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Revenue Committee
March 14, 2007

[LB169 LB183 LB354]

The Committee on Revenue met at 1:30 p.m. on Wednesday, March 14, 2007, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB183, LB169, and LB354. Senators present: Ray Janssen, Chairperson; Merton "Cap" Dierks, Vice Chairperson; Carroll Burling; Abbie Cornett; Chris Langemeier; Don Preister; Ron Raikes; and Tom White. Senators absent: None.

SENATOR JANSSEN: Good afternoon, ladies and gentlemen. Welcome to the Revenue Committee. For the record, my name is Ray Janssen. I represent District 15. The committee members that are here at the present time; Senator Carroll Burling to my left, Senator Tom White, Senator Abbie Cornett, Senator Chris Langemeier, Erma James is our clerk to my far right, George Kilpatrick is legal counsel. We're going to hear one, two, three bills this afternoon. We are going to change the order a little bit and we're going to move Senator Carlson ahead of Senator Cornett on LB169 because Senator Carlson does have a bill in another committee he may be called to. So we're changing that. I will ask you if you would please turn your cell phones off so they're not disruptive if they happen to go off or buzz or anything like that. They are disruptive. The agenda is posted on the doors outside. And if you're going to testify, please fill out your testifier sheet and have it ready. And when you come up to testify, drop it off at the clerk's table right on the end there and drop it in that little box. Then we will have a record that you were here and testified. Senator Preister has joined us. With that, we'll begin the hearings today. Senator Carlson, would you please come forward and deliver LB183. Senator Dierks, the Vice Chair of the committee, has arrived also. [LB183]

SENATOR CARLSON: (Exhibit 1) Good afternoon, Senator Janssen and members of the Revenue Committee. I'm Tom Carlson, C-a-r-l-s-o-n, of District 38, here to introduce LB183. And a brief introductory comment, I've been fortunate to have had a good career in two different professions and this is a start of a third one for me. However, I never did serve in the military. And the older I get, the bigger that void becomes and I wish I had served. I have a great deal of respect and sometimes it's hard for me to talk about it. For those that were willing to risk their lives and serve us and protect our way of living and our freedoms. And I think that sometimes they need some special attention, special consideration. This bill is in relationship to something I heard much of the time in the last year and a half that I was campaigning for the Legislature. Retired military members can and do take their military pensions and leave for a more welcoming state. Most of you have heard this bill, many other similar ones in years past. We all know that it often takes several years for a piece of legislation to be successful. This is Senator White's first year to hear about excluding military pensions from Nebraska income tax. LB183 would be treated as an adjustment, decreasing federal adjusted gross income on Nebraska returns, for those who receive retirement income after serving in the armed forces. State retirement income exclusions do one of two things; protect the income of taxpayers no longer in the workforce and serve as an economic development tool by

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attracting retirees to move to or help prevent them from leaving our state. According to charts supplied by the Legislative Research, and you've probably seen this many times before, but I would like it distributed. Only seven states tax all or a part of a military pension and that leaves a lot of choices for veterans considering retirement locations. You're hearing a common theme today and I thank Senator Cornett for sharing her experiences on this issue before and again today. This is an economic development chance and I'm as passionate about economic development in Nebraska as I am on about any other issue. Last week, I presented Fiscal Office figures to the Business and Labor Committee concerning taxes paid by an average family in Nebraska. And presuming that this family has an income of \$60,000 and owns their own home, they would pay roughly \$1,500 in property tax, \$1,500 in sales tax, and \$3,000 in income tax per year. So if they choose to move to another state, we don't receive the \$1,500 in property tax, we don't receive the \$1,500 in sales tax. And many retired career military people who choose to live in Nebraska will have a second income. And I think from an economic development standpoint, the higher that second income is the better off we all are. And certainly they would pay full income, property, and sales tax out of that added income. I appreciate your consideration of this bill and I thank you for your attention. And I would be happy to answer any questions you may have. [LB183]

SENATOR JANSSEN: Do we have any questions from the committee? Seeing none, thank you, Senator. Would you waive closing if you have to be gone? [LB183]

SENATOR CARLSON: If I have to, I will waive closing. [LB183]

SENATOR JANSSEN: All right, that would be fine. [LB183]

SENATOR CARLSON: Thank you. [LB183]

SENATOR JANSSEN: Thank you. We will take proponents first, those in favor of the legislation. [LB183]

NED HOLMES: (Exhibit 2) Good afternoon, Mr. Chairman, members of the committee. I'm Ned Holmes, military affairs liaison and representative for the Greater Omaha Chamber of Commerce. I'm also here representing the Lincoln Chamber of Commerce. I'm here to speak as a proponent for LB169 and also we support LB183 and LB354. I do want to thank the committee for this opportunity. There are three issues at our state now which we are going to face as we move forward. One, growing our population. Two, increasing our tax base. And three, developing a talented workforce for Nebraska employees. Each of these bills address or help address all three of these issues. Exempting military retirement benefits from income tax encourage retired military people and their families to call Nebraska home. Currently, many other states offer some sort of income tax exclusion for military annuity benefits, putting Nebraska at a disadvantage when trying to attract this population of people, especially those states who have

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mountains, oceans, and a more moderate climate. They probably also have wind. But a footnote to that, you may think of annuity as retirement pay. But in fact, it amounts to typically less than one half of the pay and benefits of the active duty military people. Therefore, the vast majority of these folks are actively seeking employment following their service to our country. These individuals are typical high-skilled, highly skilled with advance degrees who are assets not only to a state's workforce but obviously also to our tax base. I'm hard-pressed, we're hard-pressed to give you any other example of a skilled, experienced, and highly disciplined workforce that is able to enter our labor force at the ages of between 38 and 45 years of age who are motivated to contribute another 20-plus years to a second career, years that might be spent working for a defense contractor, years also spent paying taxes, property taxes on their homes, income taxes on what they and their spouse earn in their second careers, and sales tax on the items that they purchase. The defense industry is a targeted industry group for the Omaha Chamber of Commerce and we have really devoted significant resources to encouraging existing contractors to expand their presence in our area in our state and also to bring new companies to established offices here. I have personally had defense contractors say to me, we may not always lose candidates but the state of Nebraska loses the tax revenue when the people move to Iowa. Another one said, our company has hosted two job fairs and the number one obstacle has always been Nebraska taxes. In closing, we're working closely with interested parties to bring more missions to Offutt and to our military community. As we succeed in doing this, existing business opportunities for defense contractors will be solidified and new missions will bring new work and new companies. Forwarding and enacting these or one of these is a cornerstone to securing the workforce necessary for this important segment of our economy. Subject to any questions that you might have of me...yes, ma'am. [LB183]

SENATOR JANSSEN: Any questions? Abbie. [LB183]

SENATOR CORNETT: Ned, in the region, who would you say is our biggest competitor for retirees returning to the workforce? [LB183]

NED HOLMES: Well, clearly Colorado, clearly any of the southern states. Of course, Texas has no state income tax, that's a large employer in Texas, the state of Florida. But immediately around us, just as I indicated, the state of Iowa, just in terms of a place where people would live, reside, and then maybe work in our state. [LB183]

SENATOR CORNETT: Okay. But Colorado is what you feel is probably... [LB183]

NED HOLMES: Very definitely. [LB183]

SENATOR CORNETT: ...our biggest competitor? [LB183]

NED HOLMES: Colorado, California, the District of Columbia area, Florida, Texas, right.

