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Revenue Committee
February 20, 2009

[LB13 LB270 LB271]

The Committee on Revenue met at 1:30 p.m. on Friday, February 20, 2009, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB13, LB270, and LB271. Senators present: Abbie Cornett, Chairperson; Greg Adams; Mike Friend; Galen Hadley; LeRoy Louden; Dennis Utter; and Tom White. Senators absent: Merton "Cap" Dierks, Vice Chairperson. [LB13]

SENATOR CORNETT: Good afternoon and welcome to Revenue Committee. My name is Senator Abbie Cornett and I am from Bellevue. Seated to my left is Vice Chair Cap Dierks from Ewing--he will be joining us later; to his left is Senator Greg Adams from York; and Senator Hadley from Kearney. The research analyst for the Revenue Committee is Bill Lock; and committee clerk is Erma James. To my far right is Senator Utter from Hastings; Senator LeRoy Louden from Ellsworth will be joining us, along with Senator Tom White from Omaha, and Senator Mike Friend from Omaha. Legal counsel is Shannon Anderson, to my immediate right. Our pages are Rebecca Armstrong and Elsie Cook. Before we start the hearings today, I'd please advise everyone to turn their cell phones either to off or to vibrate. The sign-in sheets for testifiers are on both tables by the back doors, and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you need to submit a form for each bill. Please print when you complete these forms and sign them prior to coming up. When you come up to testify, please hand them to Committee Clerk James. There are also clipboards at the back of the room. If you sign in and do not wish to testify but would like to indicate either your support, opposition, or neutral testimony to the bill, this will be included in the official record. We will follow the agenda posted on the door today. The introducer or representative of the bill will present first, followed by proponents, opponents, and neutral testimony. Only the introducer of a bill will be allowed closing remarks. As you begin your testimony, please state your first and last name and spell them for the record. If you have handouts, please bring ten copies and hand them to one of the pages. If you do not have copies, the pages can make those for you. With that we will open the hearings for the day and Senator White, you are recognized to open on LB13. Senator White, I apologize--one moment. Because of the number of testifiers and the nature of the bills today, we are limiting testimony. Introdurers are going to be allowed five minutes and proponents, opponents, and neutral testimony will be allowed three minutes. Closing remarks will be open for rebuttal for the introdurers. Thank you. []

SENATOR WHITE: Thank you, Madam Chair, members of the committee. LB13 is a bill that would redistribute money that has been included in the Governor's budget, amount of \$115 million, designated for property tax relief. This bill follows on a law that was passed two years ago and it is very important that members of the committee recognize that law never had a hearing. It was...and I was a member of this committee at the time...it was a force of a compromise driven by deep dissatisfaction of Nebraska voters with the existing property tax structure. And what that bill was is an amendment onto the

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general tax bill and it provided that a certain sum of money would be allocated to pay down property tax obligations by funding money into the various taxing entities. In other words, the state would step forward, much like we have in the Homestead Program, and pay the counties, the schools, the NRDs, and others the taxes that would otherwise be assessed on a home. That was the part of the original idea. That, however, morphed into the bill that we got which was we would pay everybody for all land. LB13 would redirect the entire sum of money--in this case \$115 million--if we adjust the amount to \$12,400 per homeowner. The fiscal note came back a little higher than we expected. It was intended to be revenue neutral. In order to give the \$13,000 exemption that we had proposed in the bill, we'd have to add additional sums. So we are open either way, to either increasing the funding from cash reserve to provide \$13,000 or, if necessary, to reduce the amount of the exemption under the Homestead to bring it in line with the Governor's budget of \$115 million. The most controversial aspect of this bill is whether or not the money should be directed to all property classifications instead of just homes. This bill directs itself to just homes. I would urge the members of the committee to recognize that over the last 10-15 years, as people will testify behind me will, perhaps, explain further, the overall property tax burden has substantially shifted from what had been ag and business land to homeowners. At one point in the not distant past, the average tax burden on homeowners was about 45 percent of the entire property tax paid, and businesses and ag land bore 55 percent. That has now reversed itself. And homeowners are bearing approximately 55 percent, and ag and businesses approximately 45 percent. That has been a function of one) the valuation increases in homes, but also in a conscious decision by this body, starting in the '90s, to reduce the valuation of ag land. And two years ago, we reduced the value of ag land--homeowners, by the way, and businesses are taxed at...compared to 100 percent of value, with some reductions under the statutes for range. But ag land is now at 75 percent of value. That was reduced two years ago from 80 to 5 percent. So ag land has gotten a series of breaks over the last years and homeowners have not received anything like that. So just on the merits, if we take turns, it's the homeowner's turns. If we want to talk about the social costs, and I recognize the problem that ag is having being...functioning in today's society, that despite our current tax structure which favors ag land by a 25 percent benefit, we continue to lose farmers at an extraordinarily rapid rate. The way we're providing tax benefits to ag industries is completely wrongheaded. We reward people for owning the land whether or not they live here, work here, pay income tax or sales tax here. The simple ownership of land is rewarded on a tax basis. And in order to do that, we take income tax and sales tax from residents to pay that. What we need to do, what we must do, is encourage people to get back into the ag industry--young people with families. And in order to do that, we have to reward them for their work and not for the ownership of the land. Right now, if you had a young person who wanted to get into ranching or farming and they worked in town and they worked part time in the ag industry and their wife worked in town and they worked part time in the ag industry and they paid income tax on that, they literally are subsidizing Ted Turner. Because we are taking money from their income tax and their sales tax and we are paying Ted Turner

