 49 senators and the Governor. It showed the ever-increasing, up to 36 percent of income in year 2016, in property tax liability placed on ag land while similar statistic for residential remains static across years at about 3 percent. Thirty-six percent compared to three. The Goss study further showed an example of our ag industry's competitive disadvantage with neighboring Kansas--

**LINEHAN:** You're gonna have to wrap up.

**MERLYN NIELSEN:** --in production. Property taxes averaged 20 percent of production costs in Nebraska versus 7 in Kansas. Let me give you a bankruptcy date and then--

**LINEHAN:** OK, I give you--

**MERLYN NIELSEN:** --if you would, please. Appreciate it.

**LINEHAN:** --little bit here. Because I [INAUDIBLE].

**MERLYN NIELSEN:** Data from the Nebraska bankruptcy court is easy to obtain on their website. In 2019, farmer, rancher, chapter 12s were up 310 percent compared to the average number in 2015-16. For personal chapter 7s, 2019 numbers were up only 4 percent compared to 2015 and 2016. In our neighboring states of--

**LINEHAN:** OK, sir.

**MERLYN NIELSEN:** South Dakota, Iowa, and Colorado, chapter 12 filings were up, amazingly, 69 percent.

**LINEHAN:** Sir, I can't--I've let--

**MERLYN NIELSEN:** But we're 4.5 times that in Nebraska at 310.

**LINEHAN:** Mr. Nielsen, you worked really hard on this.

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**MERLYN NIELSEN:** Thank you very much for your time today.

**LINEHAN:** Thank you very much. Thank you. Do we have any questions from the committee? Thank you very much. You have done a good job of educating us on that.

**MERLYN NIELSEN:** Thank you for your time.

**LINEHAN:** Appreciate it. I see one more witness in neutral. Do we have any other? Oh, we have-- oh, we have some more. Oh, lots of neutrals. OK. All right.

**ART NIETFELD:** Hi, my name's Art Nietfeld, A-r-t N-i-e-t-f-e-l-d. I'm going to change my testimony some because, first of all, I pretty much agree with this last guy and the guy that moved to Missouri. And second, I want to rebut this guy from Kansas, because I've heard this before about the Kansas experiment. I moved up to Nebraska from Kansas. I went to a Marysville, Kansas, school, which is right across the border. And I have nieces and nephews and great nieces and nephews who also have went to the Kansas Marysville schools the whole time and their friends. And anyway, at no time during the Kansas experiment did I ever hear of anybody not getting a good education or not having plenty of sports. And when I went to school there, they had plenty of sports, and I went out for sports and I never saw any shortages of money. And anyway, and plus, their taxes are only a third as high, approximately, at least on land, as they are in Nebraska. And let's see, I guess I'll just go the rest of it. Anyway, I'd like to thank all of you for the incredible amount of work you've done on this, these, this property tax issue. I do not know the correct answer, but we desperately need property tax reduction. Let's say a young couple buys a \$300 house to raise their family. Then the government comes around and makes them pay \$6,000 every year in taxes before they can make their loan payments, upkeep, insurance, or even buy food or medical care. Let's say that couple's loan was at 95 percent loan. That means they only put \$15,000 down and that was probably all they could scrape up. That means they would have to pay \$6,000 every year on only \$15,000 of wealth, just waiting for their-- just wanting their own home to live in. Same goes for a young farm couple wanting to buy a farm instead of strictly sharecropping, as most young farmers do. I think Elizabeth Warren's tax proposal would be a lot better than this-- Elizabeth Warren's wealth tax proposal. Seems like the average person, people who are willing to work pay most of the taxes in this

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country, support everything else. And a lot of them are young people trying to raise a family and the rest of it's in here.

**LINEHAN:** Thank you very much for being here. Do we-- wait a minute. Do we have any questions? Senator Kolterman.

**KOLTERMAN:** Art, you've been here many times. Last year, this year.

**ART NIETFELD:** Right.

**KOLTERMAN:** How do your property taxes compare in Kansas versus Nebraska?

**ART NIETFELD:** Well, there are about a third as high.

**KOLTERMAN:** Third as high.

**ART NIETFELD:** And Kansas-- well, since I went to school there, Kansas managed to build a brand new grade school. They tore their old one down, and they had to build a new one. And then they just got done building on a \$27 million addition to the high school and junior high with a new gym, and they tore out the old ag facility, so they don't have an ag facility. And my tax are still only a third as much as they are in Nebraska.

