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Transcriber's Office

Education Committee
February 06, 2017

[LB144 LB265 LB571]

The Committee on Education met at 1:30 p.m. on Monday, February 6, 2017, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB144, LB265, and LB571. Senators present: Mike Groene, Chairperson; Rick Kolowski, Vice Chairperson; Laura Ebke; Steve Erdman; Lou Ann Linehan; Adam Morfeld; Patty Pansing Brooks; and Lynne Walz. Senators absent: None.

SENATOR GROENE: Welcome to the Education Committee public hearing. My name is Mike Groene, from Legislative District 42. I serve as Chair of this committee. Committee will take up the bills in the order posted outside the doors. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. You are the second house; this is your opportunity to...this is your hearing. To better facilitate today's proceedings, I ask that you abide by the following procedures. Please turn off cell phones and other electronic devices. Move to the chairs at the front of the room when you are ready to testify. The order of testimony is introducer, proponents, opponents, neutral, and closing remarks by the introducer. If you will be testifying, please complete the green form and hand to the committee clerk when you come up to testify. If you have written materials that you would like distributed to the committee, please hand them to the page to distribute. We need 12 copies of all committee...for all committee members and staff. If you need additional copies, please ask a page to make copies for you now. When you begin to testify, please state and spell your name for the record; please be concise. It is my request that you limit your testimony to five minutes. If necessary, we will use the light system. Green is four minutes; yellow, one minute remaining; red, please wrap up your comments. You will be asked questions by the committee in some instances. If you would like your position to be known but 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. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. Committee members will introduce themselves today beginning at my far right.

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

SENATOR GROENE: Senator Pansing Brooks has said she will be a few minutes late.

SENATOR KOLOWSKI: Senator Rick Kolowski, District 31 in southwest Omaha.

SENATOR EBKE: Laura Ebke, District 32, Jefferson, Thayer, Fillmore, Saline County, and a little bit of Lancaster County.

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SENATOR MORFELD: Adam Morfeld, District 46, northwest Lincoln.

SENATOR ERDMAN: Steve Erdman, District 47, about 80 percent of the Nebraska Panhandle.

SENATOR WALZ: Lynne Walz, District 15, which is all of Dodge County.

SENATOR GROENE: I'd like to introduce the committee staff. To my left is LaMont Rainey. He is the legal counsel, or the committee counsel. To my far right is Kristina McGovern. She is the committee clerk. The pages today are Alexi Richmond and Sam Baird. They are both University of Nebraska students, I believe. Please remember the senators may come and go during our hearing as they may have bills to introduce in other committees. I'd also like to remind other committee members to speak directly into the microphones. Also for our audience, the microphones in the room are not for amplification but for recording purposes only. Lastly, we are an electronically equipped committee and information is provided electronically, as well as in paper form; therefore, you may see committee members referencing information on their electronic devices. Be assured that your presence here today and your testimony are important to us and is critical to state government. We will start today with LB144 by...it's Senator Friesen. It's Senator Friesen's day in the committee. [LB144]

SENATOR FRIESEN: (Exhibit 1) It appears that way. Thank you, Senator Groene and members of the Education Committee. LB144 is just one of the first of three we're going to talk about today. But if you keep in mind some of the comments that I make and some of the facts and figures that I throw out will probably pertain to each and every one of the bills as far as the issue we're having with property taxes. So what LB144 does is in the TEEOSA formula, it's pretty simple, it just takes the resources and ratchets them down in the TEEOSA formula. It ratchets down the value of ag land down to 20 percent. And so what that does is it brings out, if you look at the fiscal note, it will bring down the...it'll provide state aid, equalization aid to eventually most of the school districts, though not all. There will still be some that do not receive state aid. In the calculations that we did last year, I think when we get down to in that 10 to 15 percent level, if we would lower ag land values down to that, that's when we would see every last school district in the state receive at least \$1 of equalization aid. So it's basically driven by the value of ag land ramping up over the years and, therefore, we have slowly moved equalization aid away from the local school districts to more into the larger schools who are not ag land rich. And so when you...the form that's been handed out, if we go through some of that, those are numbers that show the taxes paid by...show income tax and property tax off each side, and I'll kind of explain it a little bit. It lists Hall County first. And we're talking about the 2004 is the year I chose. And so if you go across there, this is from the Revenue Department back then. It shows your federal adjusted gross income. It shows the taxes paid and how many returns were filed and the liability per return, kind of an average number. And so if you go down, next line would be the

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farm and ranch, shows what they paid. They separate those returns out. If you're a farmer, you'll have a separate form that you must fill out. And so there it shows the same thing again, the number of returns and the number of returns that...before credits were issued, how many owed a tax yet. And so then you get to 2014 and it'll show you exactly kind of what the income tax in ag has done. And so you can see the change there. In the overall county, the income tax went up 118 percent. But on the ag returns, we saw 203 percent increase. And a lot of that were those good years we went through. When we were making money, we paid a lot of income tax and so, therefore, land prices skyrocketed and it drove the train, so to speak. This is where we're at today, only now today price of corn has dropped by \$3-4 a bushel from its peak. And so now we're going to be operating below the cost of production. But if you look at the 2014, and I can use...I'll use Hamilton County because I'm more familiar with that. But if you look at that, the average per capita income...or property tax that was paid by ag, it was around \$81,000. And to get to that number basically I took a different route to come up with about the same thing. But if you picture an average farm size in Nebraska, they're about 950 acres. And so if you take 950 acres and times...you know, we have property taxes ranging from \$40 to \$100-some an acre. I used \$80 an acre times that. It comes up to around \$80,000. And that's what these figures all ended up showing: that around that \$75,000 to \$80,000 was our property tax obligation in 2016. So it has really, has really gone up. And the thing I've always focused on when we talked about property taxes, I'm not concerned with what my county is charging me, I'm not concerned with what the NRDs are charging me. I think the services I get from those are commensurate with the tax. You know, and a few years--was it two years ago?--we heard a speaker from the...it was a professor at OpenSky who was from Illinois or somewheres. But he made the comment that property taxes should be levied commensurate with the services that property receives. And so that's kind of where I'm going with this bill. When I look at the county taxes and the NRD taxes and the other taxes out there, I mean, those services, I can justify paying those. I have roads and those types of services I have to pay for. The NRDs manage the resources; I pay for that. When it comes to ag land, the tie to education is not there. Obviously, we use a reduced number of people in agriculture since the last 100 years. We've been reducing our work force. Well, so it's just not a direct tie. So instead of going to zero, I've always said I'd start at zero and I'd negotiate. I'll go to 20 percent. I'm just, you know, trying to be nice. And so when I...when you look at the returns and what's happening in ag, you know, us as producers, we pay 100 percent of value on our homes just like everybody else; we pay on our bins and buildings like a commercial enterprise would do. And so ag land is the only thing that is separate and different from that. But if you look at...I've got a constituent from Central City. They're probably in their 70s. They own roughly 320 acres of ground. And so that was their 401(k), their retirement. They don't put money in the stocks and bonds like a person working in town does. They invest in land. And so now they're renting them out to a young farmer trying to make a start. And so the young farmer comes to them this winter and says, you know, if the bank is going to loan me money, I need you to lower your rent, otherwise, they're not going to give me operating money, I'm done, I'm finished. And so they were torn. They looked at their retirement income and the return they were

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going to get if they lowered their rent. But in the end, they lowered their rent. I'm assuming the producer is going to keep farming. But if you look at, if you take an investment of in ground and you take 160 acres, which is, you know, 950 acres is an average-sized farm, there is no such thing as being able to live on 160 acres, but you've got an investment. In our area, that land would bring \$9,000 to \$10,000 an acre. And if you take that dollar amount and you take it times a 2.5 percent return you can probably get in the stock market or somewheres if you're good, you can't get it, put it in a CD in the bank, you'll end up with \$36,000 of interest income roughly. But if you have the land and you rent it out, which take it times \$250 an acre which is a reasonable rent right now, it's not low, it's not high, you know, you'll look at a \$40,000 rent income, but then you have to take off \$13,600 in property taxes and you end up with a \$26,400 return on investment. So it's like a \$33,000...a 33 percent tax on average. So when we look at the agriculture industry as a whole, what this bill, all it basically does is it says that we're going to lower ag land as a resource in the TEEOSA formula. It'll still be taxed if they want to put a levy against it at the same rate or process that's used today. All this would do is bring out more state aid to schools. So with that, I'll probably try and answer any questions and... [LB144]

SENATOR GROENE: Senator Morfeld. [LB144]

SENATOR MORFELD: Thank you for coming today, Senator. Just a few different questions. One of the things that caught my attention is when you started talking about...and I wasn't there for the OpenSky, or maybe I was and I missed that part of it a year or two ago, but how the tax should be commensurate with the services we receive. So, for instance, I think you stated NRD, you get that it helps the property and the land, all of that, and then a few others. I mean, don't you think, though, that there's a connection between having high-quality public education in some of these rural communities and the ability to have an educated work force to provide the legal services, the medical services, the other types of support services necessary? So, I mean, don't you think that there is some connection between funding public education and ensuring that you have a community that can support farmers? [LB144]

SENATOR FRIESEN: Sure, there is some connection. I'm willing to go 20 percent on the land. I'm still being taxed at a higher rate. [LB144]

SENATOR MORFELD: Yeah. [LB144]

SENATOR FRIESEN: I'm still not...you know, even with the state aid, I'm still going to be contributing quite a bit of money towards education. This doesn't... [LB144]

SENATOR MORFELD: Okay. Yeah, I under... [LB144]

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SENATOR FRIESEN: This doesn't change it. It lowers everyone in that school district's property tax, not just mine. [LB144]

SENATOR MORFELD: Okay. [LB144]

SENATOR FRIESEN: The tax ratio amongst us would stay the same. [LB144]

SENATOR MORFELD: But you would agree, though, that your property taxes are going to a service that provides and helps support the ability to be successful in farming and have a community where people want to produce commodities. [LB144]

SENATOR FRIESEN: It does in a way but I mean as we...you know, as you expand the work force, agribusiness, I can, you know...if they pay tax, I understand that. [LB144]

SENATOR MORFELD: Yeah. [LB144]

SENATOR FRIESEN: They're the ones that need the educated work force, so to speak. [LB144]

SENATOR MORFELD: Yeah. [LB144]

SENATOR FRIESEN: My business itself, I mean, when I look at ag land, that's why I just look at it as we are being, I guess, taxed a little too high for what we're receiving out in the rural areas. [LB144]

SENATOR MORFELD: Yeah. [LB144]

SENATOR FRIESEN: We don't need that mass...we're actually sending our educated work force to Lincoln and Omaha to work... [LB144]

SENATOR MORFELD: Yeah. [LB144]

SENATOR FRIESEN: ...because we've lost population for the last 150 years. [LB144]

SENATOR MORFELD: Definitely. I understand. My second question is, okay, so more state aid, you know, Senator, from the outset, I personally agree that we have too much of a burden on property taxes for education. I don't disagree with that. I think where the rub comes in is where

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do we get the revenue then to make up for that. And so I hear a lot of folks, and I don't know what your position on this is, so...and we can talk off the mic later about this down the road, but we have a lot of folks that come in here and say, okay, well, we're going to get more state aid and more dollars into rural communities and by adjusting some of these things, like your proposal here today. And then on the other hand, they will adamantly always vote against any revenue shift in order to make up for that to help support my community, which is growing by 1,000 students, my district is growing by 1,000 students each year, which is bigger than 80 percent of the school districts total statewide the last time that I checked. And so, number one, as a threshold matter, I'm in support of reducing the burden on property taxes to fund public education. But what I won't do is support a proposal that doesn't come with some other types of revenue source to make up for that and make sure that large urban districts, like my own, have the resources necessary to also be successful. And so that's not really a question. So I guess my question for you is, okay, say we do this, what revenue source are you going to support to make up for the loss in some of the other districts that have maxed out their levy? [LB144]

SENATOR FRIESEN: Well, I'm...I look at it, I'm in favor of broadening our sales tax. [LB144]

SENATOR MORFELD: Um-hum. [LB144]

SENATOR FRIESEN: I'm looking at all the...all the options are out there. [LB144]

SENATOR MORFELD: Okay. [LB144]

SENATOR FRIESEN: I've not put any off the table. But you have... [LB144]

SENATOR MORFELD: Yeah. I wasn't saying that you were. [LB144]

SENATOR FRIESEN: But you have to remember, though, that there was a huge tax shift to start with and nobody was willing to step up and stop that. The tax shift occurred when...I think the numbers I used in 2014, because ag land values went up, TEEOSA was saved \$133 million. [LB144]

SENATOR MORFELD: Um-hum. [LB144]

SENATOR FRIESEN: The state would have had to come up with that money if we had not had that huge increase in ag land values. And so I picked up that tab. And if you want to add those years together, I mean, there's probably been a billion-dollar shift onto ag. [LB144]

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SENATOR MORFELD: Yeah. [LB144]

SENATOR FRIESEN: So all I'm trying to do is get the shift at least moved partially back. [LB144]

SENATOR MORFELD: Okay. [LB144]

SENATOR FRIESEN: This doesn't even address the whole shift. If we wanted to talk about the shift, I mean, most of my bills, I think the biggest one is probably \$600 million. But I think the shift was closer to a billion dollars is what's happened. [LB144]

SENATOR MORFELD: Okay. That helps me. Thank you, Senator. [LB144]

SENATOR FRIESEN: Thank you. [LB144]

SENATOR GROENE: Senator Kolowski. [LB144]

SENATOR KOLOWSKI: Thank you, sir. Senator, across the board with all three bills that are coming in this afternoon that are very high fiscal notes, very difficult to deal with within our budgetary time that we're having right now--and Senator Morfeld's comments about and your comments about balancing it out and doing some other things that needs to be done, needs to be looked at, and we need to get to that situation. Part of the issue with the school districts is the levy where they are sitting at the current time and compared to urban districts that were talked about and where they all might be within the Lincoln or Omaha area. Do you know how many of your districts are over \$1? [LB144]

SENATOR FRIESEN: In my legislative district, I don't think there's any schools over \$1, but right next to me there is a school that's \$1.05. [LB144]

SENATOR KOLOWSKI: Um-hum. So the majority of them are under that and some significantly under that depending on what part of the state you're in and where (inaudible). [LB144]

SENATOR FRIESEN: Some are significantly under that. [LB144]

SENATOR KOLOWSKI: Yeah, might be a 60 (cent) or a 70 (cent) or a 75 (cent). [LB144]

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SENATOR FRIESEN: There could be some school districts. I'll give you a good example. The York Public Schools districts is probably the best example that I know of close to me. They're at \$1.05 levy. I think their equalization aid has continually dropped until this last year. I think they got \$247,000 and so I think this next year they don't get any. They're at \$1.05 lid limit. Their property taxes on ag land exceed \$100 an acre and then you have the personal property tax on that. So you could theoretically be paying \$110-115 an acre in property taxes. And the school has got nowhere to go. They can't raise their levy. They get no state equalization aid. And this bill here won't even help them that much because they're not an ag land-rich district. And so then right next to them is Centennial Public Schools which the tax I think there is running right at \$40 an acre. So you have a difference of \$60 an acre across the fence line. [LB144]

SENATOR KOLOWSKI: Sure. [LB144]

SENATOR FRIESEN: And that's kind of hard to do business that way. [LB144]

SENATOR KOLOWSKI: But it points out the need for our examination, Revenue, Education, and Appropriations sitting down and working on this together as they are doing some things right now, but it certainly points out the challenge we have because we're not going to put all that burden back upon the metro areas in our districts in our state and yet we still have what you're talking about, what you presented to us. But we're certainly not going to meet those fiscal notes. That's not... [LB144]

SENATOR FRIESEN: I mean my bill does nothing to take money from any other district. I didn't even address anything there. I'm...I look at it... [LB144]

SENATOR KOLOWSKI: But the impact upon those districts is certainly there. We only have so much money in TEEOSA. [LB144]

SENATOR FRIESEN: Right. [LB144]

SENATOR KOLOWSKI: And we know where that's going to go and and where, you know, end up. [LB144]

SENATOR FRIESEN: Right, it would increase TEEOSA funding considerably. [LB144]

SENATOR KOLOWSKI: Um-hum. [LB144]

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SENATOR FRIESEN: And so I mean the bill is designed to go in stages. Obviously it can be amended to eliminate any portion of that and work its way lower as we have revenues, whatever. I mean there's opportunity there but it's just...in a way, it was the simplest way of just bringing down the resources end of it to bring more state aid into some school districts. But like the York school district, it wouldn't necessarily help it immediately. It would take more than that. [LB144]

SENATOR KOLOWSKI: I appreciate your adding to the conversation, whatever the affordability is. Thank you. [LB144]

SENATOR GROENE: Senator Linehan. [LB144]

SENATOR LINEHAN: Thank you, Mr. Chairman. Thank you, Senator Friesen, for being here. I want to just...I've been confused about this since I came back to Nebraska in 2012, because I remember 1990 very well and I remember LB1059 very well and the battle of that ensued and the whole idea was to get all the school funding off the property tax, especially ag land. So according to a history that I got that was written by Michael Dulaney, in 1990 we increased income taxes and sales taxes, sales tax a full 1 percent, so we could reduce the burden on property taxpayers. And it's my understanding, and I would like you to kind of...it worked for a while, but with the spike in ag prices, it's gone, shifted back heavily on ag land. And the people in my district that have ag land up there are mostly renters, they rent their property out, and you can't make it. I mean the price, what they're saying to me is the burden of the property tax per acre has come to a point where you cannot make the money work. Can you address that a little bit? [LB144]

SENATOR FRIESEN: Well, if you look at my cost of production, right now land tax would be the number-two largest item that I have to figure into raising a whole corn crop. Seed corn will cost me a little more than taxes, but otherwise all my other expenses are less than property taxes. So it has risen to a level that is unacceptable. I mean you just...bankers, the cash flow is not there. It doesn't work. And we have been...ag has been through these cycles ever since I've started farming and before that. We have our ups and downs and we just came through an unprecedented up market. I will probably never see one in my lifetime and my kids will probably have an opportunity once. It just doesn't come along that often. We will be...I...my prediction is we will have opportunity to have good prices down the road but it's strictly based on a weather event. We will never see a runup in land like this. [LB144]

SENATOR LINEHAN: Do you have an idea of how property taxes per acre in Nebraska, and I know why--it's because Tax Commissioner gave this to me--I think one of your Hall County...let me see. I just had it here. I'm sorry. Hall County is \$76, almost \$77 an acre; Dodge County,

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almost \$85 an acre; Adams County, \$62 an acre. But when it comes to Arthur, Arthur is at \$583; Banner is at \$732. So there is pretty wide variances across the state, too, right? [LB144]

SENATOR FRIESEN: Right. You get into...what happened to ag land is it peaked out first and when the corn market went down, ag land, the row crop farm ground went down. But cattle prices were really good, so grassland prices continued up for a few more years until that market crashed. And so you're seeing it in all segments of agriculture this time versus just one or another. It's pretty well across the board that we've got a problem. [LB144]

SENATOR LINEHAN: Do you have an idea of how our taxes for ag land, property taxes, compares to Iowa or Kansas, Colorado? [LB144]

SENATOR FRIESEN: I'm not sure about Kansas, but Iowa, I've talked and I've not...I don't have numbers in front of me, but I've heard they're around that \$18 an acre mark. [LB144]

SENATOR LINEHAN: That's what I've heard, that considerably less, both Iowa and Kansas. Thank you very much for being here today. [LB144]

SENATOR GROENE: Any other questions? You weren't able to calculate the 2004 per capita property tax? [LB144]

SENATOR FRIESEN: No. I would have...I was trying to find a way to do that. I would have had to basically go back and do a population count to do that on the...I didn't feel...I didn't feel... [LB144]

SENATOR GROENE: But you weren't able to find out how many total... [LB144]

SENATOR FRIESEN: I didn't feel comfortable using tax returns, I guess. They skewed the number. [LB144]

SENATOR GROENE: But your property tax number didn't come from tax returns; that comes from the county. [LB144]

SENATOR FRIESEN: Yes. I use a lot of data. There's a nice book out and I think you received it, all. It's called "Property Tax at a Glance by Counties" (sic: "Counties at-a-Glance: A snapshot of Nebraska counties across important policy indicators"). It was passed out earlier. [LB144]

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SENATOR GROENE: But in Hamilton County said you're familiar with a farm or ranch would be \$81,837, right, per capita? [LB144]

SENATOR FRIESEN: Yeah. [LB144]

SENATOR GROENE: But if you...I'm figuring that at 72 percent I'm...I'm assuming you're talking 72 percent because right now it's 69 to 75 depending on what the county assessor wants to do. [LB144]

SENATOR FRIESEN: Well, I was talking about the actual dollars collected of tax. [LB144]

SENATOR GROENE: Yeah. But I'm talk...your first year of your bill said you start at 72 percent. I'm assuming you took that number because that's an average because right now an assessor can do it from 69 to 70... [LB144]

SENATOR FRIESEN: Right. I didn't look at valuations at all. [LB144]

SENATOR GROENE: Right. [LB144]

SENATOR FRIESEN: I'm just looking at the dollars collected. [LB144]

SENATOR GROENE: So you would go from about \$81,837 at 72 percent to about \$22,700. [LB144]

SENATOR FRIESEN: Oh. No, this is not valuation that's listed here. This is... [LB144]

SENATOR GROENE: No, it says per capita property taxes. [LB144]