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[LB183]

SENATOR CORNETT: Okay. Thank you very much. [LB183]

NED HOLMES: Yes, ma'am. [LB183]

SENATOR JANSSEN: Don? [LB183]

SENATOR PREISTER: Mr. Holmes, thank you for being here. [LB183]

NED HOLMES: Sure. [LB183]

SENATOR PREISTER: You represent veterans but you also represent the chamber of commerce, is that what I heard you say? [LB183]

NED HOLMES: The business community, yes, sir. [LB183]

SENATOR PREISTER: The chamber has advocated for a number of different tax reduction measures again this session, in addition, some incentives. Can you give me an idea where this is in the chamber's priority of all those things that you're looking at? [LB183]

NED HOLMES: You know, I really can't. I really can't tell you how we would prioritize this with the other bills or the other legislation that is within the committees. [LB183]

SENATOR PREISTER: Okay. [LB183]

NED HOLMES: But clearly, when I indicated that we have identified targeted industry groups--one of which is IT, another of which is defense--that we know part of our community DNA, we are reaching out, we are spending a lot of time and resources to attract people and companies into our area. And so it clearly is a very important aspect of our economic development representing our business community. There's a lot of components to that. [LB183]

SENATOR PREISTER: And I can appreciate that you wouldn't be able to give the priority. [LB183]

NED HOLMES: Yes, sir. [LB183]

SENATOR PREISTER: Just as some feedback, and I particularly appreciated the heartfelt and emotional response when Senator Carlson was introducing the bill because I really sensed that he felt for veterans. And I, as a veteran myself, appreciate his comments. [LB183]

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NED HOLMES: Sure. [LB183]

SENATOR PREISTER: So I'm grateful for those and I sense the same from you. [LB183]

NED HOLMES: Yes, sir. [LB183]

SENATOR PREISTER: We as a committee are going to have to make that priority choice. And we, I think, as a committee want to give back as much of the revenue as we have and do it as broadly across the base of taxpayers as we can do. So if this doesn't make the cut, it is in no way a reflection of any disrespect to any veteran. But it's a matter of, how can we reach the veterans and a whole lot of other people at the same time? So we may end up doing--and I can't speak for the whole committee--we may end up doing some of this but in a different bill, in a different fashion. So I think we will help veterans, whether it's in this way or not. Thank you. [LB183]

NED HOLMES: Yes, sir. Well, I think an interesting acknowledgment of that would be, the more we broaden the note, of course, the larger the fiscal note. But then I think implied in that would be the fact that we recognize that we will increase the revenue to the state because of the additional people we will draw. So it's kind of an interesting point that you make, if it continues to be broadened. [LB183]

SENATOR JANSSEN: Any other questions? Seeing none, thank you very much for being here. [LB183]

NED HOLMES: I would like to turn to Mr. DeCarlo here who will follow me, sir. He's just right here. [LB183]

ANTHONY DeCARLO: (Exhibit 3) Good afternoon, Senator Janssen, distinguished members of the Revenue Committee. I'm Anthony DeCarlo, D-e-C-a-r-l-o, and I'm representing the Nebraska Military Coalition, which is composed of the Ak-Sar-Ben and Lincoln chapters of the Air Force Association, Nebraska chapter of the Air Force Sergeants Association, Fleet Reserve, the Heartland chapter of the Military Officers Association of America, and the National Guard Association of Nebraska. State agencies indicate Nebraska has a shortage of skilled, trained, and experienced workers, a problem that is expected to continue through the next decade unless innovative strategies and actions are taken to grow Nebraska's workforce and population. The members of the Nebraska Military Coalition believe retired military and their families, the Guard and Reserve, are an invaluable and available human capital resource that can help offset labor shortages being created by net out-migration of skilled and trained Nebraskans and retiring baby boomers. Military retirees can also support the labor and population growth needed for new and diversified industries critical to Nebraska's future

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economic strength. "The Future of Higher Education for Nebraska," a document revised August 9, 2005, states "the state of Nebraska is at a pivotal point in determining its future. In this information age, higher education and technology are more important than ever before...employers are demanding a workforce that can keep pace with an explosion of knowledge and rapid technological change." The following is from the "Comprehensive Statewide Plan for Postsecondary Education in Nebraska," revised April, 2006. "Employers in Nebraska face many critical issues and challenges. Shortage of skilled and trained workers exist throughout the state. Employers need college graduates and trained workers who have extensive and varied knowledge, skills, and demonstrated competencies that prepare them for entering and succeeding in the workforce." The Nebraska Department of Economic Development's June, 2006, annual report states, "to be successful, DED believes that economic development initiatives and policies must: attract human and financial capital from outside the state; grow a readily available, quality, and skilled workforce that retains the state's best and brightest youth and attract a new employee and population base to meet the changing needs of businesses and industries." DED also states, "recruiting people, not just for jobs, but also to increase the population and customer base for Nebraska businesses is a top priority for economic developers...finding new ways to attract people to communities is probably the next economic development strategy that will require incentives and creative approaches." In 2005, 62,007 people retired from the active military, the Guard, and Reserve. A similar number retire each year. This is a well-educated, trained, and experienced labor pool highly recruited by industries, businesses, and other states. Tapping this valuable labor pool will, as DED states, "require incentives and creative approaches." Why are the military retirees different from those who retire in the civilian sector and why are they in so much demand? The answer is that the military personnel system is designed to maintain a force of young people. Consequently, the system actually requires people to leave the military when they are at a highly productive point in their lives. And they are recognized for the following reasons: the mean retirement age is 43; 73.5 percent of enlisted personnel have some college credits, 16.5 percent have associate degrees, and 5.6 percent have bachelor degrees or higher; all commissioned officers have bachelor degrees--it's a must, you can't be commissioned without a degree--and many have graduate degrees; many have security clearances, a requirement needed for most defense and technology jobs; many have training and experience in highly technical fields; statistics indicate they continue to work until 60 or 70 years of age; most spouses have valuable skills and also work, which contributes to the economy; Julie Myers-Gell, recruitment manager for the University of Rochester in New York, said, "they're a phenomenal resource valued for their leadership, flexibility, teamwork, and dedication." The value of the military retiree is recognized by many Nebraska employers. For example, Barb Schafer, Union Pacific senior vice president for human resources, announced, "Union Pacific will lose over 40 percent of their employees over the next decade as employees reach retirement age." She further stated, "Union Pacific targets people who are leaving the military, particularly those who are retiring or looking for employment while remaining in the National Guard or