**KOLTERMAN:** Do you have an equal amount each place, approximately?

**ART NIETFELD:** What?

**KOLTERMAN:** Equal amount of land in each location?

**ART NIETFELD:** Well, about a little over a third of it's in Kansas. But the per acre, the taxes are about a third as much in Kansas.

**KOLTERMAN:** Thank you. Thanks for coming up.

**ART NIETFELD:** Yeah. Plus, another thing, they have more space now and they, especially \$27 million more than when I went to school, and they only have about half as many kids. So I think that's the way it is a lot of places in Nebraska.

**LINEHAN:** Thank you very much. Thank you, Senator Kolterman. Any other questions? Thank you for being here.

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**ART NIETFELD:** Well, thanks to all of you. I sure appreciate all your hard work.

**LINEHAN:** Thank you very much.

**ROBERT J. HALLSTROM:** Chairman Linehan, members of the committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m. I appear before you today as registered lobbyist for both the Nebraska Bankers Association and the National Federation of Independent Business. I had intended to come in and express support on the record, but I was hung up in another hearing, and so I'm relegated to the back end. And so I would-- I will be positive support even though I signed in as neutral because of the lateness of the day. I do want to commend you for your patience both today and for the incredible amount of work that this committee has put in in trying to move forward in finding a solution to the property tax dilemma. The small business owners of NFIB have made it clear that they, they are thirsting for property tax relief. They've been supportive of funding of the Property Tax Credit Cash Fund. Our bank members of the Nebraska Bankers Association have heard loud and clear from their customer-borrowers that property tax relief is, is the number one issue. I've heard a lot today about not having trust in the Legislature. When you're going to do dynamic things, I think sometimes we have to take a leap of faith and try to find a way to, to get this done, and everybody pitch in and give a little bit. I've heard some good arguments today as to why there are still some glitches in the bill. But Senator Linehan, you've indicated it's a work in progress, and I would just pledge that to the bankers and small business owners of NFIB will support efforts and work with the Legislature and this committee in trying to move something forward to, to address the problems that we're facing.

**LINEHAN:** Thank you very much for being here, even though you're a little late.

**ROBERT J. HALLSTROM:** Thank you.

**LINEHAN:** That's good. Your testimony speaks for itself. Yes, Senator Groene.

**GROENE:** You have a lot of rural bank members?

**ROBERT J. HALLSTROM:** Yes, sir.

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**GROENE:** What do you think if all of a sudden in rural Nebraska a couple hundred million dollars showed up on main street, plus the farmers and taxpayers had another couple hundred million dollars in their pockets not paying property taxes. What would that do to your loan payments and the economy in rural Nebraska?

**ROBERT J. HALLSTROM:** Well, I think with regard to the economy in general, there's obviously going to be a boost. There's been some witnesses today that have talked to that very, very fact that having more money, whether it's from the federal tax relief or other measures that come about, that there's going to be increased spending and hopefully that will, will motivate the economy as well.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? Thank you very much for being here.

**ROBERT J. HALLSTROM:** Thank you.

**MATT JEDLICKA:** Chairman Linehan and members of the committee, my name is Matt Jedlicka, it's spelled M-a-t-t J-e-d-l-i-c-k-a. I had also planned on being here earlier today. So when you do get my handout, I guess it's going to show which direction I would have been. But what I'm here today, I think, is to provide you guys with a few pages in my handout of a study that I think paints the most accurate picture of why you hear a lot of farmers and ag landowners at these committee hearings. It's the Nebraska Farm Real Estate Market Highlights, and don't worry, I will email you the whole study, as I did approximately a year ago. But I sent you three pages that, that I think are very important. And the fact is, is agricultural land values have grown much faster than the earning potential. And so on those sheets, you're going to see the net rates of return to agricultural land that gives an estimate in the net income earning potential relative to the value of the asset. So in my area, which is the, I think, the eastern part of the state in that, the earn-- the net rate of return was 2.4 percent for 2019. Historically, from 1990 to 1999, that was 5.3 percent. And from 2000 to 2009, that was 3.9 percent. So essentially, like if, if for an example, if we would have a 4.8 net rate of return historically, we're-- current we're at 2.4 percent last year. So again, we're, we're earning the same amount of revenue off ground that's twice the value. So now why is ground twice the value? Well, I think you guys have been hearing a lot about that today. The 1031 exchange is a huge issue. It might be a fall, but anybody that sells