SENATOR FRIESEN: Right, but I'm lowering the valuation, the value of land. [LB144]

SENATOR GROENE: Understand, but if you lower the valuation, you also lower percentage of how much they pay. [LB144]

SENATOR FRIESEN: So, but it would be across all property sectors, not just ag. [LB144]

SENATOR GROENE: Yeah. Yeah. Oh, it would? All right. [LB144]

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SENATOR FRIESEN: Yes, because I'm not changing how ag land gets taxed. That, the ratio between ag and residential, would stay the same as it is now; it would just bring more state aid into the district to lower the levy. [LB144]

SENATOR GROENE: You're just not doing ag. But can you do that constitutionally, because ag is the only exception that you can... [LB144]

SENATOR FRIESEN: But it's...I'm...I think we can because we're not basing any taxes off of this; all it's doing is changing how it receives state aid, how state aid is measured, so. [LB144]

SENATOR GROENE: You're not changing valuation. [LB144]

SENATOR FRIESEN: No, not changing valuation, has nothing...it changes nothing in relationship to...other than lowers the school district's levy hopefully enough. For whatever state aid they receive, they would lower their levy in return and it would bring down property taxes for everybody in the district, not just ag land. [LB144]

SENATOR GROENE: All right. Thank you. Any other questions? Thank you, Senator Friesen. The first proponent, you're in line. Probably hasn't changed since you were a senator here: first up, first come. [LB144]

ED SCHROCK: (Exhibit 2) Good afternoon, Chairman Groene and members of the Education Committee. For the record, my name is Ed Schrock. I come from Elm Creek, Nebraska, but I am part of the Holdrege school system for the most part. Two years ago I had six grandchildren in the Holdrege school system; two of them are now at the university. [LB144]

SENATOR GROENE: Could you spell your name. [LB144]

ED SCHROCK: S-c-h-r-o-c-k. For the record, I'm in my eleventh year on the Nebraska Public Power Board. I'm not here on their behalf. I'm here representing myself. I did serve 14 years in the Legislature. That doesn't make me an expert, but I did sit on the Education Committee. I don't remember if it was six or eight years, but I was part of the committee when the unified district in Omaha was formed. Senator Raikes worked on that; I helped him, I think. One of the beauties of that was the levies were the same for the unified district and the resources for the inner-city schools were the same as for the urban areas. So I've got a little history here. And I'm not here to complain, but I would refer to that handout. If you would look at the chart at the bottom of the page, that's what I'd like to have you take a look at. As you see, the district that I'm in is Holdrege. Now a little history on Holdrege, Holdrege at one time had almost no ag land

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valuation. It was all wrapped up with four Class I school districts that were rather large. And I was one of those people who was dumb enough to tell my friends, if you're sending your students to Holdrege, that's where you should affiliate your land. We should have put it all in Loomis, created a lot of wealth in Loomis--we'd be running a 20-cent levy--and then opted our kids into Holdrege. So it's kind of painful when you take a look at Holdrege's levy which is 96 and we have districts around us that are 54 or 51, 48 and 53. Now I don't want my neighbors and friends in those districts to pay higher property taxes, but it hurts when I pay double the school taxes that they do. So I looked at some of the bills that are being introduced, and I'd like to thank Senator Friesen because I think this one might have some potential, some variation of it. I could be wrong, but so I like the Holdrege Schools district. The tax climate in Nebraska is not good for agriculture now. I did talk to my banker a week ago and he said about half of his ag clients are struggling, probably not making enough money to pay their personal expenses. Hopefully they squirreled some away when things were good. So that's where I'm at. I'd like to...I don't want to take revenue away from the urban areas. I understand how that works. But there has been a massive increase in ag land valuation which has distorted the formula. So it's not even...shouldn't even be called equalization aid anymore because it's not equalizing anything. And as you look at school districts with the lower levy, it's not their fault, but their cost per pupil is considerably higher and it's a function of their...they don't have the student numbers. So I'm asking you to try and do something to equal out these levies. Now, our state constitution says that the education of our students is the responsibility of the state, I believe. It does have a uniformity clause in it, probably does not apply to school levies, but it might. We are...a group of us in Holdrege are talking to attorneys. We may file suit, and don't take offense to that, but enough is enough. I mean, I wouldn't care if we were all paying high taxes. But when some aren't paying, that kind of grinds. So what else can I say? I drove down here in a five-year-old pickup. Did I tell you? I farm with two brothers, two sons, and a nephew, so I'm involved. I still run a planter, although I couldn't get the computer working on it last year and my son came up and helped me do it. And the first he did when he opened it up, he says, sir, profanity will not help. So I struggle sometimes. I still run a combine if they need me to; otherwise, I sit in the truck. What else can I say? Senator Morfeld, yeah, we probably need a little bit of a tax shift in this state. I will say "shift" happens, but I don't know if that's proper or not but I said it--it's too late. So but I don't have any answers for that. I'm here as your friend. Your job is difficult. I'm impressed that there's eight of you here. LaMont is the only one I really know because he was here when I was here, so it's good to see him. Having said that, I'll get out of your way. But we are frustrated. We are frustrated. I understand as tax climate goes, there's only one state in the nation that's worse than Nebraska when it comes to agriculture, and that kind of hurts. I came down here in a five-year-old pickup where I'm burning E85. That's probably the best thing we did when we were here in the Legislature when I was here is pass the tax incentives for ethanol. And half of the incentives came from the corn checkoff where the other states used general fund money. We didn't have General Fund money. We had to go someplace. But the 23 ethanol plants in this state really made a difference. Red light is on. [LB144]

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SENATOR GROENE: Thank you, sir. Questions? Senator Morfeld. [LB144]

SENATOR MORFELD: Thank you for coming today, Senator. And I appreciate your comments. And I understand you don't have any answers, but I'm going to ask every proponent that comes up on this bill is, where would you like me to vote to shift the taxes and increase taxes to make up for the hole that this is going to create? [LB144]

ED SCHROCK: Well, first of all, if you're not going to increase sales and income tax or broaden the sales tax base, do your best to try and make the burden equal. And I think that's what Senator Friesen is trying to do by lowering the levies. If you drop the levy to 40 cents, these small districts that are predominantly ag valuation, their levies would go up; their total tax bill wouldn't. Maybe Holdrege would get some state aid again. Six years ago, you'll read that Holdrege got \$2.9 million. Now I know the increase in student population has been in the urban areas. I think we're pretty static in that area. So... [LB144]

SENATOR MORFELD: So raise the sales tax? Raise the income tax? Which one would you do? I'm going to ask everybody as they come up. [LB144]

ED SCHROCK: I would probably broaden the sales tax base and it wouldn't bother me. When I was in the Legislature, I was part of the dirty 30 that voted to raise income and sales taxes. [LB144]

SENATOR MORFELD: Read the editorial. [LB144]

ED SCHROCK: I don't know if you remember that or not. [LB144]

SENATOR MORFELD: Yeah. [LB144]

ED SCHROCK: I voted for the sales and income tax increase. [LB144]

SENATOR MORFELD: Okay. [LB144]

ED SCHROCK: Two years later, we did away with those increases. I was the only senator that voted against decreasing the sales tax. Now I know Senator Chambers thinks that's regressive and that's a tough sell. But I would increase the sales tax, I would broaden the sales tax base. [LB144]

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SENATOR MORFELD: Okay, thank you, appreciate it, Senator. [LB144]

SENATOR GROENE: Senator Kolowski. [LB144]

SENATOR KOLOWSKI: Senator, thank you very much. Senator, thank you for being here today. Appreciate hearing the history and background of where you're coming. [LB144]

ED SCHROCK: I hope I haven't muddied the water, but you can see why...I don't...I think this is maybe the second time I've testified on a bill since I left. [LB144]

SENATOR KOLOWSKI: One of the things that we have all received information on that continues to concern a number of us were the exclusions that were given in the last ten years from 2006 to the last year for so many areas across the state. Lobbyists get to work, of course, on exclusion on something. It gets passed in a bill and we don't pay taxes on it any longer. It's probably a time where we need to look at that master list and put some sunset dates on things because that is killing us. [LB144]

ED SCHROCK: Well,... [LB144]

SENATOR KOLOWSKI: We don't have much discussion about that. We need to have the discussion on that. [LB144]

ED SCHROCK: Unfortunately, Holdrege isn't on the interstate so we haven't TIFed a lot of property in our area. So there isn't a lot of tax exempt property in our area. But that affects the values of these...that's just tax...if you take York, you take the Haymarket, that's off the tax roll. That affects the formula. [LB144]

SENATOR KOLOWSKI: For x number of years. [LB144]

ED SCHROCK: And I'm not against incentives. We need...I passed incentives when I was here on...for the electric industry, so the new project that NPPD has with the company out here at-- now I'm having a senior moment here, I'm 73 years old--out here at the electric plant southeast of Hallam. That was my bill that gave incentives for electric rates for new industry. [LB144]

SENATOR KOLOWSKI: How many years would that be for? [LB144]

ED SCHROCK: What's that? [LB144]

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SENATOR KOLOWSKI: How many years would that hold for, or does it eventually sunset?
[LB144]

ED SCHROCK: It's a five-year deal. [LB144]

SENATOR KOLOWSKI: Um-hum. [LB144]

ED SCHROCK: And then it's...then they pay everybody else's rate. And the electric rate can't be less than our cost of producing. [LB144]

SENATOR KOLOWSKI: Thank you, sir. [LB144]

SENATOR GROENE: Senator Linehan. [LB144]

SENATOR LINEHAN: Thank you for being here, Senator. It's nice to have you back. I know that the tax...I understand the conversation about tax shift. Do you think there is any, because you served on the Education Committee here with Senator Raikes, do you think there is, since you've left the Legislature, do you think there is any ability that maybe we could find some savings in school spending? Is all the spending... [LB144]

ED SCHROCK: You know, I have some friends who say, oh, they're spending too much money. If Holdrege cut its budget 5 or 10 percent, it wouldn't impact property taxes that much. Now I'm all for them cutting. But I also understand I've got four grandkids in there, so don't cut a program that my grandkids are using. You know how that goes? [LB144]

SENATOR LINEHAN: I do know how that goes, yes. Okay. Thank you. [LB144]

ED SCHROCK: I shouldn't ask you a question, but where are you from? [LB144]

SENATOR LINEHAN: Well, I grew up in Crab Orchard, Nebraska, on a dairy farm, but I live in Elkhorn now, but I have a lot of ag producers in my district. [LB144]

ED SCHROCK: Okay. [LB144]

SENATOR LINEHAN: And I have a lot of people who own ag land. [LB144]

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ED SCHROCK: Now I found that to be true when I was here. A lot of the urban senators came from rural areas. [LB144]

SENATOR LINEHAN: Thank you. [LB144]

ED SCHROCK: Thank you for what you do. [LB144]

SENATOR GROENE: Any other questions from the committee? [LB144]

ED SCHROCK: And I did sell... [LB144]

SENATOR GROENE: Sir. [LB144]

ED SCHROCK: I did serve eight years with your son, Senator Erdman. [LB144]

SENATOR ERDMAN: Thank you. [LB144]

SENATOR GROENE: Were you here in 1990 when they did the TEEOSA with Raikes? [LB144]

ED SCHROCK: I was here in '91 was my first year. [LB144]

SENATOR GROENE: Was it? So it went into effect in '91 then. [LB144]

ED SCHROCK: I was...I served 14 years. My first two were appointed. [LB144]

SENATOR GROENE: So you didn't follow the changes in TEEOSA over the years. [LB144]

ED SCHROCK: Oh, yeah, yeah. But I wasn't here at the beginning. [LB144]

SENATOR GROENE: All right, so I just wondered if you noticed... [LB144]

ED SCHROCK: I think if you... [LB144]

SENATOR GROENE: ...if TEEOSA looks anything like it was meant to be in 1990 right now. [LB144]

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ED SCHROCK: Something I'm going to...I have a good relationship with our school superintendent in Holdrege. [LB144]

SENATOR GROENE: Yeah. [LB144]

ED SCHROCK: I'm going to ask him to develop this chart and see what it looked like six years ago. But I can almost assure you six years ago the levies for all these school districts were about the same. [LB144]

SENATOR GROENE: Is Holdrege landlocked? Is that the problem? [LB144]

ED SCHROCK: What's that? [LB144]

SENATOR GROENE: Is Holdrege landlocked and doesn't have a lot of ag land in it? [LB144]

ED SCHROCK: Holdrege does have a lot of ag land but...so they're supporting more students. I mean the last three quarters of land that sold out there went anywhere from \$1.2 (million) to \$1.4 million. So we haven't seen ag land sales dropping off despite the fact. You know, the difference between a house and ag land, you can't make more ag land. If a house is too high, you can always go build another one. You can't create another quarter of land. And I think that's one of the reasons why ag land values are so high. [LB144]

SENATOR GROENE: Thank you. [LB144]

ED SCHROCK: My grandson wrestles at Grand Island Northwest. I might get to go see him. I'll...not going to stick around much longer. [LB144]

DENNIS RICHTERS: My name is Dennis Richters. I was born in the '30s so I've been in a lot of rodeos. You want to know how much older I am than that, you're going to have to carbon date me. [LB144]

SENATOR GROENE: Could you spell your name. [LB144]

DENNIS RICHTERS: R-i-c-h-t-e-r-s. I'm from Seward County working with a group called Nebraskans for Fair Taxation (sic: Nebraska Fair), ag oriented. [LB144]

SENATOR GROENE: Could you spell your first name also, first and last name. [LB144]

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DENNIS RICHTERS: Dennis, D-e-n-n-i-s. [LB144]

SENATOR GROENE: Thank you. [LB144]

DENNIS RICHTERS: I want to thank Senator Friesen, want to thank all of you that serve, because I'm sure you're not doing it for money. Takes a lot of time and I appreciate that. I was at a press conference recently about backing public schools. Senator Morfeld was there; Senator Pansing Brooks was there. Farmers have a reputation for not liking public schools. We are adverse to eating our young and paying a much bigger share than anybody else of education. When we have good times, we don't mind. But right now we're at...operating at a loss. My son is farming about 1,200 acres in three districts: Centennial, York, and Seward. The taxes vary tremendously which shows it's a ridiculous way to pay for education. He'll probably pay \$100,000 this year and next year \$100,000 or more. It's been going up. How long can you do that to any business, any businessman? Attorneys? Can you do it to grocery stores? Car repair shops? Who has reserves to do that? You know, and I've had people say, well, it's apples and oranges. No, sign a check. It's not Monopoly money. It's dollars. And you just can't keep doing this. Senator Friesen said didn't have numbers on Kansas. One of our group is Merle Nielsen, a retired professor of animal husbandry at University of Nebraska. He's got a friend down there and he stands by these numbers. A cow/calf unit, every area takes a certain amount of acres for them to exist for six months. In north Wichita, Kansas, the property tax on those acres is \$4.80. Around Dunning, Nebraska, it's \$60 per cow/calf unit. In Seward, Nebraska, it's \$90. How can we do this? I'm proud to be a farmer and to have survived the '50s and the '80s. But I borrowed \$100,000 recently. I can't borrow any more. I can't pass it on to my son because he's going to go down. So my...only thing I disagree with is property taxes should pay nothing. They put no pressure on the school system. They put...the only pressure they put on the county organizations, the county has to send out our bill. That's the only additional pressure. So I'm saying I...you were...Senator Brooks, you were quoted in the Lincoln paper about farmers have it pretty good, something to that effect. What if we taxed...what if you had to pay \$100,000 a year because you're a lawyer? See, we are outnumbered. There's 3 percent of us. And we can't move land. But we don't charge a blacksmith, for a hammer and an anvil, \$100,000 a year. He'd move; you would move. The Lincoln paper had in it about a farmer that spent \$80,000 a year. If you moved out next to him, or if Senator Morfeld did, you'd live right across the road, right beside him. That's \$80,000 more than you would pay, same school, the same road maintenance, the same police protection. How do we do that? And I have talked to...our group has talked to an attorney and this Unicameral is 26 people up the corridor from Lincoln to Omaha. I honestly don't expect any help on this. But if I...you know, any questions? I figured my quote should... [LB144]

SENATOR GROENE: Thank you, sir. Any questions? (Inaudible.) [LB144]

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DENNIS RICHTERS: On Senator Morfeld, his question to everybody is...I'm saying raise my sales tax; raise my house tax. We pay every tax everybody else does. Raise my income tax till we can pay the bill but where everybody pays the same. We...this is going to be a bloodbath out of agriculture that nobody has ever seen. My Governor is talking about 2 percent. It went up 170 percent, some cases 250 (percent). People just can't believe it's this enormous. [LB144]

SENATOR GROENE: Sir, had your family bought any land in the last ten years? [LB144]

DENNIS RICHTERS: No. [LB144]

SENATOR GROENE: So it isn't your fault, is it, if some (inaudible). [LB144]

DENNIS RICHTERS: No, and you have LB1031 where somebody in Sarpy County sells land to Walmart, they have to reinvest and save it. The first place they come to is the Ogallala Aquifer, Seward County, and then York County and Hamilton County--tremendous influence on the market. Old money could get 0 percent at our local banks, came out of the banks chasing land because they could get 4 percent. [LB144]

SENATOR GROENE: Sir, have you ever taken your children to the Henry Doorly Zoo?
[LB144]

DENNIS RICHTERS: Pardon me? [LB144]

SENATOR GROENE: Have you ever taken your grandkids to the Henry Doorly Zoo? [LB144]

DENNIS RICHTERS: No, I haven't. [LB144]

SENATOR GROENE: I just wondered if you... [LB144]

DENNIS RICHTERS: They've been there. I think their parents... [LB144]

SENATOR GROENE: Would you have minded paying sales tax on the tickets when you went there? [LB144]

DENNIS RICHTERS: I wouldn't. [LB144]

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SENATOR GROENE: I wouldn't think you would. [LB144]

DENNIS RICHTERS: And, you know, I've had where people wrote, well, I'm paying for tax here and wheel tax in Lincoln and other people use the streets. We do but we pay taxes here in Lincoln. We pay hotel room taxes. We don't mind that. But, you know, it's...a user should pay taxes. But this ought to come. [LB144]

SENATOR GROENE: Thank you. Anybody else? Thank you, sir. [LB144]

SENATOR PANSING BROOKS: I don't think I've asked one. [LB144]

SENATOR GROENE: You have one now? [LB144]

SENATOR PANSING BROOKS: Thank you for coming. I appreciate your coming. Clearly... [LB144]

DENNIS RICHTERS: And I would meet with anybody. [LB144]

SENATOR PANSING BROOKS: I'm happy to meet with you too. Clearly I have made some statements but I also followed them up with some explanations of them because I was having trouble getting some information regarding income taxes of farmers. So that was part, that was where the discussion... [LB144]

DENNIS RICHTERS: I'm sorry, would you say that again, please. [LB144]

SENATOR PANSING BROOKS: I was just clarifying that some of my statements previously had to do with the fact that I was not getting information from people regarding income taxes. So I am quite cognizant of the concerns of people in the western part of the state who own property and we have to be concerned about that, no question. But what my...the reference dealt with the fact that the property taxes, people are complaining about the level of the property taxes and then we can't get the information about the income. I'm concerned about people who are really hurting and there's no question that there are farmers that are really hurting. And so we need to discuss that and have a broader discussion of that as a state. So thank you for coming today. [LB144]

DENNIS RICHTERS: Yeah. I appreciate it. And again, I'll spend time with anybody. Thank you. [LB144]

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SENATOR GROENE: Thank you. [LB144]

SENATOR PANSING BROOKS: Thank you. [LB144]

SENATOR LINEHAN: Thank you. [LB144]

SENATOR GROENE: Next. [LB144]

JOHN HANSEN: Chairman Groene, members of the committee, good afternoon. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I am the president of Nebraska Farmers Union. We're the second oldest, second largest general farm organization in the state. We represent about 3,500 farm and ranch families and so our memberships are family memberships. I have been working this issue since 1990. I've been the president of Nebraska Farmers Union since 1990. I went through that process, school district by school district, as we tried to equalize valuations, Senator Linehan, in 1990. The folks whose valuations went down thought it was a good idea; the folks whose valuations went up hated my guts and everybody else who had anything to do with it. And so that was the general response. But the goal was, and it was a good goal based on the Syracuse study and all of the tax studies that we have done, is that we know the characteristics of the three different primary revenue streams; we know that income is the most fair way to gauge ability to pay; we know that sales tax really depends on how high the rate is and what you all include in the mix as to whether or not it's more or less regressive. And we know that in the case of land, that property taxes and those kinds of taxes are the least reflective of the ability to pay. The fact that you own property doesn't mean you make money; it means that you have a tax bill and that you own land. But that doesn't mean that you necessarily are making money. So we went through a process of trying to then increase income and sales taxes. We have covered a lot of ground since 1990 but we have not followed through really on that commitment in the last 18 years. We have slid backwards. And so if you take the cumulative average of sliding backwards a little bit year by year for about 18 years, then you see that all of a sudden you're not just a little bit over the line as you're going down the road, you're way in the ditch, and we're in the ditch right now in terms of tax policy. We're completely out of balance between the three different revenue streams. And in the case of production agriculture, numbers that are useful to the committee is that the Nebraska Farm Records Association--these are commercial operators, these are the folks that are active producers, their bookkeeping program, when I was farming I was a member of their group--so based on their actual numbers, if you're cash renting land, the 2015 data indicates that if you were cash renting land above and beyond return to labor management, you were losing \$100 an acre producing soybeans, and change, \$110 and change producing corn, and you were losing \$191 an acre if you were producing wheat. Well, the 2016 data will be worse because the cost of production didn't change from '15 to '16. But the cash market price for all three of those commodities have gone down substantially. So '16 is going to