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Reserves." Her reason for targeting people with military experience is, "many railroad jobs, such as diesel locomotive mechanics, electricians, and railcar mechanics are well-suited for the military members who have developed similar skills working with military equipment." Mr. Glenn Fosdick, president and CEO of the Nebraska Medical Center, made this comment about Nebraska healthcare and military retirees. "As we experience an increasing demand for physicians and healthcare workers to care for our aging population and move forward providing world-class healthcare in our region, we must look at all means necessary to retain and attract professionals to our communities. Retired military physicians, ancillary healthcare workers, and other high-tech workers comprise a significant pool of skilled professionals needed in Nebraska communities. Retired military personnel and their families offer a ready resource available to be tapped." The Nebraska Chamber of Commerce, Nebraska Department of Economic Development, Nebraska Diplomats, the Greater Omaha Chamber of Commerce, and the Lincoln Chamber of Commerce hired KPGM to complete a comparative analysis of Nebraska's tax and incentive climate study. One of the conclusions included, "without the demographics to support economic growth, decision makers will invest elsewhere. This trend will feed on itself, causing a downward spiral which will damage the state's economy." And the Kiewit Diversified Group, as you may remember, moved to Broomfield, Colorado, which is an example of decision makers investing elsewhere. When Kiewit made this move, they did so because they did not believe Nebraska had a readily available and skilled workforce. As a result of Kiewit's move, Colorado ended up with 1,770 new jobs with an average salary of \$73,574, a capital investment of \$130 million, and 30 to 40 executives from Nebraska. Other state governments have recognized the value of military retirees as human capital and are actively recruiting them and creating incentives to encourage them to move to or remain in their state. New Jersey and Wisconsin recently passed bills that exempt all military retiree pay from state income tax. Minnesota has done the same and as an added incentive, Minnesota has tied education programs to the tax exemption bill to cover up to \$10,000 in tuition at Minnesota colleges, technical schools, etcetera. New Mexico's Senator Shannon Robinson, they also have a bill before their legislature right now, "what we are trying to do with this legislation is attract highly technically evolved and educated people into the state of New Mexico, and that's our military retiree." Service members are provided quite a bit of material prior to leaving the military. The following is included in a chapter from the Department of Defense Transition Assistance Program titled "Choosing Where to Live." "Job potential: which community is most likely to offer job opportunities to match your skills? Affordability: compare local, state income, property, and sales taxes. Does the state tax your military retirement pay?" Now those are right out of the manual. In conclusion, Nebraska state agencies indicate Nebraska has a labor and population shortage. If Nebraska wants to encourage military retirees to stay in the state or move to the state as part of a strategy to help grow population and recruit skilled and trained workers, then we strongly suggest the Revenue Committee support legislation that will exclude military retired pay from state income tax. And legislation not designed to compete with any one state, but legislation designed to enable Nebraska to compete

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with all states for the military retiree. Are there any questions? [LB183]

SENATOR JANSSEN: Any questions? [LB183]

ANTHONY DeCARLO: Thank you very much. [LB183]

SENATOR JANSSEN: Don't see any. Thank you, sir, for being here. [LB183]

ANTHONY DeCARLO: Craig Strong will follow me. [LB183]

SENATOR JANSSEN: How may more proponents do we have? A couple more, okay. Try to tell us something we haven't heard, if you would, please. Okay. [LB183]

CRAIG STRONG: (Exhibit 4) Good afternoon, Chairman Janssen and members of the Revenue Committee. I'm Major Craig Strong, S-t-r-o-n-g, and I sit on the board of governors of the National Guard Association of Nebraska. I'm representing the membership, which includes all commissioned officers and warrant officers in the Nebraska Army and Air National Guard, and a large number of retired officers as well. At their request, I'm also representing the Enlisted Association of the Nebraska National Guard, whose membership includes a large number of current and retired enlisted members of the Nebraska National Guard. It's not well-known, but today's current National Guard is nearly 4,200 members strong. Let me simply tell you that we support the goals and intent of all the bills before the committee today; LB169, LB183, and LB354. Today, the National Guard's role as a wartime force is greater than any time since World War II. The traditional Guard role of homeland defense took on even greater importance following September 11. The Guard has transformed into performing a full spectrum of missions and we are both the nation's and the state's force that is always ready, always there. For example, the Nebraska National Guard has now deployed nearly 98 percent of its members in the past five years. I'm a proud part of that 98 percent that has deployed, as I was a company commander for 12 months in Iraq during 2004 and 2005. Currently, approximately 850 Nebraska Guard members are mobilized. And just one month ago, I joined many of you as we honored some of these National Guard combat veterans with a ceremony in the Capitol's Warner Chamber. Some of our soldiers are now facing their second mobilization in less than five years, which certainly has an impact on the members, the family, and their employer. Despite our sustained high overseas operation tempo, the Nebraska National Guard along with our active duty brethren have answered the call to support our neighbors to the south following Hurricanes Katrina and Rita. We next answered President Bush's call to support homeland defense by deploying a helicopter surveillance unit to the Arizona border in support of the U.S. Border Patrol's plan of action to better secure and protect our nation's borders. Back home, our National Guard members continue to serve their communities and the state of Nebraska. In the past year, the National Guard played a vital role in the well-executed fire suppression efforts that battled the wildfires that

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devastated parts of western Nebraska in both the Chadron and Valentine area. And we remain ready to support our fellow citizens at a moment's notice. As you can see, our soldiers and airmen are being used on almost a daily basis. This change will have consequences that our leaders must deal with, including the more frequent mobilizations that we are seeing now. And there is no doubt that the transition is also having an impact on our retention, especially our mid-career officers and enlisted personnel. We're seeing more people leaving the Nebraska National Guard before they qualify for retirement benefits than in the past. When this happens, we lose critical jobs and leadership skills that cannot be easily replaced. This drives training costs up and our capability to support the state and nation down. We see LB169, LB183, and LB354 as tools that can be used to help retain members who are on the fence when it comes to staying out or staying in for another five or ten years and earning a military retirement. We also think this bill has the capability to help in recruiting prior service personnel to stay in Nebraska or come to Nebraska to finish their military careers in the Nebraska National Guard serving Nebraskans. Let me point out a couple of other points on these bills. All of these bills impact the entire state since our army and air units are located across the state. We're just as interested in keeping soldiers in O'Neill or Hastings in the Nebraska National Guard until they earn a retirement as we are in soldiers staying in Fremont or a Wahoo unit. Another point worth mentioning is that over the last decade, Nebraskans lost 3,800 (sic) college graduates to other states. They made those moves for a number of reasons, some personal, many economic. This economic basis cannot be easily overlooked. One fact that exacerbates the economic basis for moving can be illustrated when a soldier living in western or northwestern Nebraska can simply move a few miles to Wyoming or South Dakota and have their entire military retirement exempted from taxes. In fact, soldiers and airmen living along our borders can move to any of our neighboring states after retirement and see some financial benefit from doing so. By moving out of Nebraska, these soldiers and airmen are also moving highly sought over and talented skills out of our state. And as others have testified, there's a dire shortage of these skilled, trained, and experienced workers. All commissioned officers have bachelor's degrees and one point that has not...to further elaborate on is that across the board, 99.9 percent of Nebraska National Guard forces have completed a high school degree, compared with 93 percent of the general population. Moreover, the military retiree enters the civilian workforce with additional training that has been provided through his military service. This typically includes multiple advanced technical training, as well as leadership schools and training. These value-added skills and traits transform our military retiree into a human resource that can immediately contribute to Nebraska's economy. Therefore, when a soldier or airman decides to retire in Nebraska, the state benefits by retaining a skilled and disciplined workforce. The military retiree is unique in another way since the military retiree retires much younger than its civilian counterpart. In fact, the mean age, as you've heard earlier, is 43. And the vast majority work a second career for another 15 to 25 years. On a personal note, I will be eligible for retirement in June of this year, just four months from now. In addition, most military retirees living in Nebraska will probably have a