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farm ground wants to buy farm ground. And so we're seeing a lot of 1031s really inflate the values. A low number of sales, very low number of ag land turn-- changes hands each year. So then when those 1031s really have a larger influence on values. And I think the biggest one is, is we cannot build it new. Commercial, residential, if the price of a used home or building is excessive, you can build new and it made-- it holds the value down. We cannot build any more farm ground. Only one guy can, and he's not doing it yet. So, so, so those factors, I think, are some of the major ones to why we've seen agricultural land inflate as much as we have. And I think this study is very important for everybody. And I, like I said, I'm going to send it to every senator again this year. So with that, I thank you for your time and I would answer any questions.

**LINEHAN:** Thank you very much for being here. And thank you. So if you were here earlier, you would have supported the bill? Yes.

**MATT JEDLICKA:** I would have.

**LINEHAN:** That's what it says here. OK, thank you. So we have that on the record. Senator McCollister.

**McCOLLISTER:** Thank you, Chairwoman Linehan. So there is no inherent tie between land values and rate of return, right?

**MATT JEDLICKA:** There, there is. I think we have seen the land values increase so much. And again, I'll go back to those-- and why have they stayed there? Low interest rates is one of them. Probably increased a lot of asset values. But the fact you can't build it new, the 1031, and low number of sales. 1031 and the low number of sales has inflated it dramatically.

**McCOLLISTER:** But land values have dropped.

**MATT JEDLICKA:** Slightly, yeah. Not much, though. And that, really that will be in the full study when you receive it.

**McCOLLISTER:** Have you reviewed the way Kansas, Iowa, Colorado, South Dakota tax for land versus Nebraska?

**MATT JEDLICKA:** Yes.

**McCOLLISTER:** What-- any conclusions that you have reached?

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**MATT JEDLICKA:** Well, this study also plays into that. So, and I'm going to talk a little-- I know in theory how they do it. And if we would have done it here in the '90s, we would not be in this situation. Because, again, that rate of return was in the fives. Well, I would not be in favor doing that now when we're in the twos because, you know, we'd be hanging ourselves. So if, if our, if this chart ever gets back to fives, I'll be a strong proponent for indexing to a profit number such as that.

**McCOLLISTER:** The capitalization rate?

**MATT JEDLICKA:** Yeah, right. But we need it-- it's fair, we'd like to see it at five, not two and a half. Yeah, great question.

**LINEHAN:** Thank you, Senator McCollister. Other questions? Senator Groene.

**GROENE:** Do you have livestock?

**MATT JEDLICKA:** We do. Yeah. My family, we farm and feed cattle in Colfax County. I live in Columbus. Sorry, I meant to mention that earlier.

**GROENE:** So do you every once in a while buy a new-- build a new building for your farm, for your cattle, or hog confinement or something?

**MATT JEDLICKA:** Yes. Yeah, it's been a while.

**GROENE:** So have you ever bought more farm ground?

**MATT JEDLICKA:** Yes.

**GROENE:** So the farm ground, you buy an 80 acres, very high price, and you balance it with your, with your other farm ground, right, to make a profit? But when you buy that new farm ground, the first farm ground you went-- went up to the same price that you bought yours at.

**MATT JEDLICKA:** Yeah.

**GROENE:** But if you buy a-- build a new barn, does your old barn go to the same price as the new one--

**MATT JEDLICKA:** No.

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**GROENE:** --on your taxes? That's the problem, isn't it, with property taxes?

**MATT JEDLICKA:** Well, yeah, farm ground doesn't depreciate. That's true.

**GROENE:** It comes up with the, the price of the new. The old barn doesn't come up with the price of the new, does it?

**MATT JEDLICKA:** No.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? Thank you very much.

**MATT JEDLICKA:** Thank you.

**LINEHAN:** Drive home safe. Hi.

**BRYCE WILSON:** Hello. Good afternoon, I'm Byce Wilson, B-r-y-c-e W-i-l-s-o-n, I'm the administrator for finance and organizational services for the Department of Education. I'm just here to see if there's any questions you guys may have that I can help answer.