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\$73,000 a year under just this program--that does not include the 25 percent advantage he gets because he owns ranch land. Over the last two years his real benefit would have been closer to \$1.3 million over a similarly valued home or similarly valued business properties. We are not doing it the right way. We're doing it exactly the wrong way. And this is just the most visible example of that. We are shipping enormous amounts of money out of the state and we can't afford to do that. If we do need to give tax incentives and benefits to ag producers--and I don't dispute it, in fact, I support it when they make rational sense--this is completely the wrong way that we are currently doing it. It's too expensive; we lose too much of the money. The Farm Bureau, which has been very polite throughout this debate and I commend them for that, indicated to me that half of all land in the state right now is not operated by people who own it. In other words, half of the ag land in this valuation, the people who actually do the work aren't getting the break. We have to change that. Thank you and I will reserve my closing. [LB13]

SENATOR CORNETT: Thank you. Questions for Senator White? Seeing none, thank you. First proponent. Let me remind everyone: testifiers are limited to three minutes. [LB13]

MARK INTERMILL: (Exhibit 1) Thank you, Senator Cornett and members of the committee. My name is Mark Intermill, that's spelled M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP. We have been here before you previously this session to talk about the Nebraska's not a retiree-friendly state in terms of their taxation policy. Property tax is a major reason for that. We have found that, as Senator White alluded to, that there's been a shift in the property tax burden to residential homeowners. We looked at the Property Assessment Taxation Division information about property taxes and found that in 1997 it was about 50 percent of the property tax burden was with residential homeowners. That reached 55.1 last year before dropping to 54 percent in 2008. This amounts to about \$100 million shift in tax burden to residential property tax payers. We also see that the property tax relief that's provided through the current program is directed outside of the state of Nebraska. I've listed a couple of properties here in Lancaster County that we looked at to see what type of property tax break they received last year and I do that to indicate that these companies would all benefit from homeowners having additional funds available to purchase goods at Wal-mart or Target, spend a night at Embassy Suites, or buy their prescription drugs from Pfizer, or put a down payment on a jet ski. These are things that, I think, make sense to us. To be able to keep the money in the state of Nebraska for our own economic development. Then the last thing I just wanted to mention: we see this as a way of reducing the cost--as I understand how the bill would work, it would reduce the cost of the Homestead Exemption Program. This would be first dollar reduction in the property value, so a person with a \$50,000 home would be paying taxes on a \$37,000 valuation. That would reduce the liability of the homestead exemption. And as we look at the number of properties that are receiving homestead exemptions, each would roughly

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receive \$250, \$260 benefit from this, amounts to--as we calculated--about \$12 million in savings for the Homestead Exemption program that I didn't see in the fiscal note that was disseminated earlier today. So those are the points that I wanted to make in support of LB13 and I'd be happy to answer questions. [LB13]

SENATOR CORNETT: Thank you, Mr. Intermill. Questions from the committee? Seeing none, thank you. [LB13]

MARK INTERMILL: Thank you. [LB13]

SENATOR CORNETT: Next proponent. [LB13]