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spouse and a child who will pay the state income tax, sales tax, and property taxes to Nebraska. The family will also be paying sales tax and property taxes. For all these reasons, our association supports LB169, LB183, and LB354. We believe any one of these bills will have a positive impact on our current, future, and retired members of the Nebraska National Guard who have volunteered to serve their communities and nation. We see these bills as readiness and retention tools that will have an incredible potential to be an economic stimulus in communities around the state. As I mentioned earlier, the Guard soldier is always ready, always there. Likewise, to play off of that theme, we desire that our Nebraska Guard soldiers always retire, always here. I urge you to vote one of these bills out of committee and to the floor of the Legislature for consideration. Thank you for this opportunity to testify today and I stand ready to answer or address any of your questions that you may have. [LB183]

SENATOR JANSSEN: Thank you, Major. Any questions? I don't see any. [LB183]

CRAIG STRONG: I'll be followed by Sergeant Major Robin Lahm. [LB183]

SENATOR JANSSEN: All right. [LB183]

ROBIN LAHM: Good afternoon. Thank you for this opportunity. I'm Sergeant Major Robin Lahm. I am here representing myself and my husband, Chief Warrant Officer 4 Dean Lahm. As you can see, I do not have a prepared script because I'm going to speak from the heart. I'm going to speak as a potential military retiree. I have 27 years of service in the Nebraska National Guard. I am not one that meets the model. I am 53. My husband has 35 years of service in the Nebraska Army National Guard and he is 54. We are making the decision to retire soon and it is fully our intention to not retire in Nebraska, even though I've been here for 40 years and he's been here for 54, because our retirement dollars will go farther in Arkansas where we plan to retire. That is our reasoning. We have a child that lives in South Dakota and one that lives in Nebraska. And we have grandchildren in South Dakota and grandchildren in Nebraska. But as we look upon our future, we must decide where our retirement dollar is going to go the farthest. And we believe that it is not in Nebraska. The income tax savings will help that for our military retirees. We fully expect that there are more reasons to stay in Nebraska but we do have to look to see where our dollar will go the farthest. Nebraska has been home for us for a very, very long time and we love living in Nebraska. But we have to look for our long-term benefits as military retirees. And we as well, being as young as we are when we retire, will continue to work. Now my husband's goal is to mow the golf course, wherever that golf course may be. But I do have my bachelor's degree in human relations. I am getting my endorsement in gerontology. So it's fully my intent, for when I retire, to work as an advocate for the elderly. So that service will be lost for Nebraska as well, as I plan on doing that wherever I might live. So I'm speaking as Robin Lahm to the committee, someone who has been very blessed to serve the country and their state and would ask that you consider these bills to make it so those of us that really find

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Nebraska our home as a place that we can stay as military retirees. Subject to your questions, I appreciate your listening. [LB183]

SENATOR JANSSEN: Any questions? Senator Dierks. [LB183]

SENATOR DIERKS: Sergeant Lahm, I don't want to be personal, but could you give us some indication of the amount of savings that you would have by not having to pay income taxes in the state? [LB183]

ROBIN LAHM: Yes, sir. We fully expect to be in the above \$60,000 range. So we will save at least the \$3,000 in our income tax for our military retirement, plus there are other tax savings in other states that are available. [LB183]

SENATOR DIERKS: That's for the two of you or is that... [LB183]

ROBIN LAHM: Yes, sir, for two of us. [LB183]

SENATOR DIERKS: Thank you. [LB183]

SENATOR JANSSEN: Any other questions? Robin, I might say that you look a day over 25. (Laughter) [LB183]

ROBIN LAHM: Thank you. Now you're my best friend. Thank you. [LB183]

SENATOR JANSSEN: Thank you for being here. [LB183]

VIRGIL JACOB: Senator Janssen, committee members, my name is Virgil Jacob, J-a-c-o-b. I served in the United States Air Force for 20 years, 10 months, and 4 days. I flew combat missions in Korea, Vietnam, and all during the Cold War I was either on alert or stationed somewhere all over the world. First of all, I'd like to thank you, Senator Cornett, for introducing these bills and also Senator Carlson. I appreciate it very much, as all veterans do. For many years, us veterans...and a matter of fact, I was born and raised right here in Lincoln, Nebraska. And for many years, the veterans that I know and myself, of course, have watched the states around us and all over the country to give the veterans a benefit of a little tax relief. I think it's a very noble idea and I would certainly go along with it. And for instance, and as far as keeping the veterans here in the state of Nebraska, I personally know some people, some veterans that I know personally, that have left this state because of the high taxation. My federal adjusted gross income is fairly low. All I get for my federal pension and it's all I have for income right now, is a little over \$16,000. The taxes on the house that I'm paying right now is \$16,950 (sic), which is over 10 percent of my federal adjusted gross income. I have certainly thought about leaving the state because of this reason, but I love the state and I was born and raised here. All my children, three of them, went to school here and are

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doing real well. It's a matter of economics, if we can live a little better life. I only have maybe a few years left in my life. I'm 77 years old. And I'm sure there's a lot of older veterans that could surely appreciate a little bit of tax relief. And also one other thing I'd like to mention is, I have been an advocate of the homestead exemption that the state of Nebraska has and it works fine. The only problem is, because of my low income and what the state adds to my Social Security, which my wife and I both worked for 20 years after I left the service here in the state of Nebraska, we worked for over 20 years here in the state of Nebraska and we draw our Social Security. And in figuring this homestead exemption, you add your federal adjusted gross income and what you make for or get from your Social Security. And to me, Social Security, wife and I paid into it for 20 years, it seems like I bought that. I didn't earn it. Well, I guess I did in a way. But then I feel like I paid for it and now the state of Nebraska uses it to figure my taxes. I don't think that's right or fair at all. Like I said, I have some people that have left this state before. And I would certainly appreciate, and I'm sure all veterans would, for a little bit of a tax relief and could keep more of them here in this state. Once again, I'd like to thank you, Senator Cornett, for introducing these bills. I think it's very noble of you. And also you, Senator Carlson. Any questions? [LB183]

SENATOR JANSSEN: Questions? Cap? [LB183]

SENATOR DIERKS: Virgil, you said you were in the Korean War? [LB183]

VIRGIL JACOB: Yes, sir. [LB183]

SENATOR DIERKS: As a flier? [LB183]

VIRGIL JACOB: I was a flight engineer on B-29s, yes, sir. [LB183]

SENATOR DIERKS: Strategic Air Command. [LB183]

VIRGIL JACOB: I beg your pardon? [LB183]

SENATOR DIERKS: The Strategic Air Command? [LB183]

VIRGIL JACOB: Yes, sir. [LB183]

SENATOR DIERKS: I was, too. [LB183]

VIRGIL JACOB: I was in SAC for 17 of my 21 years. [LB183]

SENATOR DIERKS: How about that? [LB183]

VIRGIL JACOB: Yes, sir. As a matter of fact, I was very fortunate, sir. When I came