**LINEHAN:** You're not going to get off this easy, we all have your phone number. But are there questions from the committee? Senator Groene.

**GROENE:** Thank you. You heard a lot about the unused budget authority. If you're an equalized district and you've been equalized for a long time and you're at \$1.05, is there any reason that you would want or you could use the unused budget authority?

**BRYCE WILSON:** Well, you can't predict the future. So there, there's always a potential. A lot of times if you're up-- it's not so much about being equalized or nonequalized, it's about being up against the \$1.05 levy limit. So you're limited by the resources, not by the budget authority. So if you're up against the \$1.05, it may not be an issue for you, but if your valuations go way up, it could potentially be something that would limit your spending in future years. There's always that possibility.

**GROENE:** You're talking about a school district that just sits right on the bubble of equalized. Basically, they haven't been-- but a big school district like OPS or LPS that relies on state aid, that they'll

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never have enough valuation to-- they're limited by their levy, not by the budget authority, is that correct?

**BRYCE WILSON:** That, that is most of the time correct.

**LINEHAN:** Thank you, Senator. OK.

**GROENE:** Then one more on the averaging adjustment. The schools that get the average adjustment usually are in the low spenders in their, in their comparison group, right?

**BRYCE WILSON:** The ones who receive the averaging investment are the lowest spenders compared to the districts over 900 students.

**GROENE:** Yes.

**BRYCE WILSON:** They're low spenders per student.

**GROENE:** But you've got a low spender like Millard and you got 10 above and 10 below. Is there any 10 above, 10 below them spenders?

**BRYCE WILSON:** When we're calculating basic funding, when we look at the comparison group? Yes, there's 10 below them. There would only be two above them.

**GROENE:** How many would there be if they're a low spender?

**BRYCE WILSON:** Well, we don't look at, we don't like the spending, we look at-- we, we-- they're put in a comparison group based on the number of students, not on their spending. So when we calculate basic funding, it would be the 10 districts smaller in student size. And then in their case, Millard, there's only two districts that are larger. So they would have a smaller comparison group. They'd have 10 below and 2 above.

**GROENE:** But the 10 below are, 10 below, the 10 below or above-- you're talking 10 below population.

**BRYCE WILSON:** Yes.

**GROENE:** Would probably have a higher spending, right, per student? It just--

**BRYCE WILSON:** As a general rule, the larger the district, the spending per student goes down. There's kind of a bell curve or a J curve. So most the time there, there's some Class B schools that are actually

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the lowest spending per student. But yeah, as a general rule, the smaller the school district, for sure, the higher the spending per kid.

**GROENE:** So then when you do there's, the ability to spend, you bring everybody to the mean, to the middle?

**BRYCE WILSON:** When we, when we calculate basic funding, which is the big piece of formula need, we take the average of their comparison group, so 10 above, 10 below, again, by student size, and we throw out the highest two spenders and lowest two spenders. If there's not 10 above, like in an Omaha case, we just take the 10 below and still throw out the highest two and lowest two. So we throw out the outliers.

**GROENE:** So then when, when we figure averaging adjustment we use, we use that new base, basic funding, right?

**BRYCE WILSON:** Yep.

**GROENE:** So now if you're below, you came up, you came up once already because you were a low spender, probably tied to population, and then you're also going to get another bump with the average adjustment in most cases. Is that not true?

**BRYCE WILSON:** Correct.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Senator Crawford. I'm sorry, did Senator Friesen have his hand up? OK, Senator Crawford.

**CRAWFORD:** Thank you. Thank you, Chairwoman Linehan. And thank you, Mr. Wilson, for being here. So have you been running numbers for schools? Is that part of what you've been doing, analyzing the impact of the bill?

**BRYCE WILSON:** Of this bill?

**CRAWFORD:** Yes.

**BRYCE WILSON:** So we had to put together a fiscal note for the bill and ran some models of what that would cost the state to put the fiscal note together. Yes.

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**CRAWFORD:** So have you been also running the numbers to see its impact on the resources that school districts would have? Have you been running those numbers too?