GARY BARNARD: Thank you. My name is Gary Barnard, G-a-r-y B-a-r-n-a-r-d. I'm from Beatrice, Nebraska. I'm starting my third year as a Gage County Supervisor for District 3 in my community. I support Mr. White's bill completely. A matter of a few weeks ago I had a town hall meeting for part of my constituents. I had a big turnout and the main thing that we talked about was property taxes and how it affects our community. I will tell you that I had a broad base of people that attended my meeting. There were many retirees. I had people that own ag land and actively farm, and I had some factory workers that now have no work and are having trouble paying their tax bill. I think this is necessary. I also need to tell you that I, for 20 years, was a livestock and crop producer myself. I grew up in a family ag business, and so I know both sides of it. Since 1998 I've been a real estate broker, so I understand that side of it. I think I uniquely see all sides of this issue and, having seen all sides of it, I think we need to support this bill. I hope there's some way that this gets funded. I hope the Governor would maybe change his mind and support this. With all due respect to our Governor, I think this bill is better than what the Governor is offering. And I think we need to look at what our constituents think and I think we probably all hear plenty. I know I do at my level of government and I'm sure you folks do too. So I think it is really important that you take a look at this and do whatever we can to see that this, or something awful close to it, happens as soon as it can. As you know, we're hurting in Nebraska and starting to hurt like the rest of the country now so we need to give them a tax break. And when we had our ag farm business, our oil company and things I grew up with, I knew what we had for tax incentives there so I knew the business side of it and I also know some of the advantages I had by owning farmland. I had irrigated land at one time--1,500 acres. So I understand where everything's at and when I talk to my ag-producing friends one on one they will, with a straight face, say that they know that their 72 percent of assessed value is treating them pretty fair. They won't do it in a group at my local coffee shop but one on one they do. They know that and we know that and so that's all I have. I can't add much more than what Senator White told you, but I know the people I represent would certainly appreciate anything this body could do to get them some relief. [LB13]

SENATOR CORNETT: Thank you, sir. [LB13]

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GARY BARNARD: Thank you. [LB13]

SENATOR CORNETT: Questions from the committee? Senator Louden. [LB13]

SENATOR LOUDEN: Yeah, you say your ag land friends are satisfied with that 75 percent now, or whatever. Are you telling me, then, that their property tax is less now than it was before, since that percentages went down on their... [LB13]

GARY BARNARD: If you mean what they pay in property taxes, no, but their assets are worth a lot more than they were. [LB13]

SENATOR LOUDEN: But their property tax still went up. [LB13]

GARY BARNARD: Yes. [LB13]

SENATOR LOUDEN: Now, did the assets go up faster in ag land or did it go faster up in your residential property in your county? [LB13]

GARY BARNARD: I believe the ag land, in the last two years, has probably exceeded what our residential has. [LB13]

SENATOR LOUDEN: Okay, in other words... [LB13]

GARY BARNARD: In Gage County. [LB13]

SENATOR LOUDEN: Yeah, in other words it's went up faster than the residential property. [LB13]

GARY BARNARD: Yes. [LB13]

SENATOR LOUDEN: Okay, thank you. [LB13]

SENATOR CORNETT: Seeing no further questions, thank you. [LB13]

GARY BARNARD: Thank you, folks. [LB13]

SENATOR CORNETT: Next proponent. [LB13]

MIKE BOYLE: Madam Chairman--Chairwoman, excuse me--and members of the committee, my name is Mike Boyle, B-o-y-l-e. My address is 1106 Howard Street, Number Six, in Omaha. I'm a member of the Douglas County Board and have been now for about 11 years. Prior to that, in a previous life, I was mayor of Omaha for about