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back from the Korean War, I was so fortunate to get stationed right here in Lincoln, Nebraska, when it was an air base. (Laugh) And I was in the 307th Air Refueling Squadron for a long time. Yes, sir. [LB183]

SENATOR DIERKS: It's good to meet you. [LB183]

VIRGIL JACOB: You bet. Thank you, sir. [LB183]

SENATOR JANSSEN: Any other questions? Thank you, Virgil, for being here. [LB183]

WILLIAM MOORE: Greetings and welcome. Glad to be with you and appreciate your bringing about this opportunity to speak at this group and concerning this bill. My name is William P. Moore, W-i-l-l-i-a-m, Moore, M-o-o-r-e, and things go along with that, chaplain, lieutenant colonel, retired, U.S. Army. My military life started the 8th of May, 1945. You might remember that, happened to be VE Day that I was drafted and took my one step forward at 18 years of age. I spent 17 weeks in infantry training in Texas, Hood all summer. The war ended while we were in our 15th week so we were sent to Fort Myer, Virginia, and were MPs in Washington, D.C. We rode trains, we did MP duty throughout the city. I was selected for army crime school and I thoroughly was glad to be selected for that. Went back then to Fort Myer and became an investigator in the provost marshal's office in Washington, D.C., had the opportunity to serve under Dwight Brewer (phonetic), National Medal of Honor winner in the China, Burma, and India area. So after that, I was commissioned through the ROTC program, University of Nebraska, 1949. Spent ten years as a reserve line officer, military police, and went to many different places for various engagements throughout that time on short-term basis. In 1949, I switched from law to grace, having received my master's degree from Northwestern and seminary there, and became a chaplain. I moved across as a captain to chaplaincy and I served from 1959 to 1977 as a chaplain. Conducted many military funerals in the Chicago area during the Vietnam War. My total experience was 32 and a half years military. I come from a family that, my father spent 100 days in World War I on the front line. My older brother had 55 combat missions in the South Pacific. My other brother was 13th Airborne in Europe and he broke his back while he was in a night jump. Presently, we have a grandson, three-striper, 82nd Airborne, master jumper in Iraq. I thought about the economic situation and I've heard a lot about the economic situation. But I'm a chaplain. I'll always be a chaplain. I'm concerned, as I read Sunday morning's paper, a number of flags in the obituary column. What were their ages? Most of them, higher percent, over 80 years of age and that's my age, 80 years of age. And that's the concern I have. The greatest generation of the world is out there and they need to be recognized. And you have the power to recognize them, to do something for them, those that battled in Korea, in the cold, cold winter, those that gave much in Vietnam. I'd like us to talk about them and those retirees that may need some help. The 80-year-olds are looking to have to pay \$35,000 a year for health coverage, living beyond their home, being served by an army of capable people--nurses, aides, and so

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on. I'm here for them. I hope the economic situation in Omaha doesn't cause us to lose out on doing something for the great generation. We are the last...I've seen it written quite a number of times that Nebraska is one of five that do not pay. I've read that in the Omaha paper several times. I don't know whether that's true or not. But I know Nebraska is very high on football. We want to be in the top ten in football. And we're not happy with staying at the bottom five in Nebraska as veterans. I hope that we can do something about that. We need to really recognize and appreciate these that have gone before us. They deserve to be brought up with other states. There needs to be a retirement awakening and to remove this state from the tax burden for the retired people. Nebraska needs to keep its retirees and it also needs to stop the brain drain. I've gone to Offutt Hospital a few times, several times. They take care of my eyes. They used to take care of urology. The last two physicians in the area of urology, one went and set up business as he retired and he went to Kearney. The other one, his wife had a business in the medical field in Omaha and he left and went to be in that area of service in Omaha. Now we have no one available for urology at Offutt. It's closed, it's gone, it's not there anymore. They say, go see your local doctor. So please, I've stood by too many grave sides from Vietnam. They didn't have enough chaplains in that area of Chicago to bury the dead. And so they would activate us for two days to go and meet a family and share the most important moments of life and death. I beg you to do something. Do you have any questions? [LB183]

SENATOR JANSSEN: Any questions? Don't see any. Thank you very much for your testimony. [LB183]

WILLIAM MOORE: My income from Army retirement is \$13,200 a year. I'm here for others, not particularly for me. [LB183]

SENATOR JANSSEN: Thank you. Any other proponents? [LB183]

JAMES BYRK: Senator Janssen, committee members, other senators, Senator Carlson, thank you very much for introducing LB183, and Senator Cornett as well. I've spoken to your staff recently in the past in this regard in previous years. [LB183]

SENATOR JANSSEN: Would you state your name, please? [LB183]

JAMES BYRK: My name is James Byrk, B-y-r-k, and I'm a retired U.S. Air Force lieutenant colonel. I've been a resident of Nebraska since 1981 when I retired from active duty at Wright-Patterson Air Force Base, Ohio. I never served in Nebraska while on active duty. I was a nurse anesthetist, a CRNA, a job that paid considerably more as a civilian. It was my choice to stay in the military and I would do it again, with one difference. I would not choose Nebraska as my home because of its punitive taxes. I came here because I was offered a job that paid well and the taxes did not seem as severe before LB775 shifted the burden from business to the middle class. Many states

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also taxed military retirement at that time and most have since exempted military retired pay from the state tax, including my home state of New York. I believe, I heard it was four states including Nebraska that continued this. Senator Carlson said seven. Military service has never been a chosen calling for the majority of Americans. And since the end of the draft, this fact has become more apparent. The burden placed on those who choose to serve today is far greater than it was in 1961 when I was commissioned. The thing that we share is that we were and we are willing to go where others will not to do that which others will not. Those of us that serve for 20 or more years have, in effect, put part of our lives on hold. In many ways, we are starting at a point where those around us were 20 years ago; buying a house, upgrading job skills and education, and all the while dealing with age and possible infirmity, which is much closer for us. That is why military retirement was instituted, to help us make up for this difference and in recognition of the fact that because of the instability of military life, it is often not possible to accumulate possessions or significant savings. Finally, military retirees often bring needed skills that contribute to the local economy. We pay tax on the compensation that is earned here. Taxing that deferred compensation, military retirement, is discouraging and excessive. And I ask that the Legislature pass LB183, that will exempt all military pay from state income tax. Thank you. [LB183]

SENATOR JANSSEN: Any questions? Seeing none, thank you for being here, James. Are there any other proponents? [LB183]

JAMES BYRK: Thank you. [LB183]

RALPH HEALEY: Good afternoon. My name is Ralph Healey and I wanted to make a couple of points. I think the group here has made a number of the good points on the impact of this legislation. I was looking at the fiscal notes on the legislation. It indicates that it would impact the state to about \$13.8 million against 12,000 filers. So the money we're talking about per person or per filer is \$1,151. That's the impact to each individual. And you can see from some of the testifiers that that would make a significant impact on their lives. The second point I have is the cynicism I have of this process. In looking at the senators' priority bills, resolutions, not a single one of the ten advocates of these three bills chose to make this a priority bill. This committee chose as its priority bills property assessment taxation, merging two departments--which in my mind is "administrivia." Another is, change the tax on snuff. You know, (laugh) I don't see that as a really big issue here. That, you know, as compared to taking care of the veterans. Thank you. Any questions? [LB183]