**BRYCE WILSON:** Well, that's, that's a challenge to do, because we can look and know kind of what this model is going to do for the '20-21 year and be-- and have that number exactly right. But part of that is guessing what their 2020 valuations are going to be and how that's going to impact their resources available. So we can, we can compare saying what, what current statute is versus this model and use 2019 valuations at the current taxing rate versus the taxing rates changed in here to have an estimate. But, but until you really know what those 2020 valuations are, you don't know what true and total resources. So, you know, a district like LPS or OPS that have seen some valuation growth in this last year because residential is going up, may have more valuation there than what they're anticipating right now. But, you know, that's hard to determine. It all depends, too, on when they're doing the revaluations and all that. So never that, just that simple. But we've done some, some looking at it. Yes.

**CRAWFORD:** And so, and so you've been analyzing just the first three years. Is that correct?

**BRYCE WILSON:** We've, we've looked at modeling of the three, first three years of the bill, not any kind of property tax out. More than just looking at using 2019 valuations of the new amounts. But again, that can change significantly in those years. And then the modeling, we basically just looked at what those components cost. We're not the-- we're not estimating student growth or valuation changes or spending growth changes in those models. Just specifically what those pieces.

**CRAWFORD:** And how are, how are local schools faring overall? Are they coming in at net or are they coming in above what you ex--

**BRYCE WILSON:** How are which, which schools, sorry?

**CRAWFORD:** How are, how are schools in general coming in? Are they-- do we have a gap that we're going to need to fill if we're going to try to keep schools whole?

**BRYCE WILSON:** Well, that's a-- there's always gonna be winners and losers a little bit.

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**CRAWFORD:** Sure.

**BRYCE WILSON:** I-- when you make significant changes like this bill does. So there are some schools that come out a little bit better, some schools that come out a little bit worse. I would say all in all, it's fairly, that if you took a line, it would probably be fairly through the middle of, of what you see.

**CRAWFORD:** So some gain, some lose.

**BRYCE WILSON:** Yeah.

**CRAWFORD:** All right. And but we don't really have a model yet of what looks like year four, when we change-- significantly changed the asking model. We haven't tried to model that yet.

**BRYCE WILSON:** What the properties, at what potentially property tax they could, you're saying?

**CRAWFORD:** Right. Right.

**BRYCE WILSON:** Again, we just took the 2019 valuations and had them adjusted as if that would be the valuation for 2020 or '21. And so we took residential--

**CRAWFORD:** Right. But I mean we modeled just the first three years, right. Not the year four and out, which is when we have a pretty substantial change.

**BRYCE WILSON:** Yeah. We have not done any kind of modeling out that far.

**CRAWFORD:** All right, thank you.

**BRYCE WILSON:** Correct.

**LINEHAN:** Thank you, Senator Crawford. Senator McCollister.

**McCOLLISTER:** Thank you, Chairwoman Linehan. Can you characterize the winners and losers, as in the remarks that you just made?

**BRYCE WILSON:** Is-- are you asking is there a certain group of schools that--

**McCOLLISTER:** Yeah.

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**BRYCE WILSON:** No, not that I-- not a comparison that I have necessarily drawn. So it is not, I would not say it's just a--

**McCOLLISTER:** It's just the vagaries of their particular school district.

**BRYCE WILSON:** There's, there's so many factors that influence as far as like levy. You know, if you're a district, so if you're a district, a smaller district that has all kinds of levy room, you're gonna be a winner because you can keep, you know, even though they reduced valuations, you can continue to raise your levy because you have, you know, if you're at 60 cents, you have another 65 cents-- or 45 cents, you can go to get up to the \$1.05. And any state aid that comes in is just a bonus. If you're a small district at \$1.05 and you have a lot of ag land, your property tax asking is going to go down. TEEOSA should go, goes up. But in some cases it more than covers and some it doesn't. It just depends on the ratios there. So it's, it's not a, it's not a big schools win, little schools win, or vice versa. It's mixed.

**McCOLLISTER:** Thank you.

**LINEHAN:** Thank you, Senator McCollister. Senator Groene.

**GROENE:** One more clarification. Bryce, thank you. We've had this conversation over and over again. On the unused budget authority, the way it's set up now, could you explain to the committee why there are some flaws in it and what the motivation is? Because the Legislature in the past put that 2 percent that there's a motivation to budget unrealistically. I mean, it's not illegal. Could you explain why a reset would be a good-- you don't have to take a position on a reset, but why, why we have a problem with the way unused budget authority is set up now?