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seven years until I suddenly left office--some of you may remember. But in any event, I'm here to testify in favor of LB13. This is a piece of legislation, I believe, that will really help homeowners face their property tax burden. And I've got a couple of anecdotes to pass on to you, real life experiences that have happened. The area that I represent--we are elected by district--I represent in Douglas County, on the south, Douglas County from Sarpy north up to Dodge Street, and from the Missouri River to 42nd Street, and it has close to 70,000 people in that district. And some of the businesses that are in the district include the First National Tower, the Woodman Tower, a lot of government buildings, and a lot of really high-priced condos at The Paxton and so forth; a lot of very high-value buildings. And then on the other hand, I represent people who live in the houses that are built two to a lot in south Omaha, very, very small homes, and I want to tell you one story--there are several, but I'll tell you one story of a woman who called me three years ago who has a home that's 682 square feet. It sits in an area that is very dangerous: it's gang ridden, there's graffiti on her home, there's graffiti on her garage, and it's a dangerous place to live. There are 14 steps up to her home--large terrace, it's not a level lot--and her taxes went up, the valuation went up, 80 percent in one year. And she called me and it was so interesting because she was not complaining. She wasn't whining, she wasn't asking for a handout, and she didn't take the attitude that, you know, you people have to do things. Her attitude was, I can't pay my taxes and I'm afraid. And so I tried to work with her and I did work with her. We couldn't get the valuation reduced--it was too late. And it never was reduced, by the way. But I had to go to Catholic Charities to get them to pay her first half of taxes: four hundred and some dollars on a 682 square foot house that is in a very dangerous neighborhood. As I talked to this woman I found out more about her. She's a single mother, her husband was very abusive--she fled from him, from another state. He doesn't know where she lives, she has an 11-year-old daughter she's raising, she has cancer, and works two jobs. Again, I was stunned by the kind of attitude she had. It wasn't that, you owe me, it was that I just...I can't pay, can you help? And it was amazing. A second case occurred with an elderly woman whose income was just a little bit too high to get a homestead exemption, and her son called me because she suffers from early dementia, early Alzheimer's--something of that nature. And you can spot them all the time in my district: they're elderly people walking around with heavy coats on in the dead of summer and they're usually pulling an aluminum cart for their groceries. She was living on cat food and she couldn't pay her taxes. And she was very confused and her son finally saw the tax bill. And I helped him and I went to Together, Incorporated, another social agency in Omaha and they stepped up to the plate and paid her first half of her taxes. This bill is the answer to a prayer. This is the kind of legislation we really need. This one gets to the heart of the problem. It's clean and uncluttered and I hope that you'll vote favorably. Boy, you keep time, Ms. Cornett. (Laughter) So I appreciate that. I do want to mention that the Douglas County Board voted six out of seven in favor and one abstention who wants to abolish property taxes. I'll try to answer any questions you might have. [LB13]

SENATOR CORNETT: No questions, just a comment. I do remember that--a matter of

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fact, I remember living through it. (Laugh) [LB13]

MIKE BOYLE: Yes, that's right. Thank you very much, Ms. Cornett. [LB13]

SENATOR CORNETT: You're welcome. Next proponent. [LB13]

JON EDWARDS: Good afternoon, Senators. My name is Jon Edwards, J-o-n E-d-w-a-r-d-s. I'm assistant legal counsel with Nebraska Association of County Officials. We are here today to show support for LB13. Obviously, like...I guess two points of discussion for us on this bill. One would be the process requirements in terms of the application involved here. I know that our assessors have some concern about that and just how that might work, and the reapplication process. I know there's an assessor from our NACO board here today to discuss that issue with you and she might be able to answer...have some questions for you, you might have some questions for her in that process, so. I just wanted you to know that that is a bit of a concern from our perspective. The other point of discussion, I guess, is just a matter of policy in terms of property tax relief. Like all of you, our membership hears it on property tax--that's what we hear it on. We don't really hear it on other taxes, it's always property tax. With that we certainly supported the credit that's in place now that the Legislature went through the process a couple of years ago, Governor supported, we certainly support that effort and what is currently in place. With that I will tell you that LB13, within our board and within our membership prior to a lot of discussion this year--a lot of back and forth, there was a lot of information put on the table. In the end, our board voted to support LB13. And I'd say that's really from the point of view that NACO's here to support property tax relief in whatever form that might be. With that I would say that we aren't necessarily going to sit here and endorse one plan or the other plan or try to dictate which one's right, which one's wrong, or any sense of fairness in the process. What we're here to support is property tax relief in whatever form that might take. I think, tying into that, ultimately, if this committee deems it necessary to vote this bill out to the floor for discussion, the Legislature will have that discussion. What's fair, what's the proper way to promote property tax relief, and those types of issues. So ultimately it will be up to the Legislature to make that determination, but with that I will just tell you that, in concept, we certainly support LB13. We're willing to be a part of that discussion in whatever that process might look like, and we're here to try to help support that process. So with that I'll end my testimony. [LB13]

SENATOR CORNETT: Thank you. Questions from the committee? Senator Louden. [LB13]

