

**To:** Senator Robert Dover, Senator Raymond Aguilar, Senator John Arch, Senator Carolyn Bosn, Senator Tom Brandt, Senator Tom Brewer, Senator Tom Briese, Senator Robert Clements, Senator Danielle Conrad, Senator Barry DeKay, Senator Myron Dorn, Senator Ben Hansen, Senator Rick Holdcroft, Senator Jana Hughes, Senator Teresa Ibach, Senator Mike Jacobson, Senator Kathleen Kauth, Senator Lou Ann Linehan, Senator Loren Lippincott, Senator John Lowe, Senator Dave Murman, Senator Rita Sanders, Senator Julie Slama, and Sen. R. Brad von Gillern

**From:** Neal Stenberg, Chair, Southeast Community College Board of Governors

**Date:** July 17, 2023

**Re:** ***Community College 2023-2024 Tax Levies and Budgets***

Dear Senators:

I am writing in response to the memorandum which you sent to all members of the Southeast Community College (SCC) Board of Governors on June 30, 2023. In your memorandum, you note that on June 20 the SCC Board gave preliminary approval to a general fund levy of 9.25 cents and a capital improvement fund levy of 2 cents for a total aggregate levy of 11.25 cents per \$100 of assessed property valuation for the College's 2023-2024 budget. As I understand it, you are requesting that our Board reconsider its proposed budget for 2023-24. This request appears to be based on an interpretation that SCC's 2023-24 budget proposal is not consistent with the intent of LB 243. You can be sure that every member of our Board will give careful and respectful consideration to your request. I would like to share with you some of the considerations that members of our Board may find to be consequential. I believe you will find that the information contained in this response to be helpful in demonstrating that SCC's transition plan to the new funding model is in direct alignment with LB 243 and that it is consistent with meeting the needs of its industry partners, communities, and students.

### **Reasons Why an Increase in the Levy is Necessary**

Beginning with the 2024-2025 budget year, SCC will lose the authority to levy a general-fund property tax. That general-fund taxing authority will be replaced with state dollars distributed through the Community College Future Fund (CCFF). The CCFF **baseline** for SCC will be equal to the amount of general fund taxes levied in 2023-2024. Beginning in 2024-2025, the CCFF will be increased each year by 3.5% or the percentage change in Reimbursable Educational Units, whichever is greater. Thus, it is critically important for SCC to establish a budget and levy in 2023-2024 that will create a CCFF baseline that will be sufficient to meet the College funding needs in 2024-2025 and thereafter. The Community College Future Fund established in LB 243 was titled to reflect the intent of the legislation to address the future needs of the community colleges as they relate to **producing a skilled workforce** and providing access to higher education. Based on a very careful and comprehensive study of its current and future needs, it is projected that the College will realize a revenue shortfall relative to its needs even if the 2023-

2024 levy is raised to the maximum amount. SCC representatives can provide additional details on these projections.

What happens if there is a revenue shortfall? There will be no way after the fact to increase CCFF funding. SCC gets one opportunity as designed in LB 243 to set the baseline at the most appropriate level. Again, the baseline for SCC will be the amount of property taxes levied by SCC for fiscal year 2023-24.

If that levy produces insufficient funding in the near or long term, then the probable results will include:

- The inability of SCC to meet **business and industry needs for skilled workers**;
- Increases in tuition that could put SCC beyond the financial reach of some students (particularly those with limited other post-secondary opportunities);
- Cuts in programs and staff.