**BRYCE WILSON:** So I will describe how what happens now. When leg-- when, when the law was changed to limit the access to unused budget authority, what happened was the budgets were amended to increase their full amount of expenditures into their total budget disbursements and transfers on the budget document that's required. That way their, the unused budget authority essentially pool was gone for a lot of districts. That, it happened. Over time, what they've had to do to, to protect their access to budget authority is they continued to budget additional expenditures into their budget. They're not spending anything more because they have an offsetting revenue, so

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they're not increasing their tax asking or spending anything more. So a lot of times what you see in a lot of districts is a very significant-- they're budgeting significantly more than what they're actually spending and they're doing that to protect the access to that budget authority. Otherwise, right now, they could only, if they, if they hadn't done that, they only would be able to access 2 percent of their general fund budget of disbursements and transfers of that unused budget authority. So if they had, you know, if you had a district that budgets \$4 million of disbursements to transfers and they had \$1.5 million of unused budgets authority, if they didn't include that, they'd only be able to access about \$200,000 of that unused budget authority, as opposed to being able to access the full \$1.5 million if they ever needed to. So most of them have carried that forward for many years.

**GROENE:** So by resetting it to zero and then getting rid of that 2 percent, the goal would be that business managers of schools just say, hey, I don't have to play this game anymore. I can budget to what is realistic because now I have excess next, next year I have access to all that unused budget authority?

**BRYCE WILSON:** Well, the reset would take away a lot of the excess they have, or what the cushion they have in their budgets right now. For some districts, it would be a significant loss of budget authority. Taking away the 2 percent requirement does-- would allow them to not have to budget, inflate their expenditure budget anymore and still have the access to it if they ever would need it. So essentially you have a district that's spending less than they-- if they're not up against the \$1.05 levy, they're spending less than they could be spending. And then we're saying we're limiting their access to that budget authority they're not using right now. Now if they're up against the \$1.05, they have a different, they have a different problem. They're not going to be able to spend that budget authority anyway because they're limited on resources.

**GROENE:** So statement, but probably the reason for many of the GNSA schools and the bigger schools we didn't hear any complaint about resetting the budget authority because they can't reach it anyway, because they're all at \$1.05.

**BRYCE WILSON:** Not all of them, but a lot of them, budget authority is not their issue. It's the resource side.

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**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions? Yes? That's OK.

**BRIESE:** Just briefly. Thank you for being here. You heard the discussion earlier about school spending in the aggregate, 3.1, 3.2 percent. You heard the discussion about the outliers to that. What effect does unused budget authority have on the incidence of those outliers? I mean, the unused, the unused budget authority, is that the reason a lot of these outliers are happening?

**BRYCE WILSON:** That's part of it. I mean, that is that they would have to have the budget authority to be able to increase their spending. So if you're talking about the district that just all the sudden increases their spending 10 or 12 percent, it may be because of that, but it also could be because they had some kind of change in their district. Maybe an influx of poverty or LEP students, that could push the formula need up, which would give them a big boost-- could give them a big boost in their budget authority as well. So even if you restrict budget authority down and reset it, a district that had some kind of, you know, student growth or some factor in there that necessitated a budget growth would have that formula needs piece kick in and they could still end up with it looking like an outlier as far as a big bump some year.

**BRIESE:** But resetting the authority would reduce the number of outliers that we see on charts like this, probably?

**BRYCE WILSON:** There would definitely-- there are definitely some districts that that would be a significant tightening down on, yes.

**BRYCE WILSON:** Thank you.

**LINEHAN:** Thank you, Senator Briese. Any other questions from the committee? Very nice of you to be here. Thank you very much. Do we have any other people wishing to test-- no, you can come on up. Come on up. I'm just seeing if there's anybody else.

**JILL WOODWARD:** Didn't know if it was my turn, Chairwoman.

**LINEHAN:** If you're going to testify, can you move up front so we can kind of see what's going on here? Go ahead.

**JILL WOODWARD:** It's been a long afternoon, I can tell by the looks on your faces. So I'm going to keep it short and, I hope, somewhat sweet.