SENATOR LOUDEN: Then you're saying your NACO is for property tax relief no matter what form it comes in. Is that what you're saying? [LB13]

JON EDWARDS: Not necessarily, Senator. I would say what we have on the books

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currently, we supported that effort, and what Senator White has put in front of us here, as we read this, what we have available today, it looks like an option that certainly we could support, yes. [LB13]

SENATOR LOUDEN: Okay, then you're telling me you prefer this over what we have in place now? [LB13]

JON EDWARDS: What I'm trying to say is that currently, we are in an overall sense, as we're involved in the property tax process we're going to support any effort to try to relieve the property tax pressure on property tax payers in the state of Nebraska. [LB13]

SENATOR LOUDEN: Okay, but... [LB13]

JON EDWARDS: We supported that effort a couple of years ago and certainly... [LB13]

SENATOR LOUDEN: What I'm asking is, which one do you prefer? This one or the one that's in place now? Because that was property tax relief too. [LB13]

JON EDWARDS: I understand that. I would say that this is a shift. And I would say within our membership that creates a bit of a rift. And what I would tell you is our board... [LB13]

SENATOR LOUDEN: That's the reason I'm asking you which one do you prefer? [LB13]

JON EDWARDS: Our board has voted to support LB13. [LB13]

SENATOR LOUDEN: Okay, thank you. [LB13]

JON EDWARDS: Yep. [LB13]

SENATOR CORNETT: Just to be clear, your board is split in regards to supporting what's already in place and LB13, so you couldn't necessarily choose one over the other. [LB13]

JON EDWARDS: What I will tell you is that our board had a discussion about LB13 and voted to support LB13. [LB13]

SENATOR CORNETT: Senator White. [LB13]

SENATOR WHITE: And that discussion was made knowing the existing law and your board voted for LB13 over that, correct? [LB13]

JON EDWARDS: That's correct. [LB13]

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SENATOR WHITE: Thank you. [LB13]

SENATOR CORNETT: Seeing no further questions, thank you. Next proponent. Are there any further proponents? May I see a show of hands for opponents? Thank you. First opponent. Please remember your testimony is limited like it was for proponents. [LB13]

STEVE NELSON: Senator Cornett and members of the Revenue Committee, my name is Steve Nelson, S-t-e-v-e N-e-l-s-o-n. I'm a farmer near Axtell, Nebraska, and I currently serve as first vice president of Nebraska Farm Bureau Federation. I'm here today on behalf of Nebraska Farm Bureau in opposition to LB13. Let me begin by extending the appreciation of Nebraska's farmers and ranchers to this committee, the Legislature, and the Governor for establishing the Property Tax Credit Act. Under the act, farmers and ranchers have received roughly \$48 million of the \$220 million in property tax relief provided over the past two years. The relief is very much appreciated and sorely needed. The Property Tax Credit Act was structured in such a way that those who pay property taxes receive relief: homeowners, farmers and ranchers, small business owners, and other commercial property owners--all who pay property tax receive tax relief under the act. LB13 changes this fundamental notion and instead would direct relief only to homeowners. Farmers, ranchers, and business owners would no longer receive relief on their agricultural land or business property. While we can sympathize with homeowners concerns over property taxes, we do not think it is appropriate to provide homeowners additional relief at the expense of Nebraska's farmers, ranchers, and business owners. Agriculture is the state's number one industry. One out of every three jobs is attributable to agriculture. It's true that many grain crops reached record prices in 2008, but the cost of the inputs farmers buy to produce these crops has also skyrocketed. And while crop prices have fallen to almost half of their original highs, or their highs of 2008, the costs of production inputs have remained extraordinarily high. Let's not also forget that the state's livestock producers have struggled mightily in the last year under the record commodity prices and still face economic difficulties. A report by the Nebraska Business Forecast Council states income in Nebraska is projected to drop 26 percent--that's farm income is projected to drop 26 percent--in 2009. Increasing property taxes will only make this financial picture worse. Moreover, farmers and ranchers have no options to pass the higher taxes on in the form of higher prices for the commodities they sell. The higher taxes would come right out of the bottom line. Studies have shown that property taxes paid per average farm in Nebraska are already higher than our neighboring states. An analysis performed by MLB Planning and Policy Research showed property taxes paid per average farm in Nebraska were \$7,535 in 2002, which was significantly higher than in neighboring states. Finally, I want to say that I'm no more enamored by the fact that a large operator like Ted Turner, or large owner, receives tax breaks, or these tax breaks, than anyone. But one of my concerns is for young farmers in the state and in our operation we have