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be worse. And so when I talk to bankers and when I get calls from my producers, I've already had three bankruptcy calls so far this week and we're talking about folks that are not just beginning farmers but folks that are in their late 60s, in their 50s, and so for the third year in a row we are below cost of production in the prices that we receive in the marketplace. And so the last three years we've been burning equity; we have been burning any kind of things that we have squirreled away. And so now based on the current tax laws...or the banking laws and the oversight laws, if you're not current with your loan, you're gone, even though you may have equity. And so we are struggling and so we have somewhere between 5 and 70 percent of the ag loans, depending on the part of the state you're in, that will not be renewed. So this is a crisis. So what can the state of Nebraska do to respond to this economic crisis, the worst one we've seen since the mid-1980s? Property tax is a substantial problem; it is an issue that then moves to the front of the line in our view. This simply must be addressed and we thank Senator Friesen for bringing this innovative approach to the committee for your consideration. Thank you and I'd be glad to answer any questions if I could. [LB144]

SENATOR GROENE: Senator Kolowski. [LB144]

SENATOR KOLOWSKI: Mr. Hansen, thank you very much for being here today. How many of your farms are corporate farms when you look at the incorporation of those individual families? [LB144]

JOHN HANSEN: It's hard to tell. We've got a lot of folks that use LLCs, limited liability corporations. So we, you know, instead of using, you know, S corporations, we're using LLCs in a lot. And so I don't know what the actual number is, but the ownership structure is overwhelmingly family farmers and ranchers. And so in my case, we use LLCs because it's easier and simpler than an S corporation. [LB144]

SENATOR KOLOWSKI: And how many of those probably use the LLCs? [LB144]

JOHN HANSEN: I would say a pretty good-sized number. [LB144]

SENATOR KOLOWSKI: The vast majority? [LB144]

JOHN HANSEN: I don't know if it's the vast majority. [LB144]

SENATOR KOLOWSKI: Okay. [LB144]

JOHN HANSEN: But it's a good number. [LB144]

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SENATOR KOLOWSKI: Okay, thank you. [LB144]

SENATOR GROENE: Senator Pansing Brooks. [LB144]

SENATOR PANSING BROOKS: Thank you. Thank you for coming, Mr. Hansen. I appreciate it. I am...you talked a little bit about your concern about sales tax and shifting it all to sales tax and that it would be better to increase income taxes. Is that what you're saying? [LB144]

JOHN HANSEN: Our state policy, which is my guide, supports more reliance on income because it's the best indicator of ability to pay, and it supports a broadening of the tax base. But it, you know, it really depends on...we don't support, for example, sales tax expansion on food because we think that's regressive. And so when you're looking at a sales tax on inputs for business, LB405 and LB406 several years ago got overwhelming opposition because it shifted the sales tax burden to healthcare, energy, and agriculture. And so that was universally rejected. So sales taxes, we've worked on three different efforts in the last 28 years, 27 years, to broaden the sales tax base. It's mighty dicey and you need to develop a fairly thick skin doing this because the folks that are going to be impacted are going to come in and tell you why it's such a really bad idea. And so it's...and that opposition is why we really haven't done it in my opinion. [LB144]

SENATOR PANSING BROOKS: Okay. Well, and of course raising the income tax when we have major groups in the state, right, that are trying to get rid of the income tax or significantly lower it is also dicey in that regard, right? [LB144]

JOHN HANSEN: Well, we do not support that. We think that's fiscally irresponsible and it's regressive. I mean we're running \$900 million and that number will probably grow and get worse. And so if you chip away at your income tax revenue base, I've been through multiple efforts to try to help work out compromises, legislative compromises and how you deal with that, and so when you're short of revenue, giving away more of your revenue base is probably not a good idea. [LB144]

SENATOR PANSING BROOKS: I would agree. Thank you. [LB144]

SENATOR GROENE: Senator Erdman. [LB144]

SENATOR ERDMAN: Thank you, Senator Groene. Thank you, Mr. Hansen, for coming. Back in 1990, if my memory is correct, their intention was one-third of funding for schools should

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come from sales tax, one-third should be 20 percent of the property tax in your community or your district, and the other third shall be income tax. Is that correct? [LB144]

JOHN HANSEN: Heading that direction was certainly the goal. [LB144]

SENATOR ERDMAN: All right. So we start out in 1990. And my understanding when I went back and read it, education cost about \$984 million in 1990. And when they did the first collection in '91 of the income tax, that 20 percent was a significant number. And if my memory serves me correct, today we're down about 2.5 percent or something; we're now using about 2.5 percent of the income to support education when, in fact, TEEOSA called for 20 percent. So I'm not a real historian but it appears to me, and maybe you can help me with this, we never, ever once give TEEOSA a...the TEEOSA formula, the way it was passed, a chance to work. Would you agree with that? [LB144]

JOHN HANSEN: I would agree with that. And if you go back and you look at that history, the ag organizations, the school organizations, business organizations, there was a coalition of about 67 different groups across the state who came together to support a citizens initiative. The LB411 and LB412 campaigns were all about trying to increase income and sales and take...adequately fund education while reducing the reliance on property. And those efforts were defeated. We ran into some very large pocketbooks in Omaha who ran some great ads against us. You'll remember the apple on the teacher's desk and the pleasant-sounding music that then got darker and darker and as the room turned, the back of the apple was a hand grenade. I gave whoever it is that designed that ad a lot of credit. That was a great ad. It helped defeat LB411 and LB412. And then in '98 the business community took their shot at it in LB413. The same groups came together and that effort was soundly defeated. So but we have never really moved forward. Our frustration is that we're certainly not antieducation and that's...my organization is not by any means. But when you have, by our math, when you have 69 percent of the schools in the state of Nebraska that are not getting any income or sales tax support, there is no equalization there; there is...you know, that is just a system that is broken. And so whether this is the bill or other bills that you'll hear that provide some kind of base funding for all schools, but, you know, when you have a lot of those taxing districts are primarily ag districts and they're losing money and their tax bills just keep going up and the state isn't putting any income and sales tax in, then, you know, where...you can look at the demographics of where we're at now and you know that something has to change. [LB144]

SENATOR ERDMAN: I was in a hearing last week when you were there, as well, and the question was posed to you: How much of a farmer's net income are they spending on property tax? Remember that question? [LB144]

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JOHN HANSEN: Yes. [LB144]

SENATOR ERDMAN: So then according to that information you just shared with us about 2015 and '16, the answer would be all of it plus \$100. [LB144]

JOHN HANSEN: Pretty much. And just a quick math, if you're a 1,000-acre farmer and, you know, that's...when I came to the Legislature, I farmed 1,500 acres so a 1,000-acre farm is not a large farm these days. So if you apply those corn and soybeans numbers to that and they're in a corn and beans rotation and you do the math, it's very simple math and they're in the hole \$105,000. So, you know, you're in the hole \$105,000. Look at the size of your tax bill. And you're either paying the tax bill directly or you're paying it to the landlord in cash rent, one way or the other. [LB144]

SENATOR ERDMAN: So last year when you heard the Forecasting Board say we were going to have an increase in revenue, knowing what you know about agriculture, how did that sit? Did it surprise you a little? [LB144]

JOHN HANSEN: I smiled. [LB144]

SENATOR ERDMAN: Yeah. I did too. [LB144]

JOHN HANSEN: I smiled but I had...you know, we were able to do the things that we were able to do in the last economic turn down because ag was making some money. [LB144]

SENATOR ERDMAN: Right. [LB144]

JOHN HANSEN: And, you know, we were able to avoid a lot of the worst of the turn down. But we've seen this coming for the last three years and unfortunately we have a surplus of both soybeans and corn. We have no mechanism in farm policy to be able to slow down production. We don't have mechanisms to isolate the surplus from the market. So my crystal ball is not very optimistic right now about getting out of this any time soon. And so we're certainly in a very tough place and we're likely to be here in a tough place for some time. And the revenues that the state is not getting in, is in no small part because ag prices are in the tank. [LB144]

SENATOR ERDMAN: Um-hum. Thank you. [LB144]

SENATOR GROENE: Senator Kolowski. [LB144]

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SENATOR KOLOWSKI: Thank you, Mr. Chairman. Mr. Hansen, you mentioned something just a few minutes ago: 69 percent of the districts...or schools, you said? [LB144]

JOHN HANSEN: Of the school districts in the state are not getting... [LB144]

SENATOR KOLOWSKI: Not schools but school districts of the state? [LB144]

JOHN HANSEN: Yeah. [LB144]

SENATOR KOLOWSKI: It would be better if you talked in terms of percentage of students. Can you translate that around? [LB144]

JOHN HANSEN: I don't know what those numbers are. [LB144]

SENATOR KOLOWSKI: I thought about 81... [LB144]

JOHN HANSEN: Yeah. [LB144]

SENATOR KOLOWSKI: ...percent of the students are in 45 of the school districts out of 245. [LB144]

JOHN HANSEN: Yep. [LB144]

SENATOR KOLOWSKI: Is that correct? [LB144]

JOHN HANSEN: Yep. [LB144]

SENATOR KOLOWSKI: Be helpful if you used students rather than number of buildings or number of districts. [LB144]

JOHN HANSEN: Yeah. [LB144]

SENATOR GROENE: Senator Linehan. [LB144]

JOHN HANSEN: And that's a fair observation but it's...you know, we're...populationwise, agriculture is also not a very...you know, our numbers are not very large and yet we're the largest

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single industry in the state of Nebraska so we're...it's...depending on whether you're making money or losing money, that's a good or bad thing. [LB144]

SENATOR GROENE: Senator Linehan. [LB144]

SENATOR LINEHAN: Thank you. It's good to see you again. How are you? [LB144]

JOHN HANSEN: Good. [LB144]

SENATOR LINEHAN: Good. [LB144]

JOHN HANSEN: Good to see you. [LB144]

SENATOR LINEHAN: I know you remember 1990. I don't remember 1999 and '88 cycle as well as you, but 1990, when we first passed LB1059, it was an increase, a fairly significant increase in income taxes and an increase in sales tax which was to offset property taxes. That's the way it was sold and bought by the Nebraskans. So can you understand why there is some skepticism now, when people talk about raising income taxes or sales taxes, to take care of property taxes? [LB144]

JOHN HANSEN: Well, we equalized the districts first and then we did the increase but, yeah, we...and so the increase came after the equalization. But as I remember it, and...well, yes, and so it's a...so as you look at the cost of education and those costs continue to go up, you know, we're...we've sort of hit a situation where those costs have kind of gone up and, instead of continuing to raise income and sales taxes to cover those costs, the default mechanism for being able to cover that increased cost in education has been automatically shifted by virtue of the structure of the formula, in our view, to property owners generally. And so that's all property owners. [LB144]

SENATOR GROENE: Thank you. [LB144]

SENATOR LINEHAN: Thank you. [LB144]

SENATOR GROENE: Do you...where was agriculture when they took the 20 percent away? You would have thought there would have been a filibuster on the floor. That was one of the basic things of LB1059 that was going to make property taxes...or income taxes go back to rural

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Nebraska. Why was that ever allowed to go to a set amount of \$105 million? Where was agriculture then? [LB144]

JOHN HANSEN: Well, I don't...I don't remember exactly...I don't remember that discussion exactly. [LB144]

SENATOR GROENE: It sure happened. [LB144]

JOHN HANSEN: Yeah. Well, and the cost of education in total has, and the demands we make on our school system and, you know, the changes in parenting and the economic situation of a lot of folks, we're asking our schools to do more but the costs are certainly going up. And so I understand the frustration and, you know, the frustration from a lot of rural folks is that in a lot of school districts we own a very high percentage of the real estate base by virtue of the farmland we own. [LB144]

SENATOR GROENE: In your... [LB144]

JOHN HANSEN: But we don't have the numbers. [LB144]

SENATOR GROENE: You don't...you can't...you're outvoted by a small... [LB144]

JOHN HANSEN: You're absolutely outvoted and outnumbered. And so, you know, the view is the folks in town have the kids and we have the land and it's a great system. [LB144]

SENATOR GROENE: And uh... [LB144]

JOHN HANSEN: That's their cynical view. [LB144]

SENATOR GROENE: Is that what's holding up consolidation is because the people in town outnumber the farmers, because I look at these small school districts and I'm wondering why are we building new gyms when you can't even fill the team, which I know there's a couple examples out there where they built new gymnasiums and they're already co-opting on the sports teams. Is it just madness or what in rural Nebraska that we're not consolidating? [LB144]

JOHN HANSEN: Well, we...there's lots of...there's...I've been through a lot of school consolidation battles in our own district and also in my position as president of Farmers Union. And there's just a...there's a real view on the part of a lot of people is that when you lose your

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school, you also lose your economic base, you lose your community, you lose your town. And so when...in order to get kind of halfway in between the farming ground that we had that was 25 miles apart, we moved to Elkhorn Valley when our kids got old enough to go there so that we didn't have to spend the entire day chasing kids, which is a lot of fun but you don't make much money doing that, is that I think there were a total of 14 different bond issues between Tilden and Newman Grove and the Elkhorn Valley system in order to get a new grade school built. And so when it finally passed, the remaining grocery store in Meadow Grove inside of six months closed. And so there's a lot of issues that go on there that...as far as consolidation because it's the community, it's the handiness, it's the identity, it's all of those things. [LB144]

SENATOR GROENE: Thank you. [LB144]

JOHN HANSEN: Thank you, and good luck. [LB144]

DENNIS SCHUSTER: My name is Dennis Schuster. I'm from southeast Nebraska, Pawnee County. I'm a retired farmer. I had a sale two years ago. [LB144]

SENATOR GROENE: Could you spell your name, Dennis? [LB144]

DENNIS SCHUSTER: S...oh, excuse me. D-e-n-n-i-s S-c-h-u-s-t-e-r. I don't have any prepared statement today or anything like that, but I was up here in the Bill Room getting some more bills and I thought I'd sit in on this. I think it's a very important discussion. We're talking TEEOSA. And, Senator Groene, I did a study two years ago and I got all the states...schools in the state. And this is a calculated system for 2015 and '16. I got all the schools in Omaha and that. And what I...we got 65,000 students in this state that do not get any equalization aid. And it's predominantly rural schools. Okay, you take that equalization aid. Last year amounted to \$863,000-some...almost \$864 million. That averaged out on 298,581 students, that averaged out \$2,895 per student. Well, you take that 65,000 students off of 298,581 students--and I explained this all last year at a committee--you got 233,000 students roughly that are getting state aid. Well, that...those 233,000 students, that brings their state aid up to \$3,600 per student. And predominantly that state aid is going to your Lincoln. I can show you every school in the state, every one and where it's going and that, and we got schools, like my school, the only equalization aid, the rural schools out here. Well, if you took that \$2,893 per student that these local rural schools would get in state aid, look what they would do to that mill levy, bringing it down some more. I'm for other ways of getting it but right here, the money is right here. If it was equalized right, we could alleviate some of the problems out here in the rural sector. And it's there; it's right there. But the reason it don't get done is the rural schools don't have lobbyists, like Lincoln--they've got their own lobbyists, Omaha has two lobbyists--and it don't get done because we're completely outnumbered. But this equalization, this TEEOSA, you said in '91 is

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when it started and it worked along fine until there was amendments here and amendments there and everything else was done to it. And this is some of the problem right here in rural sector. If we take this TEEOSA formula where these students would be getting state aid, we wouldn't have quite any...wouldn't sell at all, but we would not have had these problems in the rural schools if we's getting some kind of state aid. This, to me, it's a no-brainer, but it don't seem to fit. It don't seem to fit and I don't understand why. I'm going to make this short. I just...I've got a prepared statement for Wednesday's deal and that, but I just...I was here. I had these figures and I wanted to get out and explain it. Things can be done within the system but I don't think it'll get done. And I'll take any questions there is because I've got a lot of information I'd be willing to share. [LB144]

SENATOR GROENE: Thank you, sir. Any questions? Senator Erdman. [LB144]

SENATOR ERDMAN: Thank you, Senator Groene. When did you compile that information about the school? [LB144]

DENNIS SCHUSTER: That was two summers ago. I had a knee operation this summer so I was kind of laid up and I didn't get back up to bring it up to date. But this is facts and figures from 2015-16. I went up to Education Department and I went and got all this information. [LB144]

SENATOR ERDMAN: Could you share that with us? Could you get copies? [LB144]

DENNIS SCHUSTER: Yeah. I...this here, it's right there and I could show you...I can go school to school. It'll take me some time to do this, sir. [LB144]

SENATOR ERDMAN: But if you just had some copies made of that, I'd appreciate it. [LB144]

DENNIS SCHUSTER: Yes, sure. You'd have to...I'd have to re-explain it because I've got my scribblings on it. [LB144]

SENATOR ERDMAN: We can do that. [LB144]

DENNIS SCHUSTER: But what amazes me, Omaha, they're getting over half our state aid. And I can understand that's where the students are. But I got it broke down by school and student numbers what each one of them are getting. And we're not getting it out here in the rural sector. [LB144]

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SENATOR ERDMAN: I understand. [LB144]

DENNIS SCHUSTER: And that is one reason why property taxes are where they're at right now too. [LB144]

SENATOR GROENE: Thank you. [LB144]

DENNIS SCHUSTER: Any other questions? [LB144]

SENATOR GROENE: Any other questions? Senator Kolowski. [LB144]

SENATOR KOLOWSKI: Yes, sir. Thank you. Sir, when you said Omaha is getting half the money, you mean Omaha Public Schools or the 11 districts and the counties? [LB144]

DENNIS SCHUSTER: Omaha...the 11 districts, the Omaha community, what they call the Omaha community. They're getting about 40...I think...I won't say half, but it's a good 40 percent. [LB144]

SENATOR KOLOWSKI: They have one...the Learning Community has one-third of the students in the state. [LB144]

DENNIS SCHUSTER: But...I realize that. [LB144]

SENATOR KOLOWSKI: Thank you. [LB144]

DENNIS SCHUSTER: Yeah. [LB144]

SENATOR GROENE: Sir...any other questions? Does it really make a difference where a family or a student lives? Shouldn't they also get state aid and get some of their income and sales tax back? [LB144]

DENNIS SCHUSTER: Well, the state constitution states that every student...it's the state's responsibility to educate these students. [LB144]

SENATOR GROENE: No, that isn't what it says. Free instruction--it's a big difference. [LB144]

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DENNIS SCHUSTER: Okay, okay. [LB144]

SENATOR GROENE: It's up to the student to get the education. [LB144]

DENNIS SCHUSTER: Yes. Okay, the student. Okay, when we got rural students, my kids went to a rural school and that... [LB144]

SENATOR GROENE: Are you involved in the school district at all? [LB144]

DENNIS SCHUSTER: I'm a school board member. I got to be home by 4:30 for teachers negotiations. [LB144]

SENATOR GROENE: What's your top...what school district are you? [LB144]

DENNIS SCHUSTER: Lewiston. [LB144]

SENATOR GROENE: What's your top pay on your scale, teacher scale? [LB144]

DENNIS SCHUSTER: Top pay? Our top pay would be right around \$60,000. Our base is right around \$30,000. [LB144]

SENATOR GROENE: Why don't you compare that to Omaha and Lincoln and compare your administrator pay and find out there's more going on with the state aid than just where the dollars go. [LB144]

DENNIS SCHUSTER: What do you mean, sir? [LB144]

SENATOR GROENE: Lincoln is over \$80,000. [LB144]

DENNIS SCHUSTER: Right. [LB144]

SENATOR GROENE: Omaha is over \$70,000,... [LB144]

DENNIS SCHUSTER: Um-hum. [LB144]

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SENATOR GROENE: ...little over just \$70,000-something. So there's advantage to getting a lot of state aid. It goes back in... [LB144]

DENNIS SCHUSTER: But shouldn't we be getting something? [LB144]

SENATOR GROENE: Well, what I'm telling you: It isn't all about the poor children. Thank you. [LB144]

DENNIS SCHUSTER: No, it's not about poor children, sir. Our district is 31 on...I got those other figures too. [LB144]

SENATOR GROENE: I'm on your side. [LB144]

DENNIS SCHUSTER: Okay, thank you. Any other? [LB144]

SENATOR LINEHAN: Can I just... [LB144]

SENATOR GROENE: Go ahead. [LB144]

SENATOR LINEHAN: He represents my alma mater. I went to Lewiston. So thank you, Dennis. [LB144]

SENATOR GROENE: Next. [LB144]

DAVID GRIMES: Good afternoon. Thank you, Committee Chairman Groene and members of the Education Committee. My name is David Grimes, D-a-v-i-d G-r-i-m-e-s, and I'm here on behalf of the Nebraska Farm Bureau to testify in support of LB144 which reduces the value of agricultural land for the purposes of calculating state aid to schools. I'm a member of the Kearney County Farm Bureau and I live in Minden. The current value of agricultural land used to calculate local resources under the state aid formula is 72 percent. LB144 would reduce this value to 20 percent over four years. According to the Legislative Fiscal Office, this bill would increase state aid to schools by more than \$289 million over four years, taking us from 174 nonequalized schools...school districts, excuse me, down to 29. There is a common misperception that property taxes are a strictly local issue and that taxing authorities, including Nebraska schools, can simply cut budgets to reduce property taxes. While there are efficiencies to be found at every level, the reality is our current tax system is out of balance. Nebraska's K-12 schools receive 49 percent of their funding from local property taxes. The national average is 29