SENATOR JANSSEN: Any questions? Abbie. [LB183]

SENATOR CORNETT: I don't have a question. I have a statement to make. [LB183]

RALPH HEALEY: Yes. [LB183]

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SENATOR CORNETT: I will take into account that you may not understand our legislative process. But I do take offense at the fact that you bring up the fact that we did not prioritize the bill or that I did not, which I have done two years in the past. [LB183]

RALPH HEALEY: Okay. [LB183]

SENATOR CORNETT: All right. Without understanding the legislative process, a snowstorm moved this hearing until after the date priority bills were due. There is no guarantee this bill will make it out of committee. Therefore, there is no reasonable expectation of anyone prioritizing it; in the Legislature or in this committee. [LB183]

RALPH HEALEY: Um-hum. [LB183]

SENATOR CORNETT: If this bill makes it out of committee this year, one of them, there is nothing to say that I will not prioritize it next year. But I do take exception to the remarks that you made. [LB183]

RALPH HEALEY: Well, but there again, this bill was going on for year after year... [LB183]

SENATOR CORNETT: I understand that. [LB183]

RALPH HEALEY: ...kicking it down the road. And quite honestly, I think this is, you know, you're pandering to the military retirees in your districts by saying, oh, look, I put this bill in, I didn't expect it to go anywhere (laugh) but I put it in. That's how I view this. [LB183]

SENATOR CORNETT: You can have your opinion but you are not, you do not need to contact my office again. [LB183]

RALPH HEALEY: Okay. [LB183]

SENATOR JANSSEN: Thank you. [LB183]

RALPH HEALEY: Thank you. [LB183]

SENATOR JANSSEN: I believe that was all of the proponents, am I correct? Do we have any opponents? Opponents? Those in a neutral capacity? With that, Senator Carlson, would you like to close? [LB183]

SENATOR CARLSON: Senator Janssen and members of the Revenue Committee, I want to thank each one but one of the testifiers today. Much of it was emotional sharing.

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Military people have contributed much to preserve and enhance our way of life. And in Nebraska, reversing the population-out to population-in trend must be a priority. I believe the best plan for long-term tax relief in Nebraska is expansion of the taxpayer base. The ideal population to attract, to expand our tax base is composed of brave, persistent, educated, intelligent, industrious people. Where better than our retired military? These people took great risk for us. And most of the time, we must take a risk to fulfill our goals and objectives. I thank you for your time and consideration and encourage your courageous consideration of LB183 and the other bills that you'll hear today. There is no place like Nebraska. And through our efforts, more and more people need to know that's a greater and greater truth. Thank you. [LB183]

SENATOR JANSSEN: Thank you, Senator Carlson. That ends the hearing on LB183. Senator Cornett, to introduce LB169. [LB183 LB169]

SENATOR CORNETT: Good afternoon, Senator Janssen and members of the Revenue Committee. My name is Senator Abbie Cornett, C-o-r-n-e-t-t. I'm here to introduce LB169. My first year in the Legislature, I introduced Senator Carlson's bill, which was a full exemption for military retirees at one time. It has been an education process, being in the Revenue Committee. And I have learned that the state cannot reasonably expect to fully exempt the military at one time, considering the needs of the other taxpayers in the state. Therefore, I've introduced LB169 and, following, LB354. I'll explain LB169 first. LB169 would exempt military retirement benefits from income tax, beginning with 2007 tax year. Ten percent of the retirement benefit would be exempt from state income tax. There would be a 10 percent increase each year after until 100 percent of the retirement benefits were exempt in the year 2016. Money is leaving our community, money that supports our businesses, helps build our homes, and that keeps our young people from leaving the state. Offutt Air Force Base is a critical component to the state of Nebraska and my home community, Bellevue. It is very important to economic development and LB169 is key to keeping military personnel in the state and in the metropolitan area to support our communities. Twenty-three states exempt all military retirement benefits from income tax. Nebraska is one of five states that gives no exemption at all. The numbers that Senator Carlson provided you had not been updated recently. I had the current numbers. It's not a reflection on him, it's just I've been involved in this process longer. Minnesota has since exempt. As a result, many of our Offutt families choose to live in Iowa or other states because their military retirements are partially or completely exempt there. We lose these families as employees, as property taxpayers, as consumers, as community leaders, and as good neighbors. I want this trend to stop. I want our military families to know we value them in Nebraska as much as the other 45 states that provide exemptions. I want businesses to know that Nebraska is working towards being progressive in economic development. You'll be hearing from several people this afternoon who are interested in the economic development of Nebraska. I want to thank you for your time and consideration of LB169 and I'd be happy to answer any questions you have at this time regarding LB169 or any

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of the history of the military exemption over the past couple of years. [LB169]

SENATOR JANSSEN: Any questions? Don. [LB169]

SENATOR PREISTER: Senator Cornett, I don't know if you know, but do you know what the federal rules are for military retirement? [LB169]

SENATOR CORNETT: No, I do not. [LB169]

SENATOR PREISTER: Maybe I should have asked somebody else that. [LB169]

SENATOR CORNETT: No, that I do not. But I could provide that information for you. I do have all the federal guidelines upstairs but I do not have them with me. [LB169]

SENATOR PREISTER: Okay. And I ask that because, as I look at Indiana, it says they follow the federal tax rules. And I was just curious. There is a variety, some exempt only \$2,500 and they go up to exempting \$25,000. So there's quite a variance in the states that do this, other than the 23 that you mentioned. [LB169]

SENATOR CORNETT: Yes, there is. That is where we come into LB354, which is the next bill. Nebraska's biggest issue with exempting military retirement, besides providing a benefit for the people that have served our country, is economic development. Our fastest growing area of development in the metro area is IT and defense contractors. Two years ago, the Revenue Committee recognized this growing area and modified the original bill to be what was later known as the defense contractors bill. It was not necessarily what I intended but it brought the issue to the floor of the Legislature and allowed the need to be explained. We run into serious competition with other states in attracting retiring personnel. They retire at an average age of about 45, 44, in there. They return to the workforce. Many of these people are very high skilled and they are very sought after. Nebraska has a very difficult time attracting those people to stay in the state because of our tax situation. With the difficulty of attracting people, we are not able to fully develop our defense industry and our IT industry, which directly affects the missions of the base. [LB169]

SENATOR PREISTER: Thank you. [LB169]

SENATOR JANSSEN: Any other questions? Abbie, I have one. You mentioned five other states, I believe it was, that do not have any exemptions. [LB169]

SENATOR CORNETT: Yes, I have the list on my desk. [LB169]

SENATOR JANSSEN: Do any of those states have military installations in them?
[LB169]

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SENATOR CORNETT: Yes, yes, they do. I'm going down the list in my mind. California has military installations and I'd have to look at the list to be able to tell you. [LB169]

SENATOR JANSSEN: That's fine. But there are, of that five, there are some that do have military installations? [LB169]

SENATOR CORNETT: There are. If you look, though, at the states where the defense industry has developed and the aerospace industry, they are states that offer an exemption; like Florida, NASA, the defense contractors, Texas. Colorado Springs, Colorado, happens to be our biggest competitor for these people and has a very quickly growing industry. [LB169]