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rented land and we have owned land. My son and I farm together. Typically, younger operators have more rented land than older operators and I've been told I crossed that line. So consequently if there's a tax increase, or the credit goes away--a tax increase, you'll see the push for rents to be higher and this is going to affect young farmers more than older farmers. And we want to support young farmers. I think this would also have the same effect on people who rent the home that they live in or the apartment they live in. That landowner, that landlord, will attempt to recover his additional taxes, so. [LB13]

SENATOR CORNETT: Thank you. [LB13]

STEVE NELSON: I'm sorry, I've gone over slightly. [LB13]

SENATOR CORNETT: That's okay. [LB13]

STEVE NELSON: I do have testimony that... [LB13]

SENATOR CORNETT: If you have written testimony we can enter that into the record. [LB13]

STEVE NELSON: (Exhibit 2) This is from the Soybean Association, I'd like to... [LB13]

SENATOR CORNETT: Do we have questions from the committee? [LB13]

STEVE NELSON: ...offer it in opposition as well. Thank you very much. [LB13]

SENATOR CORNETT: Senator Hadley. [LB13]

SENATOR HADLEY: Thank you. [LB13]

STEVE NELSON: Yes. [LB13]

SENATOR HADLEY: Mr. Nelson, thank you for being here. [LB13]

STEVE NELSON: Yes. [LB13]

SENATOR HADLEY: I can't quite remember the comment earlier but it was something to the effect that when you get one on one with farmers, and that comment was made earlier, and it was kind of like they kind of understand they're getting a pretty good deal or something like that. Is that your sense when you're meeting with fellow farmers? [LB13]

STEVE NELSON: I guess I would tell you that when I've been one on one with farmers I would hear exactly the opposite. And at least to the effect that when you look at the 75

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percent valuation, to me what that really represents is the fact that there is only so much farmland--probably getting to be less farmland than more. And so, consequently, farmland always sells for more than it's really worth--more than it's earning capacity. Anybody can buy farmland and farm if it'll cash flow, you know, and basically it almost always sells above that. Whether that's right or wrong that's what happens. And so I think that's part of what that 75 percent does is represent that change. And I think, you know, I don't remember a conversation I've had with anybody that doesn't agree with that. [LB13]

SENATOR HADLEY: Okay, thank you. [LB13]

SENATOR CORNETT: Senator White. [LB13]

SENATOR WHITE: Thank for coming and testifying. [LB13]

STEVE NELSON: Yes. [LB13]

SENATOR WHITE: One of the things you said that did concern me, you indicated that it wouldn't be fair for us to distribute this money just to homeowners and treat them differently than ag land, for example. And yet we treat ag land very differently than we do businesses or homeowners. I mean, you just talked about the 75-100 percent; do you think that's fair? [LB13]

STEVE NELSON: Well, you know, I think I would go back to the same explanation that I provided for Senator Hadley in that business property, typically buildings as well as homes can be created...you can build new homes. But you can't add farmland. There's only so much farmland. So typically it sells for a higher price. You know, a used home is like used farmland. Maybe that isn't the right terminology, but a used home will never bring, or shouldn't bring, more than what you could build that home for. Most likely it wouldn't because you'd build one if, you know. So that kind of regulates what happens to the price of homes and I think that, to me, that's how I justify or see the fairness in that difference. [LB13]

SENATOR WHITE: One other concern, and all of us should be concerned about, is the number of farmers is dropping rapidly and the average age is going up rapidly. It's gone from, I think, 53 to 57 and a half. We've lost 3,000 farmers. We only have, what, 47,000 now, roughly, in the state? And that's been done with all of the tax policies in place. I mean, don't you think we ought to rethink it and try to get money due? For example, if we could take the money that's going to Ted Turner or to Wal-mart in Lancaster County or Target and keep it in the state, to people who want to live on the land and work the land, we could give you a better tax break. We could give those younger people more help. But the way we're doing it now, we're sending so much of that money to get you some help--to get you a dollar we're sending a dollar out of state. We can't keep doing

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that and we're not doing a very good job keeping you and your son on the land. [LB13]