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percent. Local administrators are under increasing pressure from local taxpayers and they want to be responsive to the needs and concerns of their communities. Nonequalized schools, or the 174 schools which today rely almost entirely on property tax dollars, could use additional state aid generated from LB144 to reduce levies in an effort to lower property taxes. The Nebraska Farm Bureau believes that there is a lot of moving parts when it comes to a fair, balanced, revenue-neutral tax reform, and will have more opportunities to some more of these pieces and possible pieces later this afternoon. But Nebraska ranks 49th nationally in the percentage of state support for public schools while we have the seventh-highest effective property tax rate. We don't, of course, believe this is a coincidence. Nebraska Farm Bureau is here to advocate for a fair and equitable system of taxation in the state of Nebraska, a place where everyone is fairly taxed based on their ability to pay. We're not...and we are also here to advocate for a fair, equal, good-quality public education for every student in the state of Nebraska. Thank you again for the committee for taking your time to listen to us this afternoon. Thank you, Senator Friesen, for introducing this bill, and I'd be happy to answer any questions the best I could. [LB144]

SENATOR GROENE: Thank you, sir. Any questions? Sir, do you believe when you hear a politician say property taxes are a local issue when it comes to education? [LB144]

DAVID GRIMES: Absolutely not. Absolutely not. [LB144]

SENATOR GROENE: Does the state dictate? [LB144]

DAVID GRIMES: The state of Nebraska creates the system of taxation, the system that funds the government and the public services in Nebraska. Any significant changes in the system comes from the Legislature. [LB144]

SENATOR GROENE: So do you believe that if the state shirks its responsibility to fund public education in rural Nebraska, then they are the ones that dictate the high property tax rates? [LB144]

DAVID GRIMES: Absolutely, it's part of our system. [LB144]

SENATOR GROENE: Thank you. [LB144]

DAVID GRIMES: Things don't all... [LB144]

SENATOR GROENE: No, you can keep talking. [LB144]

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DAVID GRIMES: Thank you, Senator. Things don't always go according to plan. Things happen in the world and we all have to act and react to those things as leaders. [LB144]

SENATOR GROENE: Thank you. Senator Linehan. [LB144]

SENATOR LINEHAN: Thank you for being here today. I have a question. If more of the funding comes from the state, which I have empathy for that idea, then what...where does the accountability come in? Does some of the accountability shift to the state then, because if the state is going to pick up...well, here you said nationally that 70 percent of the money comes from the state. So does the state have more to say about what's going on in the schools, because it seems like if we're going to be funding them at that level, then there needs to be some accountability attached to that. [LB144]

DAVID GRIMES: I spent 13 years serving on the Raymond Central School Board--long story but I won't take time for all that now--but it was my experience being there that the local represent...and I believe in local control and Farm Bureau believes in local control. But I think the reality present is that much of what that local school board has to decide about most of what we work with is already narrowly defined by standards and by rules and regulations. I think we could absorb a lot more funding from the state at the local school districts without losing a significant amount of local control. [LB144]

SENATOR LINEHAN: But would you be adverse to more of a stricter accountability? [LB144]

DAVID GRIMES: I think there's already a lot of accountability in the local governments and with school districts. [LB144]

SENATOR LINEHAN: I know, local, but if you're going to get 70 percent of the money, and I don't know what the right number is but that's significant, 70 percent of the money,... [LB144]

DAVID GRIMES: Yeah, could you explain what you mean by accountability? [LB144]

SENATOR LINEHAN: Well, I think there would probably be some salaries, are they equal, retirement, who builds buildings,... [LB144]

DAVID GRIMES: It's interesting you bring that up. [LB144]

SENATOR LINEHAN: ...that kind of accountability. [LB144]

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DAVID GRIMES: Are you familiar with the CIR? [LB144]

SENATOR LINEHAN: I am and I have a copy of what's happened with teachers' retirement in the last 30 years. [LB144]

DAVID GRIMES: Yeah. And I don't want to come here and say that...teachers need to be... [LB144]

SENATOR LINEHAN: Paid? [LB144]

DAVID GRIMES: ...fairly compensated and we need to...and we have to be competitive with the rest of the country to get good teachers. But that's one thing that as a local school board your decision on salaries is limited by the teachers as an organization, locally and statewide, by their ability to...because they have quite a bit of leverage in negotiating on salaries, which is by state statute, controlled by you folks, because if a school needs to...gets to a point where they need to cut a budget or not increase a budget, usually about two-thirds to 70 percent of their budget is salaries. And if the professional staff isn't willing or isn't able to go along with those plans--in other words, if you still have to give a pay raise and if there's an impasse--the teachers, of course, have an ability to to come to the CIR, the Council (sic: Commission) of Industrial Relations, and to negotiate there and to bring those negotiations. So we always have that kind of hanging over us. And so it protects the rights of the teachers but it limited what we were able to do. Usually what happens if you have to cut a budget like at a school, you're not able to reduce salaries. That's just off the table. You just...that can't be done. So then you try to cut everything else which is a minor part of your budget, and much more difficult, or you start reducing staff and reducing the educational opportunities that your students can have. [LB144]

SENATOR LINEHAN: So let's use another example. What about a new gym? [LB144]

DAVID GRIMES: No, that's a community decision usually, because you'd have a pass a bond issue. [LB144]

SENATOR LINEHAN: Okay. But if you're getting 70 percent of your funding from the state, that's my point here. And I don't have...I'm not on either side. [LB144]

DAVID GRIMES: Um-hum, yeah. [LB144]

SENATOR LINEHAN: I just think... [LB144]

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DAVID GRIMES: I think I understand now what you're trying to get at, yeah. [LB144]

SENATOR LINEHAN: If you significantly shift the funding,... [LB144]

DAVID GRIMES: Yeah. [LB144]

SENATOR LINEHAN: ...which I understand, then where does the...what does that do to your local control? I just think it's a thing we...it's a question we have to consider through all these questions. [LB144]

DAVID GRIMES: And that's an issue I guess the Legislature would have to deal with. My opinion, would you like my opinion on it? [LB144]

SENATOR LINEHAN: Sure. [LB144]

DAVID GRIMES: Okay. And I have to speak for my organization. [LB144]

SENATOR LINEHAN: Yes. [LB144]

DAVID GRIMES: But the Nebraska Farm Bureau does believe in local control. I will say that we would not be adverse to some...probably some guidelines and standards when it comes to bond issues, because, as you know, school bond issues are paid for with an additional property tax as well. [LB144]

SENATOR LINEHAN: Okay, yes. Okay, thank you very much for being here today, appreciate it. [LB144]

DAVID GRIMES: Well, thank you for listening. [LB144]

SENATOR GROENE: Thank you, sir. Next proponent. [LB144]

KEN HERZ: Good afternoon, Chairman Groene and members of the Education Committee. My name is Ken Herz, K-e-n H-e-r-z, and I am here today to testify on behalf of the Nebraska Cattlemen in support of LB144. I'm a cattle producer from Lawrence, Nebraska, and also the chair of the Cattlemen's taxation committee. Property tax relief and reform are the top priority for Nebraska Cattlemen again this year. As property taxes continue to rise for farmers and ranchers across the state, so does the number of schools not receiving equalization aid. The

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majority of those schools are in the rural parts of the state and by reducing the value of agricultural land for the purposes of calculating equalization aid, the passage of LB144 would help bring more schools into equalization. Nebraska currently ranks 49th for state school funding. Consequently, the large majority of those dollars are paid from property taxes. LB144 provides a gradual reduction in state aid value for agricultural land, bringing the percentage down each school year until it reaches 20 percent for fiscal year 2021 through 2022. This approach would help reduce the reliance on property taxes to pay for school funding and help provide a more equitable pathway for all Nebraskans. Thank you. [LB144]

SENATOR GROENE: Sir. Questions? Senator Erdman. [LB144]

SENATOR ERDMAN: Thank you for coming. As your producers are paying their property tax on their ranches, what do they pay per cow? You have any idea what it costs them per cow for their property tax per cow unit? [LB144]

KEN HERZ: No, I don't, but I know it varies quite a bit between different parts of the state and I think there was testimony earlier about how much property tax there was per cow, but I don't have that, no. [LB144]

SENATOR ERDMAN: In your ranch, how many acres does it take to run a cow? [LB144]

KEN HERZ: Oh, on our particular operation, we're south-central Nebraska, about 6.5 acres per cow. [LB144]

SENATOR ERDMAN: Okay. The reason I ask that question, when I was a county commissioner we had several people come in and protest their value and they would be a cow/calf operation which would keep their cows year-round on the ranch. It would take an upwards of 22 to 25 acres per cow year-round. They were spending over \$100 per cow on property tax. And when they told me the most expensive thing we pay out of our pocket is property tax per cow, something is wrong with that picture and I'm sure that's the same it is in your district. [LB144]

KEN HERZ: Yes. I'm...yes, I would agree with that. [LB144]

SENATOR GROENE: Sir, has your levy, mill levy for education, continually gone down? [LB144]

KEN HERZ: The levy? [LB144]

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SENATOR GROENE: Yeah. [LB144]

KEN HERZ: No, it has not. My valuation... [LB144]

SENATOR GROENE: I'm not talking about your tax dollars, your levy. [LB144]

KEN HERZ: I'm talking about the levy. [LB144]

SENATOR GROENE: So you're equalized district? [LB144]

KEN HERZ: We're a nonequalized district. Two years ago my valuation went up 27 percent. The levy stayed the same. [LB144]

SENATOR GROENE: So... [LB144]

KEN HERZ: So my taxes went up 27 percent. [LB144]

SENATOR GROENE: Right. I guess I'll...because the question I see, I hear about this levy argument, has your taxes ever gone down? [LB144]

KEN HERZ: They... [LB144]

SENATOR GROENE: Per acre, dollar amount. [LB144]

KEN HERZ: No, they have never gone down. [LB144]

SENATOR GROENE: Haven't gone down, but your levy has if you're not equalized. [LB144]

KEN HERZ: But the levy has gone down a couple times. [LB144]

SENATOR GROENE: But your dollar amount you pay never went down. [LB144]

KEN HERZ: Dollars of taxes paid every year continues to go up. [LB144]

SENATOR GROENE: Have you ever seen what a mill looks like? [LB144]

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KEN HERZ: No. [LB144]

SENATOR GROENE: Have you ever paid a bill in a mill? [LB144]

KEN HERZ: No. [LB144]

SENATOR GROENE: So do you judge your taxes in dollars or mill levies? [LB144]

KEN HERZ: I judge my taxes by the amount of money I write on the check. [LB144]

SENATOR GROENE: Thank you. [LB144]

KEN HERZ: Thank you. [LB144]

SENATOR GROENE: Next. [LB144]

JERRY STAHR: Senator Groene and the Education Committee, I'm Jerry Stahr from York, Nebraska, J-e-r-r-y S-t-a-h-r. I'm an ag producer and I'm normally an introvert so I'm a little bit concerned being up here in front of all these people and facing you folks. [LB144]

SENATOR ERDMAN: Don't be. [LB144]

JERRY STAHR: (Laugh) But as I said, I'm from York County and right now we're up against our mill levy. I'm paying \$106 an acre on irrigated ground, so, and I was farming about 1,000 acres. I'm giving up a little. I have hit the retirement age and my idea was to use part of that income from the ground that I've been slaving over for the last 40 years to supplement that and I've lost about three-quarters of that in the last ten years. Our taxes have gone up about 200...well, as of last year, I don't have...I didn't get the new tax study, but they went up 288 percent in ten years. Now I know the Omaha folks have gotten their new tax statements and from what I understand they went up about 20 percent. Now if you could do that for about ten years in a row, then they'd be kind of in our ballpark. But it's alarming. And just like we said, if you farm 1,000 acres, whether you own it or you farm it for someone else, you're paying those taxes, directly or indirectly. So it's over \$100,000 in taxes, which seems to be a little bit over the top for one entity out in the country to do. Our school system, I love it and I'm 100 percent behind it. They have kept their spending under 2 percent for the last two or three years. I'm not exactly sure. Mike Lucas, our superintendent, he does a great job up there. So I'm not condemning the school district. Matter of fact, I'm 100 percent in favor of the schools. We've had five children go

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through them; they've all successfully went through the University of Nebraska and they have great jobs and they're contributing to society, which is what everybody wants. I guess, in my opinion, TEEOSA has some real problems. It's been, you know, pardon the term, but bastardized is kind of what has happened to it over the last 40 years...or 30 years here. I mean, by the amendments and the changes they've made in it, what happens is the field that used to be pretty level out there has gone away. We've got school districts, like I said, York is at \$106. If you go next-door, we're about half of that. We've got less than half of that, and then we've got about three-quarters of it. I guess what you want is it would be nice if you could pay the same taxes all the way across or at least be in line with the other people. That would be a start. But then to lower them a little bit would help us out too. So I am going to stop there and let you guys ask me questions and I'll try and answer them as well as I can. And, Senator Morfeld, I know you want to know about funding. You know, I think when TEEOSA came out, it was supposed to be a third, a third, and a third. And right now property taxes are almost 50 percent, income taxes in that 36 percent bracket, somewhere in that bracket, then sales tax is the one that's really lagging behind. And whether you can raise that, you know, I don't know if they, you know...what do they consider that tax, a...you know, it's a... [LB144]

SENATOR KOLOWSKI: Regressive. [LB144]

JERRY STAHR: You know, it's a regressive tax. Is that correct? I...you know, for us, if we couldn't afford to pay the sales tax, we just didn't buy it when I was a kid, I guess is kind of the way it goes. And that's the same way if you have a piece of machinery or car. If the sales tax is too high, maybe I'm going to have to wait a year, but patience isn't exactly in the newest generation around here I guess, or maybe in my generation, I don't know, but... [LB144]

SENATOR GROENE: Thank you. Any questions? [LB144]

JERRY STAHR: ...I'll stop and let you guys ask questions. [LB144]

SENATOR GROENE: Senator Morfeld. [LB144]

JERRY STAHR: Yes, sir. [LB144]

SENATOR MORFELD: Thanks for coming today, sir. And for being an introvert, you're doing pretty good, so, in terms of testimony, so I really do appreciate you coming. And I appreciate you addressing my question. I'm a pretty patient person, I think that, representing my generation, for the most part. We've had a long debate on the floor for the last few weeks, so maybe that can attest to it. But in any case, you know, and maybe I heard you wrong, but I think from an urban

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perspective, again, as a threshold matter, I think that we have way too much burden on property taxes for education across the state, so, not going to argue with you there. But from my perspective, in terms of making it equal with how much we pay, you know, with my home, which is not a very expensive home but it's a nice enough home, I can't make any revenue off that property and I pay that tax. And granted, it's probably a lot less than what you guys are paying overall in the big picture, but you guys do make some revenue when times are good, in particular, off that property. So don't you think that maybe the expectation is that you pay a little bit more because you're making a lot more off it? [LB144]

JERRY STAHR: Well, and we do. And like I said, I'm not adverse to even paying more income tax. In my opinion, we don't pay that much income tax. [LB144]

SENATOR MORFELD: That was one, okay, that was going to be my next question. Okay. [LB144]

JERRY STAHR: And I don't have a problem, I don't mind paying income tax... [LB144]

SENATOR MORFELD: Um-hum. [LB144]

JERRY STAHR: ...when you make income. But like I said, it's getting to the point where... [LB144]

SENATOR MORFELD: You're not making any income anymore. [LB144]

JERRY STAHR: No, the income is...well, and I think that's why our state is in trouble right now. [LB144]

SENATOR MORFELD: Yeah. [LB144]

JERRY STAHR: And, you know, even though people fail to really look at it that way and they've kind of left agriculture out of there because they seem to think that we don't do our fair share. [LB144]

SENATOR MORFELD: Um-hum. [LB144]

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JERRY STAHR: But it seems like ten years ago, when we were going into our good times, our state was going through some very bad times and it was agriculture that kind of propped us up at that time because our income was, and it was, it was quite high at that time. [LB144]

SENATOR MORFELD: Um-hum. [LB144]

JERRY STAHR: You know, and I...we already talked with one of my neighbors at that time that we were going to get in trouble as time went on because at that time the land prices were starting to ratchet up at that time and, well, unfortunately, it was a prophecy that has come true and I'd rather it hadn't. But like I said, I'd just like to get that playing field kind of level out there again. It's a tough thing and I know that's why you get paid the big dollars to be in our Legislature here (laugh). I apologize for that too. It's... [LB144]

SENATOR GROENE: Other questions? [LB144]

SENATOR MORFELD: Thank you. [LB144]

JERRY STAHR: I've voted for any increase you've ever wanted, so. [LB144]

SENATOR GROENE: Senator Linehan. [LB144]

SENATOR LINEHAN: This isn't so much a question. [LB144]

JERRY STAHR: Yes, ma'am. [LB144]

SENATOR LINEHAN: But thank you very much for being here. But I think in my district at Douglas County they haven't gone up 20 percent. I've gotten... [LB144]

JERRY STAHR: Okay. [LB144]

SENATOR LINEHAN: Many of them have gone up 100 to 200 percent, so property... [LB144]

JERRY STAHR: Two hundred, okay. [LB144]

SENATOR LINEHAN: ...tax is a grave concern in my district as well. [LB144]

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JERRY STAHR: Okay. [LB144]

SENATOR LINEHAN: But so is income taxes. [LB144]

JERRY STAHR: Yeah. [LB144]

SENATOR LINEHAN: So I think...I appreciate very much you said that our income taxes are...the income tax rate is keeping up with what originally the TEEOSA formula was. [LB144]

JERRY STAHR: Correct. [LB144]

SENATOR LINEHAN: It was...okay, I appreciate that very much. Thank you for being here. [LB144]

JERRY STAHR: Okay. No problem. [LB144]

SENATOR GROENE: Sir, you don't have to answer this question, but how many years in your life of farming have you and your...are you married? [LB144]

JERRY STAHR: Yes, sir. [LB144]

SENATOR GROENE: ...your family lived on \$106,000? [LB144]

JERRY STAHR: Have we lived on \$106,000? [LB144]

SENATOR GROENE: You paid your salary, your living expenses and things, \$106,000. [LB144]

JERRY STAHR: You're asking a hard question. It would be a lot less than probably... [LB144]

SENATOR GROENE: My point is, sir, you pay \$106,000 on your property. [LB144]

JERRY STAHR: Yes. [LB144]

SENATOR GROENE: You think many small businessmen pay more in property taxes than what their wealth is that they earn? [LB144]

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JERRY STAHR: I wouldn't think so. And personally, my mother is 93 years old and part of their...matter of fact, most of her retirement is on farm ground. And in the last four years she has paid off the quarter section that they bought in 1970 in taxes. So in those years, okay, \$400 an acre, but it was very hard to make \$400 an acre. We milked, we farmed, and it was a... [LB144]

SENATOR GROENE: Thank you, sir. [LB144]

JERRY STAHR: We groveled for every penny we got, let's put it that way. [LB144]

SENATOR GROENE: Thank you, sir. Thank you. [LB144]

JERRY STAHR: Um-hum. Thank you. Appreciate your time. [LB144]

SENATOR GROENE: My assumption is that these bills are very similar, everybody is not going to repeat the same thing, so we're going to let everybody say what they want to say on this first one, but let's try to keep our answers and our questions, including me, not to lectures. [LB144]

MICK MINES: Thank you, Senator. [LB144]

SENATOR GROENE: Thank you. [LB144]

MICK MINES: (Exhibit 3) Thank you, Senator. My name is Mick Mines, M-i-c-k M-i-n-e-s. I'm a registered lobbyist for the Nebraska Corn Growers Association. I'm here in a "me, too" capacity. We support LB144. We commend Senator Friesen for bringing this bill. It's a big, big move to introduce a bill like this. It's a dramatic move and we as an organization understand that this is only one component of tax relief for all Nebraskans. We understand that this is going to be a hard one for this committee to advance, but we hope it's part of the conversation. We need you, the committee, to understand that the agriculture community is hurting right now. These ag producers are nice people. They're soft-spoken; the gentleman that just was ahead of me, very kind. They are hurting and this is one avenue they have to come talk to people that maybe they can keep sending the message. If you knock around government long enough, like I have, you've heard this for decades. There have been traveling road shows by the Revenue Committee and the Appropriations Committee and the Ag...or the Education Committee for decades. The problem had...it just...as you'll say, kick the can down the road. That can is now a barrel. It's huge. And if you're a producer and in the agriculture community, you know that it's getting almost to the point of being desperate. You heard several mentioned lawyers. I've heard of ballot initiatives. I mean it's getting to the point where they're going to start kicking back and I...we commend Senator

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Friesen for introducing a bill that at least brings up the discussion, would make some solutions. And I'd be glad to answer any questions. [LB144]

SENATOR GROENE: Thank you, sir. Any questions? [LB144]

MICK MINES: Thank you. [LB144]

DOUG NIENHUESER: My name is Doug Nienheuser from York. I'm also an ag producer. I have nine grandkids that will all be attending public schools in Nebraska, and most of them in the York area. [LB144]

SENATOR GROENE: Would you spell your name? [LB144]