### **LB 243 Does Not Treat All Community Colleges Equally**

In your memorandum you state that “in conversations with other community colleges we have been assured that they will not be taking any similar action [to increase the general fund levy].” What is not included in this statement is that LB 243 automatically confers funding benefits to some of the colleges while requiring SCC to take specific action to be treated similarly. LB 243 provides alternative methods for establishing the CCFF baseline. The baseline is the amount of general fund property taxes levied by a community college area for fiscal year 2023-24 **or** “the amount of property taxes that would have been generated from a levy of seven and one-half cents per one hundred dollars of taxable valuation, whichever is greater.” Nebraska community colleges have **two statutory funding limits** as they relate to their taxing authority. One is a maximum levy rate of 11.25 cents per \$100 of assessed property valuation, and the other is a total spending authority lid, **which cannot be exceeded**. Because of substantial increases in valuations within certain community college service areas, some of the community colleges in Nebraska **cannot levy** the maximum rate of 11.25 cents because the amount generated would be above their spending authority limits. It is estimated that the minimum levy rate of 7.5 cents included in LB 243 is at or near what they can levy because of their spending authority limits. For these colleges, the mandatory minimum of 7.5 cents CCFF baseline will put them **at or near their spending authority limits**. This is not the case for SCC because the 7.5-cent minimum would generate an amount well below its spending authority limit.

The disparity in the way that the baseline is calculated produces results that, in my opinion, can accurately be described as “unfair.” When I say “unfair,” I mean that the disparity will discriminate not only against SCC but also against our taxpayers, our students, and constituent groups unless the SCC Board takes steps to establish a baseline sufficient to meet future needs.

A comparison will help to demonstrate this inequity. If SCC increases its general-fund levy to 9.25 cents in 2023-2024, that will produce a CCFF baseline that is estimated to be 144% of SCC’s 2022-2023 general fund property tax requirements. On the other hand, the baseline for one of the other Nebraska community colleges will be established as the “amount of property taxes

that would have been generated from a levy of seven and one-half cents per one hundred dollars of taxable valuation.” That will produce a CCFF baseline for this peer Nebraska community college that is estimated to be 139% of its 2022-2023 general fund property tax requirements.<sup>1</sup> This college will get essentially the same increase to its baseline without an increase in its levy that SCC can only get with a levy increase. Indeed, this other college will get exactly the same baseline even if it reduces its levy, which puts it in the enviable position of establishing a favorable baseline without alarming property taxpayers.

I do not understand the reason for the disparity in the way that several colleges are treated with respect to establishment of the CCFF baseline. I know that during the legislative session, SCC’s representatives tried, without success, to have changes made in the bill that would have put SCC in substantially the same situation as some of the other colleges. If LB 243 *automatically* established a sufficient CCFF baseline for SCC (as it does for the others), then our Board could also promise not to increase our general fund levy in September. That is not the case, however. To put SCC in substantially the same place as some of the other colleges with respect to the CCFF baseline, it will be necessary for our Board to increase the general fund levy.

I would submit that, if our Board does not increase the general fund levy, the consequence will be that some colleges will automatically have a baseline that will meet their future needs while the economic good health of SCC will be put in jeopardy. It is fair then to ask this question: Do SCC’s income and sales taxpayers want to more fully support colleges outside of the SCC service area while the needs of our own students and our own business and industry go at least partially unmet?

#### **Challenges of Interpreting Percentage Change in Establishing CCFF Baseline in 2024-25**

Your letter appears to suggest that the percentage increase in SCC’s proposed 2023-24 budget is different than what is being proposed by the other colleges. As shown above, the percent increase is similar to the estimated 39% increase from the 2022-23 budget that one of the other Nebraska community colleges will automatically receive to establish its CCFF baseline in 2024-25. Your letter does **not** include the same concern in relation to approximately the same increase for that college. This may be due to the fact that SCC is required to set its 2023-24 budget with a tax levy rate that produces the same result that its peer institution receives automatically. The other critical factor in interpreting these percent increases is that both SCC and this peer institution were well below their spending authorities, which results in a larger percent change when the 2024-25 CCFF is established automatically in the case of one of our peer institutions or through required action in the case of SCC. Other colleges that are currently using a higher percentage of their spending authority will have lower percent increases as a result.

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<sup>1</sup> There are other colleges that will benefit from the 7.5-cent alternative baseline computation. I am focusing on one Nebraska peer institution because their situation provides the clearest illustration of the disparate treatment afforded to SCC as compared to some of the other community colleges.