STEVE NELSON: But if I understand LB13 correctly, ag land taxes would go up. So I would have to go back to my earlier comments that that's where the concern has to rise for agriculture. [LB13]

SENATOR WHITE: As long as we give tax breaks on land across the board, we can't distinguish between people who own it and don't live in the state and people who do. We can do that for homes--farmers live in homes too. And we also, then, would have money to do other things, for example, in income tax or sales tax to add additional help that would stay in the state. Would you support an overall effort like that--to keep the money in Nebraska? [LB13]

STEVE NELSON: Again, I'm no more enamored by the idea of someone owning land, huge amounts of land, in the state that's from out of state than anyone else. But I don't think this is the right way to get at that problem. It's a question, it's an issue, but I don't think this helps us get to that. [LB13]

SENATOR WHITE: Well, Initiative 300's been ruled unconstitutional. And it's not just Ted Turner or the Church of Latter-Day Saints, though they're the two largest landowners. On the sheet that the AARP gave to us, just in Lancaster County on one Wal-mart we're sending \$12,220 to Arkansas. That's your tax money. That's your sales tax money, that's your income tax money. We're spending for Target--we're sending \$13,000, just one Target, to Minneapolis. Unless we do it more intelligently we're never going to be able to get you and your son the help you need. [LB13]

STEVE NELSON: If taxes of the people who own land that I farm, all of which live in Nebraska right now but I have farmed land for people that live outside of the state...if taxes go up for those people, the first thing that they do when they get that tax statement is call me and say, we need to raise your rent. Now they haven't done that every time, and you know, they may not do it this time. But I can tell you, without a doubt, that every time their taxes go up for whatever reason they call me or they call my son and say, we need to raise the rent. And if you add the amount of the tax savings or the tax issue that you're talking about with the amount of extra money that I would pay for cash rent, for rent for farmland, then that's way more dollars than is leaving the state. Again, I believe that that's a huge issue and it's why we need to be very careful about raising taxes on farmland. [LB13]

SENATOR CORNETT: Thank you. Any further questions from the committee? Seeing none, thank you very much. [LB13]

STEVE NELSON: Thank you. [LB13]

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SENATOR CORNETT: Next proponent, or opponent, pardon me. [LB13]

MICHAEL KELSEY: Good afternoon, Senator Cornett and members of the Revenue Committee. For the record, my name is Michael Kelsey. I am the executive vice president of the Nebraska Cattlemen. My last name is spelled K-e-l-s-e-y. On behalf of our membership we are testifying today in opposition to LB13. Let me do, though, comment that we have had conversations with Senator White and appreciate his efforts in property tax relief. As you are aware, if you know Cattlemen, we take somewhat of a pledge and a secret handshake among our members and that is therefore heretofore after we will always be opposed to increase in property taxes. Which brings me to stand before you, or sit before you, today. We naturally fear what we do not know and therefore we oppose it. And what we fear in this bill is that should this take place, then by offsetting the General Fund, specifically education will have to come some way into some shape, form, or fashion some funds. Now, I do not want to engage in the debate of education funding, Senator Adams, today, in this committee or this forum, but what we fear is that, especially rural schools, within the offset by the lack of General Funds then they'll seek property tax which we, as landowners, will have to make up. So understanding that that is a supposition, if you will, it is something that we consider to be something possible so that, therefore, we are very fearful. Let me say, too, that I couldn't agree more with some of Mr. White's comments regarding the reward of ownership versus the reward of working the land. We are in somewhat of a crux, if you will, because absentee landowners do receive some of the tax benefits, if you will, that they are therefore able to offer lower rents. Now we may not see that directly, but again, what we do fear is if they didn't have those incentives would they raise their rents? And that's, again, that's a what-if scenario and it's very hard, actually, it's very easy to debate, but very hard to know exactly what will happen. Just for a cattleman in the state of Nebraska, on average we pay anywhere from \$50-\$60 per cow, per year, in property taxes. Which, if you compare that to our surrounding states, Colorado's about \$9.00; Wyoming's not even a fair comparison--they have an extensive natural resource over there called coal that allows them to have their property taxes almost minimal. So we find ourselves in somewhat of an uncompetitive advantage compared to our neighboring states when it comes to grazing cattle. The majority of our land in this state is not suitable for cropland and therefore we do a fantastic job raising a protein product off of grass which we, as consumers, don't really like to eat. But we prefer beef. And so we try to do that very well. And our costs are continuing to rise and our sales are continuing to dwindle. And I would tell you, not related to this bill, but I would tell you as Revenue Committee, which I'm sure you're interested in, the forecast for 2008 and 2009 from your largest industry in the state of Nebraska, that being the beef industry, are not favorable. I fear that we are going to be standing before you next year looking at ways to increase revenue through increasing taxes as an option--not that we would support that--but as an option because our revenue has fallen so drastically. Because your largest industry is in dire, dire straits. Now, unrelated to the bill, but to let you know. We always appreciate the opportunity to look at property tax relief. We're extremely