DOUG NIENHUESER: D-o-u-g-l-a-s N-i-e-n-h-u-e-s-e-r. We've heard a lot of talk here about ag today. I had my accountant put together a comparison between an ag business and a commercial business. We have a commercial...a farm business here bringing in \$1.113 million, compared to a commercial business bringing in \$1.185 million gross profit. When you get down here to property taxes, the farm business, again, if you're working on that 950 acres, we assume that each farm operation owns approximately 30 percent of their ag land that they farm and that's what this farmer here does, he is paying \$25,000, \$25,856, compared to the commercial business that's just paying \$14,115. You add in the ground that he's renting, that adds another \$47,000 there that the farm business is paying that a commercial business doesn't have to cover for. And ag is one of the state's greatest industries, along with kids, and I think they're both being heavily impacted by what's going on. And I think we need to start looking at ag and treating it like we do the other commercial businesses. Another good place to go to is Table 19 on Nebraska Department of Revenue's Web site. You look at that statewide, ag...or all residences are paying for around 45 percent of the total state revenue off property taxes. Then you go up, agricultural land is picking up 30 percent of that tab. We have no vote for that that 30 percent tab because we're already down there with all the residences on that 45. So we have no representation up around that 30 percent as to how it's spent or what we get to do with it. And from there I'll take any questions. [LB144]

SENATOR GROENE: You...it's a good point. On your home that you live in, that is valued at normal residential price and you pay normal residential property taxes on the home, do you not? [LB144]

DOUG NIENHUESER: Right. And then that will tell you right on Table 19 that that's included in the residential dwellings, all farm homes and land underneath of them. [LB144]

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SENATOR GROENE: Thank you. Any other questions? Thank you, sir. [LB144]

DENNIS SCAMEHORN: Good afternoon. Thank you for being here. Thank you for entertaining this group. My name is Dennis Scamehorn, spelled D-e-n-n-i-s S-c-a-m-e-h-o-r-n, a York County corn grower. My sons represent the fifth generation out in the same farming land. I'm just...I think you've kind of heard it all before about how agriculture is really in a bind here and things. I guess I would just kind of add to some things here just a little bit. When you come to ag land tax, I mean, we are paying a tax that no other business or commercial operation has. We are paying tax on our residence. We are paying tax on our commercial property, our shops, our pivot irrigation. The whole thing would be considered commercial so we are paying that tax along with everyone else. And I guess as far as the revenue source, Senator Morfeld, I would have to say that sales tax needs to pick up some of the...pick up the slack and also finding the exemptions in the sales tax, limiting those. And also this TIF financing, I mean, agriculture does not get TIF financing. So I think that's something that needs to be looked at. Ag dollars, I mean, if we were to take our ag tax, I probably pay \$87,000 a year in ag property tax. If you take some of that money back into the economy, I mean, every dollar that comes out to the farm goes back down that gravel road right to town, right into business. And it's been said that ag dollars turn over five to seven times in the economy. So take it from there. I guess I'm in support of LB144. Thank you for your time. [LB144]

SENATOR GROENE: Senator Erdman. [LB144]

SENATOR ERDMAN: Thank you, Senator Groene. You mentioned TIF. Are you asking for us to give agriculture TIF? [LB144]

DENNIS SCAMEHORN: No, no, no. (Laughter) That's something we don't receive, you know, as commercial businesses do, so, you know, that's something, you know, would be a source. I mean it kind of takes away from the local property tax, commercial property tax. [LB144]

SENATOR ERDMAN: So would you agree TIF is a tax abatement program? [LB144]

DENNIS SCAMEHORN: Oh, I guess I maybe don't quite understand that term. I mean they... [LB144]

SENATOR ERDMAN: In other words, those people have a TIF bond don't pay the taxes? [LB144]

DENNIS SCAMEHORN: They...it's a lesser percentage, isn't it? [LB144]

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SENATOR ERDMAN: Okay, thank you. I knew you weren't in favor of TIF. I was just...
[LB144]

SENATOR GROENE: Any other questions? Sir, you meet and talk to people who live in town in York too. [LB144]

DENNIS SCAMEHORN: Yes. [LB144]

SENATOR GROENE: I mean I understand York is landlocked and you've got a high mill levy.
[LB144]

DENNIS SCAMEHORN: Yes. [LB144]

SENATOR GROENE: Are your neighbors in town upset about their property taxes on their homes, too, and their businesses? [LB144]

DENNIS SCAMEHORN: I kind of think everybody is upset with property tax. [LB144]

SENATOR GROENE: I understand if you're sitting at the coffee shop and your \$87,000 trumps their \$6,000 on their house. [LB144]

DENNIS SCAMEHORN: Um-hum, um-hum. [LB144]

SENATOR GROENE: But I would assume they have a concern for that too. [LB144]

DENNIS SCAMEHORN: Well, I mean, I kind of put that into the league of no one likes taxes, you know. [LB144]

SENATOR GROENE: (Laugh) Thank you, sir. [LB144]

DENNIS SCAMEHORN: There's always that discussion that goes on, you know. [LB144]

SENATOR GROENE: Thank you. Any other questions? Any other proponents? We have, before we go to opponents, we have two letters of support: Nebraska Soybean Association for LB144; and the Greater Nebraska Schools...no, that's opposition. I'm sorry. Thank you. We will go to

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opponents next. Any opponents? Got that many big farmers in the room, I wouldn't say anything negative either (laughter). Any neutral testimony? [LB144]

MICAELA LaROSE: Good afternoon, Chairman Groene and members of the Education Committee. My name is Micaela LaRose, M-i-c-a-e-l-a L-a-R-o-s-e, and I'm the senior fellow at OpenSky Policy Institute. I'm here today to testify neutral on LB144. We strongly support this bill as an effort to reduce the overreliance of property taxes in the formula and we especially appreciate that it does so without shifting the burden from agricultural to other property owners or result in cuts in funding for any school district. With that said, we are concerned that given the current budget situation, if not fully funded, this proposal would necessitate reductions to existing TEEOSA aid and some districts will actually be harmed. We also would like to point out that while the proposal benefits highly agricultural school districts it does not ensure as significant benefits for every school district in which property taxes are a majority of their total revenue. And, while we strongly agree that the changes to the formula need to be made to address our heavy reliance on property taxes to fund K-12 education, we think this process should be undertaken in a comprehensive manner through a school finance review commission such as the one proposed in LB484. First, we support the efforts of Senator Friesen to address the overreliance of property taxes to fund K-12 education. As was mentioned, according to the U.S. Census Bureau, Nebraska is 49th in state support for K-12 education and we rank second in reliance on property taxes to fund K-12 education. Bringing us to the national average on state support in 2014 would have required an increase of state aid of \$552 million. Under this proposal, 220 of the 245, or about 90 percent, of school districts would have seen an increase in state support had this proposal been in place in FY '17. As a result, the average property tax levy could have been reduced 12.6 cents. Equalized school districts could have reduced their levies an average of 9.5 cents, while the nonequalized school districts brought into equalization under this proposal could have reduced their levies an average of 19.9 cents. Two equalized school districts would have received no increase because they have no agricultural land valuation, and 23 nonequalized school districts would have remained nonequalized and so would also not have received an increase in state aid. Statewide, agricultural landowners would have seen an average property tax reduction of 14.2 percent, while all other property owners would have seen an average property tax reduction of 3.9 percent. Second, we strongly appreciate that this proposal does not also reduce the taxable value of agricultural land for school districts. If taxable value were also reduced, residential and commercial property owners would see a tax increase as levies would increase to make up the revenue from the lost agricultural valuation. For those school districts that would receive an increase in state aid, the lost taxable valuation from agricultural land would prevent them from lowering their levies, while some districts close to or at the levy limit would be unable to make up the lost revenue and would have to make cuts. Because this proposal allows taxable value to remain at 75 percent of market value, LB144 would actually result in significant property tax relief for all types of property owners in most school districts. However, as I previously mentioned, given the current state of the budget, we are concerned

about whether or not this proposal could be fully funded without a corresponding revenue raiser. Already, the current biennium budget proposal does not fully fund the projected increase in state aid needed to meet the requirements of the formula as it is currently structured. We would be concerned that without fully funding this proposal with new dollars, cuts to other TEEOSA aid would be necessitated, which would result in a net loss of state aid for some equalized districts, most of whom are at or near their property tax levy limits. We would also point out that while this proposal would definitely benefit taxpayers in highly agricultural districts, it does not necessarily ensure that all school districts that rely on property taxes for the majority of their revenue but are less agricultural would benefit as significantly. For example, take Niobrara Public Schools and Blair Community Schools. Niobrara's property tax levy is 96 cents while Blair's property tax levy is \$1.06. Agricultural land is 73 percent of Niobrara's valuation, but only 19 percent of Blair's. However, property tax revenues were only 34 percent of Niobrara's total revenue, but 74 percent of Blair's. Therefore, under this proposal, highly agricultural Niobrara could have reduced its levy 54 cents while Blair, a district that is highly reliant on property taxes, could have only reduced its levy 14 cents. One way to better target aid to districts that are highly reliant on property taxes could be to broaden the definition of resources so that property wealth is not so heavily weighted. Including income more significantly in the formula by increasing the allocated income tax is one option. Finally, we would recommend working to address the overreliance of property taxes in the formula in a longer-term comprehensive fashion. The components of the TEEOSA formula are intricate and in order to avoid unintended consequences or negative outcomes, we think a thorough and detailed analysis of every option is needed. A school finance review commission would have the time and capability to review proposals in depth, to analyze their impact to individual districts as well as project out into the future. Such a commission would be able to compare all the options side by side to determine the best strategy to address the overreliance of property taxes while fulfilling the state's goals and commitment when it comes to school finance. Thank you for your time. I would be happy to answer any questions. [LB144]

SENATOR GROENE: Questions? Senator Erdman. [LB144]

SENATOR ERDMAN: Thank you for coming. [LB144]

MICHAELA LaROSE: Thank you. [LB144]

SENATOR ERDMAN: As you may or may not know by now, anyone that comes and testifies neutral when I'm here, I have a difficult time understanding what neutral is. When you first started out, I thought perhaps you were in support and then as you finished up I'm not sure where you are. But you're referring to LB484 which is a commission to review what we do? [LB144]

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MICAELA LaROSE: Um-hum. [LB144]

SENATOR ERDMAN: We are very, very good in this institution about doing commissions and task forces. And you know what becomes of those? Nothing. We did it in 1996. We have reviewed this same thing, 1988. We did it again a couple years ago. We've been talking about property tax relief for 40 years in this state, 40 years. Longer than you've been alive we've been talking about property tax relief. We haven't gotten one dime yet. So to have another commission doesn't make any sense to me. This formula that this bill that Senator Friesen has brought to us gives us an opportunity to make a decision today. Moving forward it helps us next year, not ten years down the road. Agriculture needs help today, not five years from now. By the time we do a commission and find out what they discover, it'll be too late for agriculture. So help me understand which position you have. [LB144]

MICAELA LaROSE: Well, in regards to the school finance review commission, I mean, the TEEOSA formula arose out of one and has been tweaked since. And so just knowing all the different components and how they interact, if you want a solution that's going to last long term and provide property tax relief, we just recommend doing it, taking the time to do it right. [LB144]

SENATOR GROENE: Senator Morfeld. [LB144]

SENATOR MORFELD: Are you aware of the Property Tax Relief Fund that we have? [LB144]

MICAELA LaROSE: Yes, property tax... [LB144]

SENATOR MORFELD: Do you know how much money that we put into that? [LB144]

MICAELA LaROSE: It's \$224 million. [LB144]

SENATOR MORFELD: So it seems like we are providing a decent amount of property tax relief. [LB144]

MICAELA LaROSE: Um-hum, it's...the way that it goes, the amount that goes to every citizen per amount is smaller than one would think because it's not as targeted but... [LB144]

SENATOR MORFELD: But the state is investing some in property tax relief despite... [LB144]

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MICAELA LaROSE: Um-hum, yes. [LB144]

SENATOR MORFELD: ...some of the comments that were just made here about there not being one cent. [LB144]

MICAELA LaROSE: Yeah, there is \$224 million in that fund. [LB144]

SENATOR MORFELD: Thank you. We always want more though, don't we? [LB144]

SENATOR GROENE: One more question. Maybe I'm wrong, but I thought the introducer said all property goes from...to 72 percent first, then the 50, then the 40. [LB144]

MICAELA LaROSE: Just in the formula, agricultural land valuation is reduced. [LB144]

SENATOR GROENE: Just ag, all right. Yeah, that's what I thought. [LB144]

MICAELA LaROSE: But because they can still tax at 75 percent, all property would benefit the lower levy. [LB144]

SENATOR GROENE: Yes. [LB144]

MICAELA LaROSE: Yes. So we're... [LB144]

SENATOR GROENE: So...all right. So it would shift to, like, the city, it would shift property taxes to the homeowners in York. [LB144]

MICAELA LaROSE: It would actually kind of pull them along, I guess. So you're reducing ag land valuation in the formula and then the lower levy benefits both, but just not as much on average. [LB144]

SENATOR GROENE: Why would there be a lower levy when there's less property coming in? [LB144]

MICAELA LaROSE: They're still taxing at the same amount in the formula. [LB144]

SENATOR GROENE: Yeah, \$1.05. [LB144]

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MICAELA LaROSE: For some districts. [LB144]

SENATOR GROENE: Yeah. [LB144]

MICAELA LaROSE: I guess... [LB144]

SENATOR GROENE: But what I'm saying, if...I'm playing devil's advocate here. [LB144]

MICAELA LaROSE: Uh-huh. [LB144]

SENATOR GROENE: If York is close to becoming unequalized, this would trap them at \$1.05 because they lost a lot of their valuation. [LB144]

MICAELA LaROSE: No, they would actually get an increase in state aid because the formula would reduce their valuation. And then they can still tax at 75 percent, so they would be able to lower their levy. [LB144]

SENATOR GROENE: Curt is going to have to explain that to me. [LB144]

MICAELA LaROSE: Okay. [LB144]

SENATOR GROENE: Thank you. Any other questions? Or "Senator Friesen"--more respectful. [LB144]

MICAELA LaROSE: Thank you. [LB144]

SENATOR GROENE: Any other neutral? Okay. [LB144]

MATTHEW EASH: Good afternoon, Chairman Groene and members of the Education Committee. My name is Matthew Eash; that's spelled M-a-t-t-h-e-w, last name E-a-s-h. And I represent my company, Nebraska School Finance Strategies, Incorporated, and I normally just testify in the neutral just to provide maybe just a little bit overview and perspective. I or my company does not really have any problem with these types of bills where it's designed specifically to provide what the proponents think is providing more equity to school districts who are in their opinion not receiving them. I don't disagree that there is some inequity in the equalization formula and it needs to be fixed and these would do it in maybe an indirect way. But the reason I'm in the neutral is because while I don't have a problem necessarily with attempts to

provide, you know, more on-the-ground equalization, so to speak, with state aid versus property taxation, the problem as we see it is that the TEEOSA formula itself is flawed and it creates these kind of problems from time to time. People have talked about the original intent of TEEOSA was to create that three-legged stool and that worked for a little while and then it started to shift back into reliance on property taxes again. That will probably happen again even if you were to implement...oh, and by the way, I'd like to testify in...because my comments are more general, for all three bills today if that's okay, rather than be redundant. But all of them would, they would shift or they would provide a lot of state aid to school districts who are currently not receiving that equalization aid. But again, the likelihood that they would...that would just morph back into more reliance on property taxes in the future is probable for the same reasons that it happened in the past. And that is because TEEOSA relies heavily on the concept of spending equals need. And while that economically is more of a circular logic when that's...that economic circular logic is the cause of the problem, as we see it, with the more reliance on property taxes. What happens is even though TEEOSA aid has gradually over the last 20-some years only grown at about 4 percent per year average, spending overall, state, with all the schools combined, also has only averaged about 4 percent growth per year. So on the statewide level, it looks like, oh, well, TEEOSA aid is keeping right in line and everything should be even. Well, that's not what's happened because the problem is that the urban schools, while they have sort of a fixed valuation, so to speak, they don't...they haven't been growing much, especially lately, and obviously we know that the ag valuations have been growing double digits for several years. What happens then is that that enables the urban districts to spend more, and they probably need to spend more. That's where the, you know, increase in population, student population is, so they need to spend more. But because of that, they're way away from that 4 percent statewide average. They're in the 10s and the 15 percent growth, whereas your rural schools, a lot of them are actually decreasing in expenditures forced by budget lids, to some degree. Some just, they have lowering populations; they don't need to spend as much. But because of that, you see the shift then in TEEOSA going all to urban schools because that's where TEEOSA says the need is. And because of that, then, you know, the formula kicks in, the formula resources kicks in, and that's why you have a dependency on the property taxes. The problem then is breaking that link between property taxation and as also the spending equals need. Those two things I don't know that you're going to be able to tackle obviously in this session or I don't see any bills to that effect. But any of these bills that Senator Friesen has brought forward, yes, they will provide temporary relief; they will give those school districts that are relying heavily on property taxes some relief but even in the short term, could be just a couple, three years depending on the economic conditions that persist. You'd be right back in the same situation you are a decade from now. So if there's any questions... [LB144]

SENATOR GROENE: Any questions? I have one. Senator Kolowski. [LB144]

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SENATOR KOLOWSKI: Thank you, sir. Mr. Eash, thank you for your comments and your testimony. What would happen over time then to per-pupil expenditures averaging out between districts and how much per the student? Where would that go? [LB144]

MATTHEW EASH: Well, I think...I think you're going to see the economies of scale being somewhat similar. I mean, yeah, the Omaha area, Lincoln area will be growing and growing and growing. But their economies of scale are probably maxed out. Now they can build a school pretty much on a predictable basis. They kind of know when...unless the economy changes. I mean we could experience economic withdrawal; we could experience a population shift; anything could happen. But based on what they currently have, they can kind of predict how many schools they need to build, how many teachers they need to hire. So their economies of scale are pretty set. It's the smaller schools who are losing population or staying stagnant. They're not quite sure what's going to happen from one year to the next. They don't know if they're going to need a new school. The new school that they do build will be just because one is getting too old, it's 50 years old or 60 years old. So they don't have nearly the predictability of their economy of scale in that particular...so you might see some shifting. I would say you'd see some shifting more in the lower population schools than you would up in the higher range, so in the... [LB144]

SENATOR KOLOWSKI: We received a notice or a form we were working off of earlier here today. And one example of that would be two districts, that list from the Holdrege speaker that we had, Minden and Axtell, being about five miles apart. It's kind of hard to understand why that hasn't happened as far as the consolidation, yet I have a daughter-in-law who came from Axtell. I know how proud they are of their district. And the 264 students in that district are proud of their district just like Minden, with 802, have the same pride in theirs. But they're five miles apart. We drive farther in the Millard district to get to one district...one school to another than they have between the two cities. I hope there would be some thought to, you know, lowering the excitement factor that goes with all of the things that happen with consolidation and think in practicality. But sometimes we worship a 1955 basketball in a trophy case and that kind of gets in the way. Thank you. [LB144]

SENATOR GROENE: Sir, before I forget, I appreciate...if anybody wants to testify for all the bills that they're having a comment, fill out the white forms for the other two so we can put your name into...as a proponent or opponent for the other two bills. But we really do appreciate you saving time by doing it once. The question I have on, let's say, these Minden, Elm Creek, Axtell, Bertrand, they're all under \$1, which is LER, limited (sic: local) effort rate. The first thing that would happen if we dropped the valuation in the formula was they would have to go up to \$1. Right? Their mill levy would have to go to \$1 because that's first in. [LB144]

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MATTHEW EASH: Well, no, not...you're talking if we were to drop it down to the, according to the merits of the bill,... [LB144]

SENATOR GROENE: The 20 percent. [LB144]

MATTHEW EASH: ...down to the 20 percent. Not necessarily, I mean, unless you make that a requirement, then if you make that a requirement,... [LB144]

SENATOR GROENE: (Inaudible.) [LB144]

MATTHEW EASH: ...they're going to raise so many property taxes they're not going to know what to do with them all. They won't need them. So you wouldn't want to make them charge at least \$1. [LB144]

SENATOR GROENE: Well, in the formula, the Department of Ed figures your local effort rate at \$1. [LB144]

MATTHEW EASH: Sure. But once you change the valuation down, then it looks like they don't have as much money. [LB144]

SENATOR GROENE: Yeah. [LB144]

MATTHEW EASH: Yeah. So, I mean, if they charge \$1,... [LB144]

SENATOR GROENE: (Inaudible.) [LB144]

MATTHEW EASH: ...if they were to actually charge that \$1, then they'd be flush with money and they wouldn't be able to spend it. You know, they could build a skyscraper high school if they wanted. [LB144]

SENATOR GROENE: No, they're charging that dollar on the new 20 percent not the original 72 percent of valuation. [LB144]

MATTHEW EASH: Right, but most of the school districts are not. Most of the school districts are not charging \$1 because they don't need the \$1. [LB144]

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SENATOR GROENE: If you're at a million dollars of valuation right now, the formula puts it at \$720,000 on ag land. [LB144]

MATTHEW EASH: Right. [LB144]

SENATOR GROENE: We're going to take it to \$200,000. You cannot multiply that times 0.5593 and come up anywhere close to the same amount of money you were bringing in at that levy at \$720,000. The levy has to go up first in the formula. [LB144]

MATTHEW EASH: Are you talking about the LER would have to go up? [LB144]

SENATOR GROENE: Yeah. [LB144]