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I'm, my name is Jill Woodward, J-i-l-l W-o-o-d-w-a-r-d. I live in the Elkhorn area. However, I'm fortunate enough to own a little piece of dirt in the Sandhills, actually sand, you know. Sorry, I hear my accent coming out. I'm multilingual, so just bear with me. It's not the world's best kept secret anymore. I appreciate that we are receiving some property tax relief. However, I believe that we are not getting enough really fast enough. The taxpayers are getting impatient. And the real estate taxes I'm paying on my home in the Elkhorn area and also my ag property in the Sandhills are too high. They continue to go up and up and up. It's keeping me from doing some improvements on my ag land that I would like to have. I wasn't planning on testifying this afternoon, so forgive me, I'll try not to ramble. I'd like to do some improvements, such as replace my line shack that got remodeled in 1972, I believe it was. Yeah, because I have orange carpet still. So that sets us back and tells our age, right? The property taxes are not allowing me to do it. I'm an entrepreneur. I'm starting another business. It's going to take a little time to get it going, but that's OK. I know how to work hard, I grew up in a family business. In fact, part of it was real estate, part of it was in-- It's a joke. My dad, I said, Dad, you're a joker. He said, what? We had-- my parents started a business from scratch. Three little kids, six milk cows. Sorry, I'm missing my dad. And we'd go on vacation-- I wasn't going to do this. And by the time I was in junior high, you know, the guys are loading the trunks up and all this stuff. And my dad was always at a loss for words. Anybody who knows Alan Woodward of Broken Bone knows that's not the truth. And I'm joking. Thank you. I was helping my mom pack everything up, and I think I grew up a lot like you, Senator Linehan. I'd be helping my mom get my little sister around, set her in my-- I'd overhear my dad one time when we were in the mountains and, oh, they start talking, loading. What do you do? What do you do? On my way running back in to help my mom, I heard my dad say, well, my wife and I have a little business in town. Oh, what's that? Well, it's insurance, mostly property and casualty. I sell a little life insurance once in a while. And I'm in the real estate business by myself and also with my brother, and then we farm and ranch on the side. Well, any of you who are entrepreneurs and/or grew up in a family business knows that on the side sometimes keeps you so busy you hardly know what day it is. And I'm proud of my parents. And we've got to do something because I hear people in the Sandhills, around Elkhorn, around Omaha, everybody. And I know people tend to complain, but our taxes are too high. It's not happening quick enough. I have some reduction ideas--

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**LINEHAN:** OK, I'm gonna have to hold to your light.

**JILL WOODWARD:** Thank you. The red is the warning? I'm a little--

**LINEHAN:** The red is the done.

**JILL WOODWARD:** But anyway, if you have questions, feel free.

**LINEHAN:** I think what you've said, their taxes are too high.

**JILL WOODWARD:** Yep, they are.

**LINEHAN:** Whether you're in Elkhorn.

**JILL WOODWARD:** Yeah.

**LINEHAN:** OK, thank you. Questions? Thank you very much for being here.

**JILL WOODWARD:** OK, thank you.

**LINEHAN:** Yes. I did grow up on a dairy farm. Good afternoon.

**JOHN HANSEN:** Madam Chairman, members of the Revenue Committee, for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, and I am, on behalf of my organization, neutral today. Our process and our organization is we have policy that we go by. And so when we have bills up, if they're such that the board can take a look at what the bills are, we have a board go for them. In the absence of that, if there's any question, I have my executive committee, my officers go through it and give guidance. And so, as it turned out, this week we had a board meeting Monday. And so all of the reasons that have been given by my partners and my friends in the ag community as to why it is that they're in support of this bill was offered and said, we can't turn our backs on the opportunity to get new additional revenue. If we can approximately double the rate of property tax relief that we're, you know, compared to what we have now, we can't walk away from that. They were very desperate about the need to have property tax relief. We've been on the trail a very long time. And on the other side, all of the arguments that have been made relative to the sustainability of the revenue source were brought up. I was asked a question, and they said, you've been doing this 30 years. Have you ever seen a major piece of legislation move that was, was opposed by the education community in block? And I said no. And they said, well, that's a problem, isn't it? And the problem is that they don't think that this vehicle in this shape is going to get 33 votes. And they want and they