## **SCC Property Taxpayers Will Receive a 100% Income Tax Credit for All Property Tax Paid to SCC in 2024**

It is critically important for all property taxpayers to understand that they will be eligible to receive ***a 100% tax credit for all property taxes paid to SCC as a consequence of the budget decisions to be made by the Board in September 2023.*** The 100% tax credit will apply whether the Board increases the levy rate, decreases the levy rate, or leaves the levy rate unchanged. Those taxes will be payable during calendar year 2024. An affected taxpayer will receive a 100% income tax credit when he or she files his or her 2024 Nebraska Income Tax return on or before April 15, 2025. There is no limit to the amount of the tax credit that can be claimed with respect to community college taxes paid during calendar year 2024. This is very real property tax relief and fully consistent with the objectives of the Nebraska Legislature.

In your memorandum you state that: "Saying taxpayers will get their money back in the future does nothing to help alleviate their financial burdens in the present." But, reimbursement for property taxes paid will be delayed for ***all property taxpayers in all community college areas.*** This is a systemic issue arising out of the manner in which the Legislature chose to provide property tax relief. The fact that SCC might make an incremental increase in taxes levied does not convert that systemic issue into an issue that is unique to SCC.

You also state in your memorandum that: "[W]hile the tax credit is 100%, not everyone will take advantage of it." I can assure you that it is the intention of SCC's Board and administration to do everything in our power to bring the availability of this tax credit to the attention of all property taxpayers in SCC's service area. Beyond that, I would note again that the fact that some taxpayers may not take advantage of the tax credit is a systemic problem that will be equally prevalent in all of the community college areas. SCC's incremental increase in property taxes will not convert that systemic issue into something that is unique to SCC.

### **The SCC Levy Will Be Substantially Reduced for 2024-2025 and All Subsequent Years**

The current maximum general fund levy is 9.25 cents per \$100 of assessed valuation, and the current maximum capital improvement fund levy is 2 cents. Effective for the 2024-2025 budget year, SCC will lose its ability to levy a general-fund tax but will retain the right to levy a 2-cent capital improvement fund tax. Assuming that the SCC Board continues to levy a capital improvement fund tax at the maximum levy rate, the upshot will nevertheless be that taxpayers will see about an 80% reduction in the levy rate for 2024-2025 and all subsequent years. Property taxpayers will continue to be able to claim a 100% tax credit with respect to all taxes paid pursuant to the capital improvement fund levy. Again, this is very real property tax relief and I believe fully consistent with the intent of the Legislature.

### **How Our Taxpayers Have Responded to a Possible Levy Increase**

We have endeavored to provide our taxpayers with the same type of information contained in this memorandum by, among other things, meeting with individuals and various interest groups. Our perception at these meetings has been that those individuals and groups have for the most part been supportive of the action taken by our Board in June. I think that those individuals recognize that a levy increase will ensure the following:

- Net zero SCC property taxes paid in 2024 for those filing for the available tax credit;
- SCC education will remain affordable for all area students in both the near and long term;
- SCC will be able to maintain the programs and facilities that are necessary to meet the needs of students and of **business and industry for skilled workers**;
- SCC will receive a fair share of CCFF funding vis-à-vis the state's other community colleges.

In light of the information provided in this response, I encourage you and the other senators you are representing to reconsider your interpretation of Southeast Community College's recent approval of its preliminary 2023-24 budget. The SCC Board of Governors is committed to transparency, open dialogue, and respectful communication in its pursuit of its mission to produce a skilled workforce and to have open access to the life-changing benefits of higher education.

Respectfully,



Neal Stenberg, Chair  
Southeast Community College Board of Governors

C: Nancy Seim, Brandon Gunther, Kathy Boellstorff, Arlyn Uhrmacher, Chuck Byers, Dr. Kristin Yates, Joann Herrington, Dr. James Sherwood, Dr. Carina McCormick, Vicki Haskell, Linda Hartman, and Dr. Paul Illich.