MATTHEW EASH: Well, it would have to go up, yes, if you didn't want to pay what the fiscal note says you have to pay. You could raise the levy. You raise the LER and you could adjust how much is predicted to be paid. The fiscal note is accurate. If you leave the LER at the \$1 because they're using the current law, which is \$1, to do the fiscal note, if you were to leave it there, leave it at \$1, and then these school districts, let's just say a school district is charging 50 cents currently, now the...and let's say we're down the road and you're at the 20 percent valuation. Well, now it looks like that school district doesn't make nearly or doesn't come up with nearly the amount at that dollar LER, so then the formula says, oh, you need...then you don't have as many resources so we're going to give you all this need that you accumulated, we're going to pay you for that in state aid. But they wouldn't have to change their levy, their actual levy. Now if you didn't want to create that kind of a burden on the state budget, then, yeah, you would raise the LER which would decrease the amount that those school districts would get. [LB144]

SENATOR GROENE: Yeah. I'm still confused but thank you. [LB144]

MATTHEW EASH: And that's the basis of that LER. I mean it was really designed I think as a trigger so that if you needed to adjust a couple million or \$3 million or \$10 million at a time. [LB144]

SENATOR GROENE: No, it's how it's first in, it's first out. It's how all the 174 districts don't get any state aid because that \$1 LER times the valuation, they can create enough wealth to run their schools. [LB144]

MATTHEW EASH: Right. But I think the lowest it's ever been is 95 cents. [LB144]

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SENATOR GROENE: Yes. Yeah. [LB144]

MATTHEW EASH: So that would still affect most of the school districts. [LB144]

SENATOR GROENE: No. No, it's \$1, the LER is (inaudible). [LB144]

MATTHEW EASH: Well, I know but I think the lowest the LER has ever been is 95 cents in the history of TEEOSA. [LB144]

SENATOR GROENE: Well...oh, I see, the lowest it's been, yeah. [LB144]

MATTHEW EASH: Yeah. [LB144]

SENATOR GROENE: All right. Anyway, I'm just saying some of it's...I'm not going to argue now. We'll talk later with somebody in the Department of Ed. [LB144]

MATTHEW EASH: Sure. [LB144]

SENATOR GROENE: Thank you. Is there any more neutral? Before I forget, there was one...where did it go? Opposition, there was one letter of opposition from Greater Nebraska Schools Association to LB144. If there's no more testifiers, Senator Friesen, would you like to close on LB144? [LB144]

SENATOR FRIESEN: Yes, I would. I guess I'll probably just reiterate what the bill does. First of all, it only lowers the resources in the TEEOSA formula. That's all it does. It doesn't change anybody's taxable valuation. It lowers the resource number in TEEOSA which then requires the state, you can go to the fiscal note and it requires the state then to provide more state aid through the equalization because you've lowered the resources. The ratio on the taxable value between residential, commercial, and ag is going to stay the same, so they will be able to lower their levy. It will provide property tax relief for everyone in the district. One of the things that, I mean, listening to the comments and concerns, one thing you have to realize about the problem we have with ag land, too, is that I live in an area where I have land that's only six miles apart probably but it's located in three different school districts. I can only vote in one of those. So when they vote to do a bond issue or whatever, I have no say. I just have to write the check. In my area, approximately 68 percent of my property taxes go to fund schools. It varies across the region. So that's...it just depends on the property and how much ag land compared to commercial and residential property. When we talk about the number of students in OPS, Lincoln, I mean, they do by far have the majority of students. But if we continue to lose our population in rural

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Nebraska, we are going to get to the point where you're going to...we're going to have to subsidize more and more and more. And I sometimes feel our state tax policy encourages growth in the eastern part of the state because that's where we've grown the most and it's hard to grow rural Nebraska. But if we continue to hurt it with tax policy, we are going to continue to see kids moving to Lincoln and Omaha and you're going to continue to have to build more schools while we decline in population because we don't need...if we're just going to service the ag sector, we're being more efficient all the time. We don't need that population out there and eventually it will just get worse. So we have to find a way in our tax policy to try and grow rural Nebraska and I would hope we address that in all of our other tax policies that we do. If we don't get this reversed, we are just going to continue to see a decline in the number of people and then so we'll have student numbers in classes where they can consolidate. There's still room to consolidate. I will not deny that at all. We have school districts in my district that should consolidate. I'll say it. Do we want to force it? I don't know how we go about doing it. But there is room for consolidation. But out west, I mean, you're already having kids move 50 miles to go to school. You can't consolidate any further. Their student costs are high because they don't have the student numbers there anymore but you still have to teach them. So those are...when I...somebody mentioned if ag land values, you know, where the taxes had gone down. And we are providing more state aid than ever. But I will tell you, my taxes have gone up 180 percent, the check I write. And for the first time this year, the amount will actually go down by a few dollars because of the extra state aid we did last year. And valuations finally leveled off in our area and they're not climbing anymore. They're not going down but they're not going up. So for the first time in a long time, I will see a little bit of a decline in the check I write, but it's a matter of a few dollars. One thing that was brought up was TIF program obviously that we have. And I know, you know, in Omaha and Lincoln and Grand Island and some of the larger communities when they do TIF a property, they are...their schools are not hurt like they are when it's done in the school...in an unequalized district because as you take that value off the table, you receive more equalization aid. So if Omaha, for instance, and I have...I can't even...I don't have the numbers of what values are TIF properties there. But if they would TIF \$10 million in properties, those come off the value of your resources and, therefore, you get more state aid, I mean, so you're not hurt by that at all. It makes you no difference. But when you do it in the school districts that's nonequalized, it has a different impact there. But it is still...it's a tool that small towns still need and they don't use it that much. So there can be savings obviously in the education. But that's not what my focus was. I didn't want to go there. I wanted to just try and get the shift moved back a little bit so we're not hurt so bad in agriculture. And so, you know, you see what we're spending. I mean I think this next year the TEEOSA formula is more like in the \$986 million that we're putting into TEEOSA. So it does have a huge budget impact and we're going to have to find revenue. But I want to leave you with a thought of, you know, if Warren Buffett moved to Henderson and built a house next to mine, I would be considered rich. I will still be contributing probably ten times what he would contribute to education in the Henderson school district. It's because we tax property and we don't tax intangibles. You know, when I...I

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remember right before I started farming I think we still had what's called the liar's tax where you filled out the form December 31, you went and counted all the hogs, you went and checked all the bushels in the bin, you took inventory of everything you had, businesses had to do this, too, you wrote down your savings account, your checking account, your retirement account, your stocks and bonds, you listed them all and then they levied a property tax. And so that is what I would call equal taxation across the...you know, everyone's resources are taxed the same. So I guess, you know, they called it the liar's tax because I remember there was even a place to enter in a dog and a dog I think was \$50. And it was always "we don't have a dog, that's the neighbor's dog." So, you know, we don't want to go back to the liar's tax. I'm not condoning that. But it is one method we could look at, I guess, if we want to equalize how we look at resources. Even if we entered those resources in, if we took the TEEOSA formula and now I'm asking you to lower ag land's resources, if we took and entered in all those intangibles into the resources that are available in Omaha, in Warren Buffett's neighborhood, for instance, it would change the picture considerably on who has the ability to pay. So other than that, I think I've probably covered more than I should have and if there are any questions I'm glad to answer. [LB144]

SENATOR GROENE: Any other questions for Senator Friesen? We get to talk to him four more times. Senator Kolowski. [LB144]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Thank you, Senator Friesen, for bringing this forward. And I hope and believe that everyone on this Education Committee has the full potential of every student in mind that we want to reach out to them and provide that educational experience wherever they might be in the state. It's important. So that opens the door for lots of good discussion on technology delivery, the community colleges, the ESUs of where we are, that every student, no matter where they might live, would have the opportunities brought to them for a full and rich educational experience in our state, rather than they're 50 miles this way or 70 miles that way or whatever it might be. That becomes nothing when you talk about potential with technology. [LB144]

SENATOR FRIESEN: I agree and I...you know, you look at the programs that you can offer in Lincoln or OPS or something like that and we cannot even begin to compare to that and yet we feel we're already overloaded with taxes. Our kids don't have those opportunities. We're...we provide a core good education and that's about all that we're doing out there. So there's some savings to be had but there's...again, distance learning, those types of things,... [LB144]

SENATOR KOLOWSKI: Sure. [LB144]

SENATOR FRIESEN: ...they'll get better with time. [LB144]

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SENATOR KOLOWSKI: Absolutely. Thank you. [LB144]

SENATOR GROENE: That ends the hearing on LB144. Senator Friesen, would you like to...what's the next one? LB265, would you like to introduce it? [LB144 LB265]

SENATOR FRIESEN: Yes, I would. LB265, if you will look in your folders, this too is a...I will call it a very simple bill. What it does is it basically adds a sentence in the TEEOSA formula that basically just says that in no school shall receive less than in the first year \$1,500 per student in state aid. And then each year we just add \$1,000 until 2022, 2023 we are giving out \$5,500. So, for instance, this bill here would probably help a school district like York Public School District the most because they're...the first bill I dealt with in the York School District wouldn't have much of an impact until you get clear down probably down to that 30 to 20 percent range. This bill would immediately help all school districts that don't receive equalization aid, and especially schools like York. So what it does basically is just in the TEEOSA formula where now there's a lot of unequalized schools, the money would be directed toward those unequalized schools until they reach \$1,500 of aid. So if you are already getting \$1,000 per student in equalization aid, you would only get \$500 more. And so if ag land values for instance would drop 30-40 percent and our resources would come down, the student aid we would probably qualify, some schools would start to qualify, for equalization aid and so therefore their foundation aid would go down. So basically it targets those schools that are unequalized and yet it just maintains a minimum amount of state aid to every student. And then it ramps up, like I said, to what I...my goal was to reach in that 50 percent range of state aid to education and so I think if you look at the average cost to teach a student you can argue whose school you're going to take. But \$10,000 is a round number and so when you get to \$5,000 of state aid that would...it's not any scientific number, it's just where I ended. And, you know, this bill too can be modified in any way to help fit the budget. But it would at least I think bring out some of that aid that we need in a real short time period where it would benefit those schools that are not receiving an equalization aid. And it does have a pretty pricey fiscal note. With that, I'll answer any questions. [LB265]

SENATOR GROENE: Any questions for the Senator Friesen? Senator Linehan. [LB265]

SENATOR LINEHAN: In LB265...thank you, Mr. Chairman. I'm sorry, thank you. In LB265, how do you make certain that the levy would go down? [LB265]

SENATOR FRIESEN: You don't. That's something else I think we have to address. With every, you know, when you...when I foresee giving state aid now, I want a dollar for dollar reduction in their levy. How you guys can do that, I'm looking for ideas, because it's difficult. But I do think that there need to be some controls put on so that we can't just keep going. Like York Public Schools can't because they're at \$1.05, they got nowhere to go. But other schools that are in that

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60 cent range, 70 cents, yes, they could just continue to collect property taxes. And I don't know quite how this figures into the TEEOSA formula, if it would prevent them from going much higher, but there's some other ideas out there that I'm hoping that you would package together that would probably put some controls on their ability to go after property taxes. I don't...that's I just wanted to go far as to get state aid out there. I hope you guys can come up with a method of putting controls in. [LB265]

SENATOR LINEHAN: Have you ever, has the Legislature, to your knowledge, ever looked at a situation where you would, as we're doing with state government supposedly, or what's been proposed is no more than 3 percent growth? [LB265]

SENATOR FRIESEN: Well, I think they did try that last year. And like earlier it was stated, you know, I mean, York Public Schools I think have done a really good job of holding down the levy from what I've seen in the last few years at least. Gilbert Public Schools in my area have done a good job of holding down spending. I don't think a 2.5 percent increase would be...I doubt if they've been at 2.5 percent in five, six, seven years. So, I mean, some schools I think have done a good job and so right now there are different spending lids and stuff in place, but there's always been a way to get around some of that. [LB265]

SENATOR LINEHAN: Because if I understand, they can still have a vote of the people to override the rule. [LB265]

SENATOR FRIESEN: Yes. And in my area, it hasn't been that long ago that there were numerous, a couple, school districts that didn't vote to exceed the levy. And it's passed, some schools did it twice in a couple years. So, I mean, when it's needed, it can be done. [LB265]

SENATOR LINEHAN: Yeah. Thank you very much. [LB265]

SENATOR GROENE: Any other questions for Senator Friesen? Proponents. [LB265]

JON HABBEN: Good afternoon, Senator Groene, members of the committee. I'm Jon, J-o-n, Habben, H-a-b-b-e-n, Nebraska Rural Community Schools Association, testifying in support of both of these next two bills: LB265 and LB571. I guess more than anything else, the foundation aid, direct aid per student if you will, attracts our attention because 170-plus of our school districts are nonequalized. And all of a sudden you're looking around saying, what happened? Where did that go? Well, it started six, seven years ago. Valuations went up, you became more wealthy, your needs stayed the same. So guess what? Equalization aid went someplace else. That was the definition, that was the formula, that's the calculation. I think the question that became

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very frustrating for rural schools was we didn't do anything and we are now getting to raise taxes again and again and again and again and again. And we heard from the property taxpayer, the ag land taxpayer about what we were doing. This wasn't kind of a silent thing happening, we heard about it, we knew it, we understood it. But where else do we go? I mean, what other possibility was there for us to even consider, especially when you spent several years, and I'm talking about over ten years, making reductions in your school budget, which meant making reductions in your school plan. And having been a superintendent during a bunch of those years, I can attest to that was an annual discussion. It never went by the wayside, we always had it. Now, the foundation aid at least says, well, you know, TEEOSA, as a state aid policy, is a statewide policy. And our testimony the last several years on this type of direct aid per student was about that, it was about saying to all of those students across the state the state aid policy comes to you. It doesn't just go to some somewhere, it comes to you. And we believe that that is the best thing that a statewide policy can do. Now, we'll tell you that in 1990, when TEEOSA was first put together, there were about 40 or so nonequalized schools at that time. And when I've talked to a number of those schools, I will have people say we don't expect state aid. We've been nonequalized forever. So it's not like everybody is standing out there saying you have to give us money. But look at those 120 school districts that came on-board that wagon as their ag land taxes went up, they got wealthy, and they waved goodbye to an awful lot of money. Now, the other bill on allocated income tax, also want to go back to 1990 and simply indicate when TEEOSA was put together in 1990 one of the biggest nods to rural was that allocated income tax was put in place. And that was true for all districts, not just equalized districts, not just districts who commanded the most state aid. We've heard a lot about can we get back to that, can we get back to that original discussion, can we get back to what was a nod to rural at that time, given the foundation aid was basically disappearing in that 1990 formula. I'd like to see both of these things stay in the discussion. We got a long way to go, as several testifiers have mentioned to you. Good luck. But we got a long way to go and it's time we started really making some inroads on that. Thank you. I'd take any questions. [LB265]

SENATOR GROENE: You were there. Why didn't rural Nebraska have a filibuster when they took the 20 percent away? What was the bargain there? [LB265]

JON HABBEN: Well, my understanding is receipts started to increase significantly and so there was this feeling that, oh no, we can't be putting that much money over there. And so that led to a compromise so to speak, where it was limited to a specific \$5. [LB265]

SENATOR GROENE: \$105 million, or I think it's \$105 million. [LB265]

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JON HABBEN: But, yeah, it was. The 20 percent income tax rebate, was absolutely a nod to rural, even though it was across the board. It was a nod to rural about look what you've lost in this transition into TEEOSA. [LB265]

SENATOR GROENE: Was the \$105 million the amount at 20 percent at that date, in 2004 if my memory serves me? [LB265]

JON HABBEN: Yeah, I think the amount has stayed the same for years and years. [LB265]

SENATOR GROENE: But I mean on that date. Was that \$105 million the 20 percent at that time? [LB265]

JON HABBEN: Oh, that I couldn't tell you for sure. [LB265]

SENATOR GROENE: That was not a good bargain rural Nebraska made when they let that disappear. [LB265]

JON HABBEN: As years went by, the answer would be no. [LB265]

SENATOR GROENE: Also you've said you've cut your budget. But is any of those rural schools spending less today total budget than they did ten years ago? [LB265]

JON HABBEN: Ten years ago? I doubt it. [LB265]

SENATOR GROENE: So their budgets went up? [LB265]

JON HABBEN: Yeah. [LB265]

SENATOR GROENE: The spending went up, their budgets got cut. [LB265]

JON HABBEN: I think when you look at, and maybe spending is the most accurate thing to look at, rather than budgets, because budgets contain other things, including some contingency. But spending patterns are not this nice smooth, gradual increase, they reflect what is happening in the district. And in rural districts when things happen, they tend to have sharp changes in that small aggregate. [LB265]

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SENATOR GROENE: Thank you. Any other questions from the committee? [LB265]

JON HABBEN: Okay, thank you. [LB265]

SENATOR GROENE: Any other proponents? [LB265]

KEN HERZ: Good afternoon, Chairman Groene and members of the Education Committee. My name is Ken Herz, K-e-n H-e-r-z, and I'm here today to testify on behalf of the Nebraska Cattlemen in support of LB265. I'm a cattle producer from Lawrence, Nebraska, and also the chair of the Cattlemen's taxation committee. Nebraska Cattlemen supports LB265 as a part of a comprehensive approach to reducing the burden placed on property taxpayers to fund our schools. As I stated in my previous testimony, Nebraska ranks 49th for state school funding, while local property taxes have increased exponentially. For instance, in 2016, my property taxes paid increased 27 percent. Over the past ten years, my total property tax liability has increased 150 percent. While the cost of education is increasing, the burden of paying is falling more and more on property taxpayers. It is past time for the state to intervene and begin paying its share. Thank you. [LB265]

SENATOR GROENE: Thank you, sir. Any questions? Thank you, sir. [LB265]

KEN HERZ: Thank you. [LB265]

DAVID GRIMES: (Exhibit 1) Hello again. Thank you again, Chairman Groene and members of the Education Committee, for allowing me to testify. My name is David Grimes, D-a-v-i-d G-r-i-m-e-s. My family and I farm in Kearney County, Nebraska, about 1,000 acres or a little less. We raise irrigated crops there and I'm a member also of the Kearney County Farm Bureau. I'm here on behalf of the Nebraska Farm Bureau to testify in support of LB265, which will provide each school district a specified minimum amount of state aid per student. When Nebraska enacted the current state aid formula, part of the intent was to provide foundation aid to every school district. While there is currently an equalization aid component to the formula, foundation aid is nonexistent and 174 school districts presently are unequalized. Many of these schools receive very little state assistance because over the last ten years property valuations skyrocketed. Taxes levied on farmland, for instance, went up 164 percent. This spike in land value is not an indication of our ability to pay. Farmers and ranchers, like many small businesses, have a great deal of resources wrapped up in illiquid assets like land and machinery. The state aid formula is not designed to account for good years and bad years in the farm economy, so Nebraska's agricultural producers are paying astronomical amounts of property tax even in years like 2015, when net farm income dropped 80 percent. We believe in asking local taxing bodies to be as conservative with tax dollars as possible. There's no doubt schools and other local entities that

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are taking on more state mandated responsibilities. In 2011 alone, following the recession, the state cut more than \$400 million from the state aid formula to cover a revenue shortfall. That doesn't mean the cost of educating students decreased by hundreds of millions of dollars, that means school districts were forced to increase levies and the state has never stepped back in to relieve the pressure. As noted previously, Nebraska's K-12 schools are more reliant on property taxes than nearly every other state in the nation, receiving only 33 percent of their funding from state sources, while the national average is 47 percent. Nebraska needs to diversify its portfolio of resources to fund public education. Nebraska Farm Bureau believes all property owners are shouldering too high of a burden of taxation when it comes to paying for state priorities. We thank Senator Friesen for introducing LB265 to help relieve that pressure. We look forward to working with this committee and the rest of the body to rebalance our tax system and continue our commitment to state priorities like education. Again, it's a priority of ours to ensure that we have in our state a system of taxation that's based on wealth and the ability to pay, not on what we call resources necessary. I'd be open to any questions if you have some. [LB265]

SENATOR GROENE: So are you advocating an income tax increase? [LB265]

DAVID GRIMES: We would probably advocate increasing sales tax revenue. [LB265]

SENATOR GROENE: Wouldn't you consider that the average Nebraskan is already overtaxed? So where are they going to get that extra money to pay those sales taxes? [LB265]

DAVID GRIMES: Sales tax again is somewhat of a choice. There's some things we have to have of course, the basics of life, the necessities that food and clothe ourselves and our families. But still sales tax is one tax that we can kind of choose based on our budgets. And I would say that one and in my organization would favor increasing revenue from sales tax revenue. [LB265]

SENATOR GROENE: Thank you, sir. [LB265]

DAVID GRIMES: You're welcome. [LB265]

SENATOR LINEHAN: I know it's long, but I just...can you explain the \$400 million cut in TEEOSA in 2011? How did that...was it a cut from Appropriations, they just didn't...they spent less than they did the year before? I'm sorry. [LB265]

DAVID GRIMES: Yeah, and I can't give a real good explanation of that. I could get you a better explanation. [LB265]

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SENATOR LINEHAN: That would be wonderful, I would appreciate that very much. [LB265]

DAVID GRIMES: Yeah, there was a need to cut some aid there. [LB265]

SENATOR LINEHAN: Great. Thank you very much. [LB265]

DAVID GRIMES: Thank you for letting me speak. [LB265]

SENATOR GROENE: Thank you, sir. [LB265]