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need 33 votes. And so their view is that the revenue source that is, is being considered to fund this from their viewpoint is all cards that are still in the deck. They're not cards that have been played, and so they're not known cards for sure. So they're still cards in the deck. And that that kind of thinking has got us into nothing but trouble ever since we passed LB1059. If we had an adequately funded what we intended to do, we wouldn't be here today. And so funding is not a minor issue. Our board was not convinced that we were going to be in a position to adequately fund this. And that if you have the the opposition of the schools to start out with, that we're not going to get to 33, probably not 25. And they want a bill that's going to pass. So that's the summary of how we got to a neutral position. Thank you for your time. Thank you for your work and all the things that you've done and all the things you're still fixing to do. And there's a lot of ideas yet on the table to discuss. Thank you.

**LINEHAN:** Thank you very much, Mr. Hansen. Do we have any questions?

**GROENE:** Just one.

**LINEHAN:** Yes.

**GROENE:** Are you going to encourage senators that you have influence on to get cloture vote on it.

**JOHN HANSEN:** If it gets that far.

**GROENE:** It will get that far. Thank you.

**LINEHAN:** Thank you very much. Thanks, Senator Groene. Any other questions? Thank you very much for being so patient.

**JOHN HANSEN:** Thank you.

**LINEHAN:** For being the last witness. Is it? Oh, yes, I'm sorry. Don't forget. We had-- that was the last, right? Anybody else want to testify? OK, so proponents. We have letters for the record, I'm sorry. Proponents: Robert Johnston, Nebraska Soybean Association; Mace Hack, the Nature Conservancy in Nebraska. Opponents: Troy Loeffelholz from Columbus Public Schools; Chad Messenger [SIC] from Millard Public Schools; Ashley Frevert from Community Action of Nebraska; Bary Habrock and Pam Roth, Elkhorn Public Schools; Christopher Prosoki, Southern Public School superintendent; Amy Behnke, Health Center Association CEO; Mary Kay Versen, Western Nebraska Community College; Annette Dubas, Nebraska Association of Behavioral Health

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Organizations; Terry Hoch, Bennington Public Schools superintendent; Tim Royers; John Heineman, Lincoln; John Clark; Terry Neddenriep; Halley Ostergard Kruse, Lincoln; Mary King, Lincoln; Rebecca Sanabel [SIC], Omaha; and Cindy Maxwell-Ostdiek, Omaha. Neutral: Jessica Shelburn, Americans for Prosperity. Should I close? Do we need to close? Close, yes. Thank you.

**FRIESEN:** Welcome back, Chairwoman Linehan, you're allowed to close on LB974.

**LINEHAN:** First of all, I should have said this up here. I'd really like to thank all the witness-- all the people who came to testify today. I think it's been very helpful and very informative. And it was a bad weather day, and it's not particularly great driving day. And I know many of them came many miles. So I really appreciate all their input. Just a couple things. I know we've talked about this, the Revenue Committee, but I want to get it on the record. I understand change always scares people. Change is scary. At least you might not like exactly where you are, but you-- when you have to go across the bridge and not know if you're going to like it better. So I get that people are, you know, concerned. As I said in the opening, we have some work to do because the increase in valuations from '18 to '19, the cost of the bill exploded, actually. So we've got to make some changes. And then trying to say, I think I actually left my notes up there. One of the things, and you've all seen this chart, but just to get it in the record, CPI may in fact not correlate to what schools can spend, but it does correlate to what people can afford. So if you look at inflation from 2008 to 2018 and you compare that to Nebraskans' median household income, they're very closely connected. So that we've got to figure out some way that we can have great public schools without burdening the property taxpayer to a point that they actually, it's above their ability to pay it or they're having to give up something else. So that's our challenge. I know we've all worked really hard on it, we're not quite there. But we've got to figure out a way that we can make property taxes in the state of Nebraska affordable for the vast majority of Nebraskans, whether they be farmers, ranchers, business owners, or homeowners. So I'll take any questions.

**FRIESEN:** Thank you, Chairwoman Linehan. Any questions from the committee? Seeing none.

**LINEHAN:** Thank you all very much for all your hard work.

**FRIESEN:** Close the hearing on LB974.