SENATOR JANSSEN: Okay. I don't see any other questions. Thank you. We will take proponents first. [LB169]

JIM MUELLER: (Exhibit 5) Good afternoon. I'm Jim Mueller, that's M-u-e-l-l-e-r. I'm the senior manager of the Omaha corporate office for Lockheed Martin Corporation. I'd like to thank the committee for allowing me to provide a defense contractor's perspective of LB169, LB183, and LB354. Lockheed Martin is the country's largest Department of Defense contractor with a total workforce of more than 140,000 employees located worldwide. Our Nebraska operations have nearly doubled over the last four years, now employing over 200 people. And last year we opened a new 86,000 square foot facility in Papillion. These employees primarily support work on Offutt Air Force Base. However, our Nebraska team is also working on other projects in the state, across the country, and, in fact, around the world. To continue to grow operations in Nebraska, Lockheed Martin and the other local defense contractors face a similar challenge; the ability to attract and retain the highly skilled workers necessary to support national security missions. A primary source for this workforce is prior military personnel because they have the technical expertise and, more importantly, they possess current security clearances. Almost without exception, defense contractor personnel must possess security clearances. The current Lockheed Martin Nebraska workforce is predominantly former military personnel and most of them possess top secret clearances. In preparation for my testimony, I checked the Lockheed Martin job listing site this morning. We have 44 Nebraska openings, only one position does not require a security clearance. The value of a security clearance cannot be overstated. To obtain a top secret clearance for a new, uncleared employee takes 18 to 24 months. We cannot wait two years to fulfill contract requirements. Therefore, we must focus on a ready pool of available candidates, i.e. military retirees. I hate to use the term "retiree" because it connotes a group that no longer is in a primary job pool. This is hardly the case. We must remember the average military member is in their early 40s when they complete their military career and almost everyone enters a second career. They are in their peak income earning years and their second career incomes will more than double their

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military pension. Most have advanced degrees. These are skilled professionals who want to grow our defense industry and to grow Nebraska. However, they are in demand throughout the country. To recruit these workers to Nebraska, we must compete with 49 other states. Military members are very mobile members of society, often having relocated more than ten times during their military careers. They will consider many factors when determining where to work when they complete their military service and a key factor is certainly the state tax burden. This factor is a distinct disadvantage for Nebraska because it is one of only five states that fully taxes military pensions. In fact, there are 23 states with no income tax on military pensions. Nebraska gives tax incentives for business to relocate to the state. I request you move LB169, LB183, or LB354 to the floor and remove a disincentive for military pensioners to relocate to Nebraska. We need these skilled workers to make Nebraska defense industry a success. And I will take your questions. [LB169]

SENATOR JANSSEN: Any questions? Seeing none, thank you. [LB169]

JIM MUELLER: Thank you. [LB169]

JAMES GAPINSKI: (Exhibit 6) Good afternoon, Senator Janssen, Senator Cornett, and members of the Revenue Committee. I'm James Gapinski, that's spelled G-a-p-i-n-s-k-i, and I'm representing small business. I'm the president and co-owner of the Spiral Solutions and Technologies, Inc., which is a Nebraska-based business. Spiral Solutions is, like I just said, a Nebraska-owned defense contracting corporation and our headquarters is located in the Scott Technology Center near the University of Nebraska's Peter Kiewit Institute. As I said earlier, I'm here representing small business concerns relative to this legislative action. Spiral Solutions began operations as a small disabled veteran-owned corporation in the fall of 2004 and we presently employ 22 people. We achieved our 8(a) status, which is small disadvantaged certification in March of 2006. Over the past few years, we have experienced tremendous frustration related to attracting and retaining the trained technologywise talent. Our primary recruiting focus has been and continues to be on our retiring military members. We have conducted numerous discussions with potential employees who have uncovered a couple very basic disadvantages to our competitiveness here in Nebraska. The primary issue, and it's nearly always covered in these discussions, deals with the impact the Nebraska tax has on the perspective employees and their families. Let me cite one specific example for you. We targeted a retirement-eligible lieutenant colonel with 21 years of experience but the compensation discussions unfortunately stalled on his perceived requirement that we should compensate him for the nearly \$10,000 a year difference in his disposable income because of the delta or the difference between the tax burden here in Nebraska versus that of Texas. The Nebraska taxation of the military annuity makes it extremely difficult for a small business like ours to compete for the limited pool of highly specialized, uniquely qualified talent against other states which provide tax exceptions for these people. We need to focus on the loss of intellectual

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capital also and then, of course, the fiscal realities associated with building tax revenue for Nebraska. By losing this individual and his family, the state of Nebraska lost a wealth of talent, approximately \$3,100 annual tax revenue from his military annuity, and untold additional tax monies associated with the revenue from his military annuity...or, excuse me, from the state sales tax, the property tax, the motor vehicle taxes, etcetera. If this individual had joined Spiral Solutions, he would have earned approximately \$80,000 with us. The state tax for this amount of income alone would have surpassed the tax revenue generated from his retirement annuity. In essence, the state would have had a slight gain if it had completely exempted the taxation of his retirement annuity. Additionally, by keeping intellectual capital in the state, Nebraska increases its tax revenue from property tax, sales tax, and vehicle tax. As you can see, with the loss of this individual, Nebraska lost money. More importantly, from my standpoint, we lost a highly trained, educated professional with the skills necessary for execution of government contracts. Equally, we've lost the potential capital from his family members, most of which will complete higher education. As an aside or an update on this lieutenant colonel, he recently got promoted and took an assignment to Texas where he plans to retire. His retirement annuity will be approximately \$60,000 in Texas, where he's going to command a contractor's salary in the defense contracting community in excess of \$95,000. He should be coming to Nebraska. According to our business plan, Spiral Solutions will employ 50 people by year 2010. We're ahead of that plan but the availability pool is shrinking quickly. As the average salaries continue to climb, tax revenue for Nebraska climbs as well. We need to work together to attract and retain this talented pool of professionals and their families. When we're successful, Nebraska will win. And that's the message I want to leave you with. Nebraska wins. We need your help to make Nebraska competitive. Thank you for your time and I'll field any questions. [LB169]

SENATOR JANSSEN: Any questions? Seeing none, thank you for your testimony. Next proponent? Any other proponents? Any opponents? Anyone...you have an opponent? Are you a proponent or opponent? Opponent, all right, fine. [LB169]

WILLIAM MOORE: William P. Moore, W-i-l-l-i-a-m M-o-o-r-e. As you remember, I really am kind of concerned about the earlier generations. If we accept this bill, that means that those retirees out there in their 70s and 80s will perhaps not live long enough to ever move into the full value of the deduction. I'm 80 years old, be 81 in July. There's a whole lot more retirees out there in that age group. You had ten years to full deduction and I think you're just throwing away the great generation. That's my feeling. We need to do some tax relief but it needs to also pick up those that have been retired, no longer in the workforce but doing the odd jobs, the community service, and all those things that happen in the local communities on a nonpay basis. Any questions? [LB169]

SENATOR JANSSEN: Questions? Seeing none... [LB169]

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WILLIAM MOORE: Thank you very much. [LB169]