JOHN HANSEN: Mr. Chairman, members of the committee. Again, for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, I appear before you today as the lobbyist for the Nebraska Farmers Union and I also serve as their president. We have been, our organization, has a long track record of supporting foundation aid and to us it's a way of giving a strong nod to some kind of fairness, relative to the distribution formula. So whatever the right number is, but if you provide a certain amount of foundation aid to each school district you've at least fulfilled some obligation on a more equalized basis to fund everyone's education in the public school system. And so then you use more or less additional resources from your property as they're needed, based on what your needs are. But at least everybody gets part of the pie before we fill out the rest. That is far preferable to the system where a substantial number of school districts don't get any. And that doesn't seem fair. And this current system that we have is one that creates a really nonproductive dynamic within rural communities. And so you, the discussion goes sort of like this, where the folks who have kids say I want the very best for my kids, as parents should. And the folks who are paying a disproportionate share of the total cost of K-12 education are saying gee, I like your kids too, but you know, times are tough and I'm losing money and I have to be able to try to help, you know, pay my bills and I don't have the financial wherewithal to do that. And so then, you know, what's the matter with you? Don't you like my kid, don't you believe in education? And so, you know, you have the folks who are paying a disproportionate share of the costs are trying to represent their financial interests, not the fact that they're against education. They're trying to represent their financial capacity to pay the bill. And so when the system gets as far out of whack as it is, then it sets up this dynamic which is not a positive dynamic by any means. And it creates hard feelings within communities and it's one that we have struggled with for a very long time. And so we always encourage our membership to get educated, to get constructively involved and engaged, attend school board meetings, attend all of your other local governmental subdivision meetings, be a part of the process, and work together with others for solutions that make sense. And it's disappointing that we have as many folks who are upset about their property taxes that don't attend a local hearing. And as a former chair of the Lower Elkhorn NRD budget and legislative committee, for years we spent all this money advertising and encouraging people to come. You do all this stuff and you show up to the hearing

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and you're all prepared and wanting to explain what it is you're doing on 104 lines of income and 104 lines of expenses, and when you look at the audience, there isn't one person in the room who wasn't paid to be there. Whether it's the local reporter or the local FSA person or the extension, there's not one real live honest to God taxpayer member of the public that shows up. And that is...so if you're the elected public official and, you know, I've certainly been in that situation myself many times, and you put out a budget and no one says anything, what should you assume? I guess things must be okay, because nobody came and, you know, said otherwise. So you assume rightly that at least that that's the case. So those of us in the ag community have a responsibility to be involved and engaged and show up and testify. And so we encourage our members to do that and we have a lot of our folks serve as school board members. And so our policy very clearly supports foundation aid and we thank Senator Friesen for bringing this bill forward. With that, I would end my testimony and answer any questions if you have any.
[LB265]

SENATOR GROENE: Questions? I have one. I understand why you have to put it into state aid, you can't put it as a local resource because then everybody would get it. But how do you make sure the local school district lowers the property tax rate? [LB265]

JOHN HANSEN: Well, I think that's a good question. And, you know, I don't know that I have a hard answer. But local folks need to do a better job of showing up at meetings. And if you're going to get that much in state aid, then you need to lower, you have to lower your levy. And I don't know whether you do it through a regulatory basis, but you know, and to Senator Linehan's concerns earlier, if the state is going to pay more of the total cost of K-12 education then I assume that there will be strengths that come with that money. [LB265]

SENATOR GROENE: Talk to a county commissioner, they show up with the valuations protest.
[LB265]

JOHN HANSEN: Yes, I'm quite familiar with things... [LB265]

SENATOR GROENE: It seems like everybody wants the services but they don't want to pay for it. Could it possibly be we finally reached a point in Nebraska we're living beyond our means?
[LB265]

JOHN HANSEN: Well, in the case of ag's portion of paying the cost of K-12 education, our bill is beyond our means at this point. So I don't know whether we are overall in everything, but certainly... [LB265]

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SENATOR GROENE: But I haven't heard one of you say that you want to lower the cost of education. You want the best, but you don't want to pay for it. I mean, I'm on your side, but you know, it goes both sides. [LB265]

JOHN HANSEN: Sure. Well, and you know, there's on the school board it is a balancing act between carrying out your responsibilities that the state already has a fair amount of strings in terms of what you're going to do and how you're going to do it. And, you know, in the counter to a lot of rural districts is to the growing population districts who have a different problem is that you still have to maintain the quality of instruction, even though you have a declining population base, which provides an altogether separate challenge because, you know, it doesn't make any difference whether you only have 11 kids instead of 30 kids in your science class. You still need a science teacher and so it goes. And so we're, you know, we have a lot of miles to service and so there's some inherent costs in serving that larger geographical area. It's a different dynamic than it is when you're sitting in a high population density area. So there's some tradeoff and I showed up at a lot of hearings and suggested that you have to lower costs and find ways to lower costs. [LB265]

SENATOR GROENE: Thank you, sir. [LB265]

JOHN HANSEN: Thank you. [LB265]

SENATOR GROENE: Any other proponents? Proponents? Are you a proponent, miss? [LB265]

BONNIE HINKLE: I thought you said opponent, I'm sorry. [LB265]

SENATOR GROENE: (Exhibit 2) You go ahead and sit down. We have one in support, Nebraska Soybean Association, for LB265. [LB265]

BONNIE HINKLE: (Exhibits 3, 4) Thank you, Senator Groene and all the Education Committee. I'm Bonnie, B-o-n-n-i-e, Hinkle, H-i-n-k-l-e, from Grand Island and I'm here today representing the Greater Nebraska Schools Association, or GNSA, as well as the Grand Island Public Schools board of education, for which I'm the president. The stated intent of LB265 is to provide for a minimum amount of state aid to be distributed to each school district. The stated intent of LB265 is prima facie evidence of a highly disequalizing concept, which should be avoided, and is in direct conflict with the original intent of current school finance formula, commonly referred to as TEEOSA, or the Tax Equity and Educational Opportunity Support Act. The mechanism used in LB265 to achieve its stated intended objective is commonly called foundation aid. The concept is rooted in the over-simplified idea that each child should receive

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some state aid level support, regardless of any other factors, especially the local relative wealth of each school district. However, when the TEEOSA formula was first adopted in 1990 to support funding for equal education opportunities across Nebraska, the Legislature stated intent for TEEOSA was in part as follows. "It is the intent, purpose, and goal of the Legislature to create a system of financing the public school system which will provide state support from all sources of state funding; reduce the reliance on the property tax for the support of the public school system; broaden financial support for the public school system by dedicating a portion of the revenue received from the state income tax for support of the system; keep pace with the increasing cost of operating the public school system; assure a greater level of equity of educational opportunities for students in all districts; assure a greater level of equity in property tax rates for the support of the public school system and the overreliance on the property tax for the support of the public school system has resulted in great disparities in local property tax rates; and the overreliance on the property tax for the support of the public school system has created inequitable educational, fiscal resources for students; and assure that there is a shift to sustainable revenue sources other than the property tax for the support of the public school system; and finally, assure each district a foundation support level for the operation of schools within each district taking into consideration the taxable wealth and other accessible resources of the district." LB265 as currently written contradicts taking into consideration the taxable wealth and other accessible resources of school districts. As you may have noticed, many, if not all, of the Legislature's original conditions for implementing TEEOSA in 1990 still exist today in 2017. Therefore, why turn away from TEEOSA as LB265 purports to do? Why not fully fund a true needs-based TEEOSA formula and achieve the original intent relief from the overreliance on property taxes that takes into consideration the taxable wealth and other accessible resources of school districts. LB265 would move Nebraska 180 degrees away from the original intent of TEEOSA. Additionally, GNSA has many operational issues and unanswered questions concerning LB265. Where do the scarce resources come from to pay for this funding method? The fiscal note for LB265 as currently written estimates a \$71.8 million increase in funding to TEEOSA for the first year. That amount divided by \$1,500 per student equates into only 47,852 students. According to the Nebraska Department of Education, in the 2015-16 school year Nebraska school districts educated over 350,000 students. Where is the \$1,500 minimum foundational aid funding for the other 302,148 students? So our assumption is that this bill will require existing funding to be redirected to pay for the proposed per student minimum foundation aid under LB265. If this is the case, and given the current budget shortfall, we can only assume this means scarce resources will be diverted away from the current TEEOSA system to help fund a minimum foundation aid called for LB265. We also assume redirecting scarce resources to foundational aid will come directly from districts that are higher in need or in other words, highly equalized. Districts with lower valuation and higher poverty and other needs will give up more of their current state aid dollars to help pay the funding offset. Potential reductions to allowances like poverty, limited English proficiency, and summer school will have a very negative financial aid and educational impact on Nebraska district schools with the

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greatest concentration of student with the highest needs. In other words, scarce resources currently earmarked for districts with students with the greatest needs will lose those scarce resources to other school districts that have the ability to raise educational funds locally through taxable wealth and other accessible resources of those school districts, as originally intended by the TEEOSA formula. This proposed disequalizing effect of LB265 is of great concern for our member school districts of GNSA and is the reason we are not in support of LB265. Greater clarification on how these scarce resources will be generated and which portions of the current TEEOSA formula will be effected should be heavily considered before any further serious consideration of LB265 occurs. GNSA asks that you carefully review and consider other options to provide tax relief to all of Nebraska that does not include foundational aid, but focuses only on funding the TEEOSA formula as originally intended. And then there's another paragraph that you can read there. So thank you for your time. [LB265]

SENATOR GROENE: Any questions? Senator Erdman. [LB265]

SENATOR ERDMAN: Thank you for coming. Thank you, Senator Groene. Ms. Hinkle, are you a lobbyist or what is your position? [LB265]

BONNIE HINKLE: I'm the president of the Grand Island School Board of education. [LB265]

SENATOR ERDMAN: Okay. You made a comment on your last second page there, first paragraph, about the amount of funding needed to fund that \$1,500 per student. [LB265]

BONNIE HINKLE: Correct. [LB265]

SENATOR ERDMAN: So evidently the revenue people didn't get it right. You're saying we're off about... [LB265]

BONNIE HINKLE: Well, we are saying we have questions about it because when we looked at the fiscal note there wasn't an explanation of how they came up with the \$71.7 million or \$8 million and we took that into consideration with all the students in Nebraska based on the Nebraska Department of Education numbers. So we're...just more clarification is needed on that piece. [LB265]

SENATOR ERDMAN: So this list of schools at the bottom of the page are the people you represent? [LB265]

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BONNIE HINKLE: That is correct. They're part of the Greater Nebraska Schools Association. [LB265]

SENATOR ERDMAN: Would these be the people in what they call the Learning Community? [LB265]

BONNIE HINKLE: Only those that are in the Omaha area. The rest of us are independent school districts. [LB265]

SENATOR ERDMAN: Okay. So then can I conclude that from your comments you would rather see us go back to the original TEEOSA formula, the way it was supposed to be implemented? Is that what you're saying? [LB265]

BONNIE HINKLE: Yes, we would like to see the formula fully funded and work as it was intended in 1990. [LB265]

SENATOR ERDMAN: Yeah, thank you. [LB265]

SENATOR GROENE: Senator Linehan. [LB265]

SENATOR LINEHAN: Your part up here--is the intent, purpose, and goal of the Legislature--and then your bullets, where did that come from? [LB265]

BONNIE HINKLE: That is from what originally when TEEOSA was introduced in 1990 that was the information that was provided at that time, or rationale. [LB265]

SENATOR LINEHAN: Okay. But I remember 1990 very well and there were several bills and several...so is this from floor debate or from committee debate or from the bill? [LB265]

BONNIE HINKLE: That information I don't have, I'd have to research that. And there are some other individuals that will be speaking later that may have that information. [LB265]

SENATOR LINEHAN: Okay, because...all right, that's good. But so you don't know for sure where that came from. And then on the number of kids, this seems high to me. This is 350, I thought it was more like 323, but... [LB265]

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BONNIE HINKLE: This is it's probably rounded up, but this is from the 2015-16 Nebraska Department of Education numbers. [LB265]

SENATOR LINEHAN: Okay, maybe we can get more exact number because that seems a little high. Okay, thank you very much. [LB265]

SENATOR GROENE: I have a question for you. [LB265]

BONNIE HINKLE: Sure. [LB265]

SENATOR GROENE: Thank you for coming in as an elected official, I appreciate that. [LB265]

BONNIE HINKLE: You're welcome. Thank you. [LB265]

SENATOR GROENE: Has the Grand Island Public Schools taken a position on TIF, because that really does hurt you. [LB265]

BONNIE HINKLE: We have had various discussions and we have been involved. And what we have asked as we've worked with our city officials especially is that they give us notice, enough advanced notice that we can calculate kind of the cost-benefit analysis impact of what TIF would do to the schools. Especially if it surrounds a housing development or an apartment complex that would add to our number of students. We understand the benefits of TIF and what it can do for our city, but we just want to be at the table and be able to make sure everybody has all of the information before they make their decisions. [LB265]

SENATOR GROENE: Does it concern you that a family would come in and they want to TIF housing now that a family would come in, want to support their local schools, buy that housing unit, and for 15 years they don't realize that their taxes are going to the school but to a developer? [LB265]

BONNIE HINKLE: That is a concern because of course their children would have gone through the school system completely before we would see that come onto the school tax rolls. But again, that's where we just want to...maybe it doesn't always have to be 15 years, maybe it can be fewer years. And we just want to have a seat at the table and have the discussions and make sure everyone knows the full impact. [LB265]

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SENATOR GROENE: I have learned to understand that the Columbuses and the Grand Islands and the Lexingtons are landlocked and this TEEOSA formula is a mess. So anyway, I appreciate your testimony. [LB265]

BONNIE HINKLE: Yes, thank you very much. [LB265]

SENATOR GROENE: Any other opponents? Neutral? [LB265]

BRYCE WILSON: Hello, Senator Groene, Education Committee. I'm Bryce Wilson, B-r-y-c-e W-i-l-s-o-n, from the Nebraska Department of Education, I'm the director of finance there. I just came up to answer a couple of questions that I'd heard. You'd asked the question about the funding, Senator Linehan, on TEEOSA in 2011. Your question again was why the decrease? [LB265]

SENATOR LINEHAN: I think, if I remember correctly. Thank you for being here. It was a \$400 million cut in TEEOSA funding in 2011 and I just asked for further explanation. [LB265]

BRYCE WILSON: Yeah, the reason that happened was the economic downturn we had at that time, going into that we had TEEOSA had worked its way up to around \$950 million or something like that and then ARRA funds kicked in from the federal government that subsidized the TEEOSA funding and brought it up over \$1 billion for the first time. And then there was the next biennium come and the ARRA funds went away and the state funds did not. I guess replace all of the ARRA funds that went away and so it dropped back down to the low \$800 millions. So I would assume that \$400 million number would be over the biennium, probably \$200 million roughly each year. [LB265]

SENATOR LINEHAN: It was never...so we got a boost from the ARRA funds. There was never that much state money. [LB265]

BRYCE WILSON: Correct. [LB265]

SENATOR LINEHAN: We didn't cut state money out of TEEOSA? [LB265]

BRYCE WILSON: They did cut some, I think, because it was up over \$900 million and they cut some state money out when the ARRA funds came in. But the ARRA pushed it up higher than what it had been prior. [LB265]

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SENATOR LINEHAN: Okay. Let me ask, this is...I'm very happy you're here. So from...besides when, even if you include the ARRA funds, has the TEEOSA formula ever gone down from its inception in actual dollars? [LB265]

BRYCE WILSON: From its inception? Well, yes, after the ARRA funds went away, it did go down. [LB265]

SENATOR LINEHAN: Okay, has state funding? [LB265]

BRYCE WILSON: But the state funding did too because the state funding had been over \$900 million prior to the ARRA funds. [LB265]

SENATOR LINEHAN: Okay. [LB265]

BRYCE WILSON: And then after the economic downturn then it was down in the low \$800 millions. So like \$820 million or something like that sticks out in my head that that was. [LB265]

SENATOR LINEHAN: Could you just get me this in like a year funding, year funding, year funding? [LB265]

BRYCE WILSON: Sure, and we have that on our Web site too. And I could sure direct you, I could send an e-mail over with that information. [LB265]

SENATOR LINEHAN: Thank you. Thank you. [LB265]

BRYCE WILSON: Another question I had heard asked is how do we control the school districts' spending if additional funds go out to the school districts, and there's, I'm sure as most of you are aware, just I guess a reminder probably, but we control school district spending in the state two different ways. One is the levy lid, the \$1.05 for the general fund, special building fund. The other way that we control school district spending is spending authority. So the vast majority of school districts across our state are up against one of those lids so even if they get additional funding, they're either up against the spending lid so they can't spend anything additional other than the 2.5 percent or whatever the base allowable growth rate allows or they're up against a levy lid and they may have all kinds of spending authority but not the ability to raise the resources locally so. [LB265]

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SENATOR LINEHAN: I think the question was because many of the school districts that we get this funding are not at the \$1.05 levy lid. [LB265]

BRYCE WILSON: No, but most of those school districts are up against the spending lid, so those districts that are at 60 cents, 40 cents, 50 cents, they can't spend anymore. And that's why their levy is so low, because, one, it may be local control and they're just doing a good job of controlling their expenses. A lot of districts, if you're not having incredible student growth, are really at about a 2, 2.5, 3 percent growth that's pretty standard. But they're also up against that spending authority and they really can't spend any more, even if they wanted to. [LB265]

SENATOR LINEHAN: Okay. [LB265]

BRYCE WILSON: So that's something we certify to them as well. And their general fund has to stay at that amount. [LB265]

SENATOR LINEHAN: What about the number of kids we educated in 2015, 2016? Our public education, I'm sorry. [LB265]

BRYCE WILSON: The K-12 is real close for 2015-16, 2015-16 is the year you want? [LB265]

SENATOR LINEHAN: That's what this says, yes. [LB265]

BRYCE WILSON: Okay. K-12 would be about 300,000, around there. If you add pre-K in it gets, it goes over 300,000, and I don't have the exact number. But probably. [LB265]

SENATOR LINEHAN: This says 350,000, which seems high to me. [LB265]

BRYCE WILSON: That seems a little high to me, probably. [LB265]

SENATOR LINEHAN: That may be all of the kids, including private. [LB265]

BRYCE WILSON: But that may be all kids, that may be all of the ones they're serving in special education and stuff that are below age five. And that number would be higher and I don't know what that is off the top of my head. But that very well could include all kids being served by public schools, which not just... [LB265]

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SENATOR LINEHAN: So could you get me those numbers too? Or are they on your Web too? [LB265]

BRYCE WILSON: I can find them for you. [LB265]

SENATOR LINEHAN: Thank you. [LB265]

SENATOR GROENE: Questions? [LB265]

BRYCE WILSON: Any other questions for me? [LB265]

SENATOR ERDMAN: Thank you, Senator Groene. Have we ever, have the state ever got back to funding TEEOSA in the same amount they did before they made the cut? [LB265]

BRYCE WILSON: Before the 2011 cut? Yes, we are now, we are above that amount, yes. [LB265]

SENATOR ERDMAN: Okay. [LB265]

BRYCE WILSON: I think it was like \$911...\$911 million before the cut and we're now over \$1 billion. The current year we're distributing right now is over \$1 billion so. [LB265]

SENATOR ERDMAN: Thank you. [LB265]

SENATOR GROENE: And when you say that the authority to spend it, it's that 2.5 percent a year. They're up against that. [LB265]

BRYCE WILSON: Well, it's not quite that simple. That's part of the calculation. We certify budget authority three different ways. The budget to budget-based method takes the 2.5 percent, it subtracts out things like special education and grant funds and stuff like that and grows their basic general fund budget by 2.5 percent, unless that basic allowable growth rate is changed. [LB265]

SENATOR GROENE: But that's what they're up against, they can't go over that? [LB265]

BRYCE WILSON: Yes, that. But we also calculate the formula needs-based method. [LB265]

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SENATOR GROENE: Based on students. [LB265]

BRYCE WILSON: So if you have a district that's growing very quickly, they'll probably switch over to a formula needs method and then they may have more, the formula may allow them more than a 2.5 percent growth. [LB265]

SENATOR GROENE: The way I understand it, the formula favors the ones that aren't landlocked, that have a lot of growth--building new, the city's growing--and student enrollment increases. [LB265]

BRYCE WILSON: Well, I guess I'm not exactly sure what you mean by landlocked. I would say all districts in our state are landlocked because none can receive more... [LB265]

SENATOR GROENE: Well, you got, let's say, a Columbus. You got a Fremont. [LB265]

BRYCE WILSON: Where the city is expanding? [LB265]

SENATOR GROENE: The city can't expand, their boundaries are already the city. So there's no room to put new developments in within their boundaries. It's a geographical boundary is it not? [LB265]

BRYCE WILSON: Yeah, I mean, I guess if they're annexing the land around them from the other school districts would be the only thing I could think of. [LB265]

SENATOR GROENE: And annexation from a city changes the school district's property? [LB265]

BRYCE WILSON: Yes. A school district...if a city annexes, like Grand Island annexes some of the land that's in the Northwest School District, the city of Grand Island does, then the school districts are required to have discussions and come upon agreement. If an agreement is not reached, then the district that is the city that is annexing the land has the ability to take over... [LB265]

SENATOR GROENE: How does that work? Well, I know there's been a lawsuit, there's an agreement that Elkhorn didn't become part of OPS. They annexed the whole town. [LB265]

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BRYCE WILSON: That was part of the Learning Community agreement that was made, yes. [LB265]

SENATOR GROENE: And that still stands. I understand that. [LB265]

BRYCE WILSON: So but to answer your question, the formula does favor growth in students and corresponding growth in cost then. So, I mean, that would be the formula is driven basically by valuation, students, and costs are the three main factors that drive the formula. So if you have students going up and costs going up correspondingly, you will see additional funding going to that school. And on the other side of that, if valuations are going up, there will be less funding going to that district. [LB265]

SENATOR GROENE: And then one more. If you took foundation aid and put it into resources, local resources, count it as local resources, then you would have to give it to everybody, wouldn't you? [LB265]

BRYCE WILSON: Well, if you counted it in formula resources for those districts, if we're including it in the current formula as just another component of the current TEEOSA formula. [LB265]

SENATOR GROENE: At the local resource. You know, first in. [LB265]

BRYCE WILSON: Yeah, then it would essentially offset equalization aid for the equalized districts. So in essence if that was how it was done, if I'm understanding your question exactly right, it would only end up going to the nonequalized school districts if you included it in resources. [LB265]

SENATOR GROENE: All right. [LB265]

BRYCE WILSON: If you did not include it in resources and it was added on top of the equalization aid calculation, then it could go to every school district. [LB265]

SENATOR GROENE: Thank you. One more question. Are we going to have a celebration and ribbon cutting? Can we top \$1 billion in state aid? [LB265]

BRYCE WILSON: I, you know, I don't know. I can't answer that one. [LB265]

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SENATOR GROENE: Thank you, Bryce. You want one more question? [LB265]

SENATOR LINEHAN: I'm so excited that he's here. Yes, I have one more question. On the opt-in funding, is there a way on your Web site you can figure out who gets what for opt-in funding? [LB265]

BRYCE WILSON: Yes, we have that. That is... [LB265]

SENATOR LINEHAN: Because it's not the same for each school, right? [LB265]

BRYCE WILSON: No. A school only gets net option funding if they have more kids optioning in to their school district than out. So only districts that are positive get it. They get the same amount per kid. [LB265]

SENATOR LINEHAN: Every district in the state? [LB265]

BRYCE WILSON: Every district in the state gets the same amount per kid, so if you have ten kids, it was around \$9,800, somewhere in that ballpark, per kid. So if you had 10 kids coming in, you'd get \$98,000; if you had 100 kids coming in, it would be \$980,000. [LB265]

SENATOR LINEHAN: So it is the same amount, regardless of what school they opt-in into? [LB265]

BRYCE WILSON: It's the statewide basic funding per formula the student is the amount that they get for each option kid that they're positive. [LB265]

SENATOR LINEHAN: Okay, thank you. That clarifies. [LB265]

SENATOR GROENE: Senator Linehan, I have all of that stuff. I'll get you copies. [LB265]

SENATOR LINEHAN: Okay, Senator. [LB265]

SENATOR GROENE: So Bryce can get. But we have it all. [LB265]

SENATOR LINEHAN: Yes, I'm sorry. Thank you. [LB265]

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SENATOR GROENE: No, and a LaMont can go over it with you. [LB265]

SENATOR LINEHAN: Okay, thank you. [LB265]

SENATOR GROENE: Any other questions? Thank you. Any other neutral testifiers? [LB265]

MICAELA LaROSE: Good afternoon again, Chairman Groene and members of the Education Committee. My name is Micaela LaRose, M-i-c-a-e-l-a L-a-R-o-s-e, and I'm the senior fellow at OpenSky Policy Institute. I'm here today to testify neutral on LB265. As I mentioned in my previous testimony, we appreciate the effort to alleviate the overreliance on property taxes to fund K-12 education. However, we have concerns about the significant costs of this proposal, given the current fiscal situation of the state. And additionally, when fully implemented, we are concerned about this proposal rendering both the calculations in the TEEOSA formula and the concept of equalization in general irrelevant. If this proposal had been fully implemented in FY '17, 228 of the 245 school districts, or roughly 93 percent of school districts, would have seen an increase in state aid to meet the minimum state aid per student requirement. At full implementation, levies could have been reduced an average of 30.4 cents or 35.5 percent. Statewide, agricultural landowners would have seen an average property tax reduction of 22.9 percent, while all other property owners would have seen an average property tax reduction of 15.9 percent. Moreover, we are generally supportive of proposals to ensure a specific amount of state support per student and we see this as recognition of the state's constitutional requirement to provide a free education for all Nebraska students. However, the 17 school districts that would see no increase in state aid include the top 10 highest need, low resource school districts, including Grand Island, South Sioux City, and Santee Community Schools. All 17 are in the top 45 highest need, low-resource school districts. As the formula intended, these school districts receive a significant amount of equalization aid and given the cost of this proposal when fully implemented, we are concerned that these school districts would see no benefit. Additionally, with such a high cost it may prove difficult to fully fund the proposal and therefore we have concerns that the existing equalization aid for these 17 school districts would be jeopardized in order to pay for this proposal. The average levy of these districts is \$1.03 and as such they do not have much room to make up for any loss of state aid locally. We would recommend considering whether a threshold of \$5,500 per student in minimum aid when fully implemented might be too high, given that at this threshold, the calculations of the TEEOSA formula essentially become irrelevant. Under this proposal, 228 of the 245 school districts would receive an equal amount of aid per student, regardless of differences in enrollment growth, the number of free and reduced lunch students, or English language learners, property wealth, income wealth, etcetera. It would negate the equalization principle upon which the formula was built, a principle that we strongly support. We don't think addressing the overreliance of property taxes in school funding should come at the cost of the formula's recognition of differences in school districts' funding needs, as well as the resources they have available at the local level. We would recommend instead

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reworking the TEEOSA formula directly through a formal comprehensive review process, as opposed to indirectly rendering the formula irrelevant. And then just to speak to the point of school spending, while we don't have the exact numbers on whether absolute dollars have gone down, we do, when we look at TEEOSA spending as a share of the economy. In fiscal year 2012, we hit a historic low, and under the current budget proposal we would hit that historic low again in TEEOSA spending. And yeah, so I just wanted to raise that point as well. [LB265]

SENATOR GROENE: Can you...go ahead, Senator Kolowski. [LB265]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Basically, did I hear from maybe another reading of OpenSky that we're just getting back to our 2009 level of funding in 2017? [LB265]

MICAELA LaROSE: We were on that rise. I don't know about absolute dollars, I can get that information. But as a share of the economy, we had a slight uptick, but under the budget proposal we would be on a historic low in the next two years. [LB265]

SENATOR KOLOWSKI: Okay, thank you. [LB265]

SENATOR GROENE: So you are not saying how much money we spent it is historic low, you're not saying if we've kept up with inflation. What you are saying, as a percent of the economy. [LB265]

MICAELA LaROSE: Which is what we use as a proxy for controlling for... [LB265]

SENATOR GROENE: Because it's convenient. Thank you. Any other questions? Thank you, miss. Good information. [LB265]

MICAELA LaROSE: Thank you. [LB265]

SENATOR GROENE: Any other neutral? Want to close, Senator Friesen? [LB265]

SENATOR FRIESEN: I'll make it real short, since I have to come up and do the next bill anyhow. But again, I know it's got a huge fiscal note. And if I would have intended to take money from any of the school districts that are currently receiving it, I would have written the bill that way. I didn't intend to impact anyone's current state aid. So if you want to read it into there, you can. But I will assure you that if I wanted to do that, I would have written the bill

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accordingly and we would have shared the current TEEOSA money. But I didn't. With that, I would answer any other questions. [LB265]

SENATOR GROENE: Any questions for Senator Friesen? Let's take a five minute break, I'm getting pins and needles in my legs. And we'll come back to LB571. [LB265]

BREAK

SENATOR GROENE: Senator Friesen, would you like to introduce LB571. [LB571]

SENATOR FRIESEN: Yes, thank you, Chairman Groene. Should I spell my name this time? C-u-r-t F-r-i-e-s-e-n. I'm Curt Friesen... [LB571]

SENATOR GROENE: Appreciate you following the rules. [LB571]

SENATOR FRIESEN: ...from District 34 here to introduce LB571. In the discussions we've all...we've had, we've touched a little bit on the income tax portion of TEEOSA which rebates money back based on income taxes paid. And so what this bill does is try to get that back to that 20 percent that TEEOSA originally started with. So it's a simple bill. Again, it takes state aid in the TEEOSA formula and it starts...it tries to get it up that 20 percent. Right now we're at 2.23 percent. But in the end, the reason the fiscal note is fairly small is we only need to come up with 14.56 percent because right now the remainder of that is already being used in option student funding. So I can't really get to 20 percent because that other portion is already being used in option student funding. That's where that money comes from is in this. That's why it's capped at that 2.23. But that's my understanding of how that works. So it would just...it would take the aggregated amount of income tax that's collected and...and so this fiscal note shows, you know, that we're going to come up with 14.56 of it and that's why the fiscal note shows only like \$55 million. So with that, fairly simple, straightforward. Try and keep it short. I appreciate you putting up with me all day. Questions? [LB571]

SENATOR GROENE: Are you sure it's net option enrollment, because that's \$9,800 times a lot of students. That's a lot more than \$105 million. [LB571]

SENATOR FRIESEN: Yeah. I'm just going by their fiscal note. My goal was to get to 20 percent. [LB571]

SENATOR GROENE: All right. [LB571]

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SENATOR FRIESEN: And they say that's what would it take to get there and then we're... [LB571]

SENATOR GROENE: I was under the perception there's still a line in the TEEOSA formula that says... [LB571]

SENATOR FRIESEN: ...when we... [LB571]

SENATOR GROENE: ...income tax allotment and that's what... [LB571]

SENATOR FRIESEN: We'd have to discuss that with the Fiscal Office... [LB571]

SENATOR GROENE: Yeah. [LB571]

SENATOR FRIESEN: ...in order to make sure that that was correct. I have not had an opportunity to do that. I just received this I think Friday night, so I've not had a chance to look at the fiscal note much. [LB571]

SENATOR GROENE: Thank you. Any questions besides mine? Thank you, Mr. Senator Friesen. Any proponents? [LB571]

KEN HERZ: Good afternoon again, Chairman Groene and members of the Education Committee. My name is Ken Herz, K-e-n H-e-r-z, and I'm here today to testify on behalf of the Nebraska Cattlemen in support of LB571. I'm a cattle producer from Lawrence, Nebraska, and also the chair of the Cattlemen's taxation committee. LB571 changes the calculation and disbursement of allocated income tax funds so that 20 percent of the aggregate statewide income tax liability of all residents would be disbursed as option payments as determined on TEEOSA. This would be an easy approach for state to implement as current law already requires taxpayers to specify their school district when filing a 1040 return. As a result, local taxpayers would still be paying for the local schools, but school funding from income taxes would increase from 2 percent to 20 percent. Nebraska Cattlemen support LB571 to reduce and reform property tax burden. Thank you. [LB571]

SENATOR GROENE: Any questions? Thank you, sir. Any more proponents? [LB571]

DAVID GRIMES: (Exhibit 1) Thank you, Chairman Groene and members of the Education Committee. My name is David Grimes, D-a-v-i-d G-r-i-m-e-s, and I'm here on behalf of the

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Nebraska Farm Bureau Federation. I'm a Farm Bureau member and a family farmer from Kearney County near Minden, Nebraska. I'm here to testify in support of LB571 which increases the amount of income taxes collected and returned to school districts to 20 percent minus the option funding. The 20 percent threshold was established when the current state aid formula was first created and this target is no longer being met. This would bring that 20 percent rebate or return of income taxes back as what was originally intended. Currently only about 2 percent of income taxes in the state of Nebraska are returned to K-12 schools while they receive about 49 percent of their funding from local property taxes. From 2007 to 2016, total property taxes levied grew at an average rate of 4.81 percent per year. Over the comparable period, income, sales, and miscellaneous tax receipts averaged about half that growth, or 2.5 percent. Property taxes have, no doubt, taken on a greater role in supporting state and local government services. The Nebraska Farm Bureau believes we need a better system for funding public education. For many years our policy has reflected the conservative principle of broadening the tax base in an effort to ensure that all taxpayers, not just property owners, have a vested interest or skin in the game when it comes to paying for state priorities, especially education. Rest assured, we have and will continue to engage local officials. We believe as awareness is heightened, local administrators and school boards will act responsibly to reduce property taxes if and when revenue flows from alternative sources come. We look forward to working with the Education Committee and the rest of the Legislature to rebalance our tax system in a fair and responsible manner. And just to repeat just a little bit from when I was here the previous two times, to replace the revenue that would be lost or would be added, rather, from additional revenue from the state, we would be in favor of broadening the sales tax revenue because that is a tax that is paid by all citizens, not just a few that own land because they're farmers and ranchers and they need the land to produce food, fiber, and energy. I'd be happy to answer any questions. Thank you, Senator Friesen, for introducing this bill and thank you for giving us the opportunity to come and visit with you about the needs of farmers and ranchers in Nebraska. [LB571]

SENATOR GROENE: Any questions for the testifier? Thank you, sir. [LB571]

DAVID GRIMES: Thank you. Thank you for all you do for us. Nebraska is a good place to live, the best place, and it is because of folks like you that sacrifice to serve us. Thank you for your service and thank you for giving all of us the opportunity to speak today. [LB571]

JOHN HANSEN: Mr. Chairman, members of the committee, for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. We are in support of LB265 (sic). The hour is late. You've heard all the arguments. Thank you. [LB571]

SENATOR GROENE: Any questions for the testifier? [LB571]

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SENATOR EBKE: Yeah. LB571, correct? [LB571]

SENATOR KOLOWSKI: LB571. [LB571]

JOHN HANSEN: Oh, LB571, yes. Sorry. [LB571]

SENATOR EBKE: That's okay. [LB571]

JOHN HANSEN: Wrong in the pile but, yes, LB571. [LB571]

SENATOR EBKE: Okay. [LB571]

SENATOR GROENE: Thank you. [LB571]

JOHN HANSEN: Thank you. Thank goodness somebody is on their toes. [LB571]

SENATOR GROENE: Any other proponents? Opponents, opponents? [LB571]

LANNY BOSWELL: Good afternoon, Chairman Groene and members of the Education Committee. My name is Lanny Boswell, L-a-n-n-y B-o-s-w-e-l-l. I'm a board member for the Lincoln Public Schools. LB571 increases the allocated income tax percentage distributed through TEEOSA formula from 2.23 percent to 20 percent minus net option funding. LB571 will increase the funds distributed to schools, specifically to nonequalized schools. Allocated income tax is a resource in the formula and distributed as aid after the equalization calculation. This mechanism purposefully channels funding to nonequalized school districts. Equalizing resources to support students across the state must remain a central pillar in considerations about state aid to schools. LPS has access to \$5,000 per student at \$1.05. The statewide average is \$15,360 and the high is \$59,000 per student. Eighty school districts in the state have access to over \$20,000 per student at \$1.05. Equalization is the primary purpose of state funds to support education. The original intent of TEEOSA was grounded in equalization of state and local resources to narrow the spread of levies across the state and to combat the inherent inequity created when a child living in a property-poor ZIP code has access to fewer resources than a child living in a property-wealthy ZIP code. Significantly increasing the allocated income tax provision must be preceded by fully funding the current law TEEOSA formula to ensure equitable access to resources for the students that rely on us the most. Fully funding TEEOSA under current law is an interesting discussion point. TEEOSA has a history of revisions resulting in reductions or cuts to meet funding parameters. Looking back over the last 15 years, the revisions in reductions are numerous and occurred more often than full funding under current law. From 2002 to 2008, we

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experienced the temporary aid reduction. In 2008, LB988 revamped the TEEOSA formula and reduced the appropriation. In 2009 through 2011, LB545 and LB5 reduced the required appropriation. In 2011 through 2013, LB235 decreased the required TEEOSA appropriation. And in 2013, LB407 reduced the required TEEOSA appropriation. As the Legislature makes funding decisions for public schools over the coming months, I ask you to keep equalization in the forefront of the conversation and as the top priority. Thank you, Mr. Chairman. [LB571]

SENATOR GROENE: Any questions? Thank you, as an elected official, taking the time and talking to us. [LB571]

LANNY BOSWELL: You're very welcome. [LB571]

SENATOR GROENE: I appreciate that. [LB571]

LANNY BOSWELL: Thank you, Mr. Chairman. [LB571]

SENATOR GROENE: Any other proponents...I mean opponents. Neutral? [LB571]

MICAELA LaROSE: Good afternoon, Chairman Groene and members of the Education Committee. My name is Micaela LaRose, M-i-c-a-e-l-a L-a-R-o-s-e, and I'm the senior fellow at OpenSky Policy Institute. I'm here today to testify neutral on LB571. As I have twice now mentioned in my previous testimony, we appreciate the effort to alleviate the overreliance on property taxes in K-12 education funding. We especially support this proposal to broaden the definition of resources in the formula by increasing the allocated income tax. However, we are concerned with the provision that would pay net option funding out of the total amount available for allocated income tax funding. First, as a concept, we fully support the increase in the amount of income tax revenue set aside for the allocated income tax to 20 percent. For one, if it had been implemented in FY '17, it would have increased the amount of state aid for 185, or 76 percent, of school districts. While most equalized school districts would not have seen an increase in state aid, 17 equalized school districts would have become nonequalized under LB571 and, therefore, have seen a net increase in state aid. The average school district levy could have been reduced 2.9 cents under this proposal. Statewide, agricultural landowners would have seen an average property tax reduction of 3.2 percent, while all other property owners would have seen an average reduction of 0.9 percent. Secondly, we support increasing the allocated income tax because it returns local revenue streams back to school districts thereby broadening the definition of local resources. Property wealth does not necessarily correspond to an individual's ability to pay and the allocated income tax addresses this by including a district's income in the calculation of resources. Considering in FY '17, school districts received roughly 2.1 percent of total income taxes paid as allocated income tax, an increase up to 20 percent would substantially improve the

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weight of income in the formula's calculation of resources. Additionally, 20 percent of total income taxes paid is the percentage at which the allocated income tax was originally set back when TEEOSA was enacted. Instead of maintaining 20 percent, however, in 1996 the Legislature not only capped the statewide amount available for the allocated income tax at \$102.3 million, but also began paying for net option funding off the top of that amount. Only then was the remainder returned proportionally to school districts. In FY '17, the remainder available for the allocated income tax was \$44 million or, as previously mentioned, 2.1 percent. While we support the increase of the percentage of income taxes being used for the allocated income tax, we have concerns about paying for net option funding off the top. As the fiscal note shows, this reduces the percentage of income taxes paid that is returned to districts as allocated income tax. We would suggest that the funding for these two forms of aid be separate so that an increase in net option funding does not negatively impact the amount of allocated income tax districts receive. Again, another concern is that if the change is not fully funded with new dollars, it would necessitate some other reduction in TEEOSA aid that would result in a loss of current funding for the 60 equalized districts who don't benefit from the increase in the allocated income tax. And finally, again, given the complicated nature of the TEEOSA formula, we would instead recommend a school finance review commission to look at all of the options to address the overreliance of property taxes. And then just to clarify, we use as a share of the economy as to encapsulate more than also inflation and population growth, so it's changes in those two things as a measure to show changes in needs for spending. Thank you for your time. I would be happy to answer any questions. [LB571]

SENATOR GROENE: Bryce isn't here. Do you know when the averaging adjustment went into effect? [LB571]

MICAELA LaROSE: I don't have that information but I could get it for you, certainly. [LB571]

SENATOR GROENE: Because that was a bonus to bigger school districts also. [LB571]

MICAELA LaROSE: Yeah, I can definitely get you that information, um-hum. [LB571]

SENATOR GROENE: All right. Thank you. Any other questions? Any other questions for the testifier? Thank you. [LB571]

MICAELA LaROSE: Thank you. [LB571]

SENATOR GROENE: Senator Friesen, would you like to close on LB571? [LB571]

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SENATOR FRIESEN: Again I would...I guess I'd like to stress to the committee that I'm willing to work with you on any of these bills. If we could get it up there to 20 percent, great. With the fiscal note coming in so late, don't know quite what they had in mind when they wrote that. But my object was to get to 20 percent and we'll do whatever it takes to rewrite it if we have to. But I'm willing to work with the committee. When I first got here two years ago, I wanted to get something done with property taxes. And somebody mentioned we've been working on the property tax issue for 40 years. And I don't get all passionate. I don't yell. And I don't jump up and down. But don't let that mistake it for the resolve I have to get something done. We need to finally get something done. I will work with the committee in any way to get something out. I don't want to see something stuck in committee again that we can't even have a debate on the floor. So I'm looking forward to working with you on any of these bills. We've got to start...I don't think we need to do a study. We have studied the property tax issue to death. I can draw up study after study that says we're depending too much on property taxes. Where we want to go with it, I'm open to suggestions. But something needs to be done. We're damaging one of the state's biggest economy. There is no other business that's had this kind of tax dumped onto it over such a short amount of time. And the reason we could pay it is because we were in unprecedented good times. Eight-dollar corn has done more damage to our industry than we will ever gain out of this and now we're seeing the damage. We have to do something. So, any other questions? Otherwise, thank you very much for putting up with me all day long. [LB571]

SENATOR GROENE: Any questions for Senator Friesen? Learned a lot about you. You're a tax-and-spender and you like tax abatements and TIF. I appreciate learning that about you, Curt (laughter). [LB571]

SENATOR FRIESEN: I think I am proud to say that I alone have probably the biggest fiscal impact, note, statements of any senator in the Legislature (laughter). [LB571]

SENATOR GROENE: You're the biggest spender. Thank you, Curt. [LB571]

SENATOR FRIESEN: You're welcome. [LB571]

SENATOR GROENE: I think the hearing is over. [LB571]