SENATOR JANSSEN: Thank you, Bill. Any other opponents? Anyone in a neutral capacity? Seeing none, Senator Cornett waives closing. And you will open...that ends the hearing on this particular bill, LB169, and we'll open on LB354. Go ahead, Senator. [LB169 LB354]

SENATOR CORNETT: Thank you, Senator Janssen. For the record, my name is Abbie Cornett, C-o-r-n-e-t-t, and I represent the 45th Legislative District. I am before you again today to introduce the second military retirement bill, LB354. This bill differs from LB169 in that there would be a deduction of \$24,000 per military retiree on their state income tax. If there would be a couple who both qualify for the deduction--that is, a couple that is married that are both retired from the military--the deduction would be limited to \$48,000. I will not reiterate to the committee by saying the same information in my opening on LB169. But I will reiterate, this is economic development issues in all areas, not just the defense industry. We are in need of doctors, teachers, and many other professional positions. We are competing with 49 other states for these retirees. This bill is based on what Colorado has in place now, who is our largest competitor. While I don't like comparing other states to Nebraska, it will make us more competitive to the state closest to us for one of our largest industries. I just want to point out, we are still looking for employees which have their training and technical skills in all areas of economic development. George, the legal counsel, and I have spoken a couple times on this bill and he's spoken with my staff. He pointed out that in the definition we have in the bill is broader than we intend. The intent was for this to apply to uniform services of the Department of Defense. I have an amendment which adds the language for military retirement to apply only to uniform services of the Department of Defense. I would like to thank George for pointing this out to me. Further, I spoke with George this morning on the fiscal note and I have some ideas on offering an amendment that we can discuss during executive session. I want to thank you for your time and consideration on this issue and would be happy to try and answer any questions you have at this time. [LB354]

SENATOR JANSSEN: Any questions of Senator Cornett? I don't see any. Thank you, Senator. I'll take proponents. [LB354]

MEGAN LUCAS: (Exhibit 7) Good afternoon. I'm Megan Lucas, CEO of the Bellevue Chamber of Commerce. I'm pleased to represent the Bellevue-Offutt business community. Thank you, Senator Janssen, and thank you, Senators, for allowing me to speak to you this afternoon on this vital issue. The Bellevue-Offutt community supports the philosophy that drives legislative bills, such as LB169, LB183, and LB354. We are supporting this legislation because it will attract and retain an experienced and disciplined workforce, encourage population growth, and expand the tax base. Recruiting talented people, not just for jobs but also to increase the population and

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customer base for Nebraska businesses, is a top priority for economic developers. The majority of Nebraska counties continue to lose population, resulting in lost customers and a continued downward spiral of the local economy. Finding new ways to attract people to communities is probably the next economic development strategy that will require creative approaches. No doubt we have some economic challenges, some of which seem to stem from our inability to compete successfully with other states for productive households. Much of the state exhibits slow or even negative growth. Between 2000 and 2004, only one county experienced population growth faster than the national average. Moreover, our state has demonstrated a tendency to lose highly educated people. Between 1995 and 2000, we had a net loss of more than 4,500 young people with at least a bachelor's degree. Between 1985 and 1990, we lost \$246 million in personal income, about 1.1 percent of the state's total, because of brain drain. Brain drain is an occurrence that has become a point of interest for our state with efforts directed at retaining our college graduates and professional students. The Bellevue-Offutt community certainly supports such efforts to retain our college students. For example, the Bellevue Chamber helped start Bellevue University several years ago and is a huge supporter and a big fan of BU's efforts to educate our state's citizens, employees, future leaders, and even our active duty personnel at Offutt Air Force Base and around the world. But we think that there is another demographic that we should also work to retain and attract--the military retiree. I understand that when you hear the word "retiree," a mental image occurs, perhaps a vision of someone who no longer works a full-time job. But we are not talking about the traditional in that sense, retiree. A military retiree is not retired from work, simply retired from military service or a military career. They say that the average person will go through as many as five to seven career changes in their lifetime. I'm currently on my third. The military retiree is no different. These highly skilled people selected a career in the armed forces. But after their commitment is filled, they transition into another career. That career can be in any business sector in any part of the country. We want them to choose Nebraska. The median age of the military retiree transitioning out of the service is 43. These individuals have at least 20 years to invest in another career or even five different careers. As consumers, they need homes, goods, and services. They start businesses, they bring business to the state from other states, or join the existing workforce. They pay taxes, contribute to charities, churches, vote, and serve as productive citizens and families. As CEO of the Bellevue Chamber of Commerce, I seek opportunities to speak on issues that impact the community and economic development. In that role, it is prudent to communicate that Offutt Air Force Base is Nebraska's third largest employer. In 2005, its total economic impact to our community was \$2.8 billion: 9,800 military members and civilian employees worked at the base; 17,743 military family members and 10,434 military retirees resided in the area; and the total payroll reached \$698 million. We showcase Bellevue, Sarpy County, the greater Omaha metro community, and the state of Nebraska to our active duty guests. We want them to stay or return to be neighbors, citizens, and employees. I understand your tremendous financial duties and fiscal realities. The decision to implement a special tax reduction measure must be carefully

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balanced with an analysis of potential lost revenue. In this case, I believe that the net result of enacting the proposed legislation would be to increase the number of talented people who would settle in our state, growing our economic pie. This would increase overall tax revenues through additional income tax, sales tax, property tax, etcetera. As the pie grows, so does the state's portion of the tax revenue. Our purpose is to provide additional information regarding the positive benefits of this type of legislation: attract and retain an experienced and disciplined workforce, encourage population growth, and expand the tax base. Please consider moving LB169, LB183, or LB354 to the floor. Thank you. Do you have any questions for me? [LB354]

SENATOR JANSSEN: Any questions? Don't see any. [LB354]

MEGAN LUCAS: Thanks for your time. [LB354]

SENATOR JANSSEN: Thank you. Any other proponents? Any other proponents? Any opponents? Anyone in a neutral capacity? Seeing none, Senator Cornett to close. [LB354]

SENATOR CORNETT: Senator Janssen, members of the Revenue Committee, when we discuss these bills later, I want you to look at all three of them. The intent behind all three is the same. One, to honor our retirees who have served this country and this state, and secondly, the economic impact of some form of a tax reduction for retired military. A number of the people on this committee sat through the last two years of hearings on this and then debate on the floor. But for the new members, I'd like to explain just briefly, and the point has been driven home, that the people retiring are in their 40s. But we keep hearing that Nebraska has a growing aging population and a shrinking younger population. Why would we want to attract people that are going to be on retirement? One, they will never fall on our Medicaid or Medicare. They are covered under TRICARE for medical costs. They do nothing but bring economic development to the state when they retire in their 40s. They do continue to work. Their families work, their children go to our schools. They graduate from our schools. And hopefully, we give them reasons to stay here when they graduate. Again, please consider all of these bills at one time and the intent behind them. Thank you very much. [LB354]

SENATOR JANSSEN: Questions? See none. Thank you, Abbie. That ends the hearing on LB354 and the hearings for the day. Thank you all for being here. [LB354]

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Transcriber's Office

Revenue Committee
March 14, 2007

Disposition of Bills:

LB183 - Indefinitely postponed.

LB169 - Held in committee.

LB354 - Indefinitely postponed.

Chairperson

Committee Clerk