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sympathetic to some of the testimony that's been mentioned because we have been there and we will continue to be there ourselves. So again, we encourage you to retain the bill. However, we appreciate the opportunity to have any type of discussion on property tax relief, whether it affects us directly or not. I'd be happy to answer any questions. [LB13]

SENATOR CORNETT: Thank you, Mr. Kelsey. Members of the committee, questions? Seeing none, thank you. Next opponent. If there are further people wishing to testify, could you start moving towards the front of the room? [LB13]

LARRY DEDIC: Good afternoon. My name's Larry Dedic, L-a-r-r-y D-e-d-i-c, 1942 Denton Road, Pleasant Dale, Nebraska. I'm a dry land farmer and I'm here representing myself, not any other entities or organizations that I'm associated with. In interest of transparency, Seward County Board of Commissioners, Nebraska Grain Sorghum Check-Off Board, and Nebraska Certified Crop Advisors. But again, I would reiterate that I'm here only representing myself. LB13 has some unintended consequences, just like the present bill does. This has been pointed out with the Ted Turner receiving state tax dollars. I'm assuming he is--well, we know he's paying property taxes, and I'm assuming he's paying some Nebraska state income tax. And if not, there is maybe a problem that needs to be looked into. But another unintended consequence, on the other hand, with LB13, we've heard about the poor old lady that has 12 steps to go up into her home in a bad part of Omaha and definitely that's unfortunate. Homeowners, right now, are still getting some property tax relief. And the lower the value of the home, LB13 would give them a bigger percent. A high-valued home would not be near the impact. Let me give you an example. It creates another problem for county assessors. Let's say, just for example, someone owns...a couple owns a \$400,000 home in Fremont and they also own a \$248,000 home across the river in Saunders County: Fremont's in Dodge County, across the river is Saunders County. The house in town is in the wife's name, the house on the river is in the husband's name, and so that's a problem for assessors. How are they going to figure out who's a homeowner and if they're living in there, are they going to babysit, etcetera? To observe how many months out of the year they live there? That's a total of \$648,000 of assessed valuation. Let's say there's a young couple out in Antelope County or Thayer County or Sioux County that are buying 320 acres of land that assessed at \$2,000 an acre--that's \$640,000 assessed value. They have three kids, they live in an \$8,000 trailer. Right now they would be getting roughly, under present law, \$557 of tax relief. With the new bill, they'll be getting about \$136--a \$421 reduction. And so...and the couple with the two homes that I mentioned would get \$520 of tax relief, assuming at 2 mil...my time about up? Okay...whereas now they're getting \$557. They would get a \$37 hit but the couple with three kids in a trailer house get a \$421 reduction. My time's up? Are there any questions? [LB13]

SENATOR CORNETT: Senator White. [LB13]

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SENATOR WHITE: You do know that if you claim two homesteads you're committing tax fraud? [LB13]

LARRY DEDIC: No, I didn't know that. But if it's...one's in the husband's name and the other's in the wife's name that's still fraud? [LB13]

SENATOR WHITE: You can only have one residence unless they're divorced or separated, legally, and now they're paying separately. [LB13]

LARRY DEDIC: Well, maybe this bill would encourage the divorce rate. (Laughter) Any other questions? [LB13]

SENATOR CORNETT: I don't think that needs any help. (Laughter) Are there any further questions? Seeing none, thank you, sir. [LB13]

LARRY DEDIC: Thank you for your attention. [LB13]

SENATOR CORNETT: Are there any further opponents? Neutral testimony? [LB13]

MARILYN HLADKY: (Exhibit 3) Good afternoon, Chairman Cornett and members of the Revenue Committee. My name is Marilyn Hladky, and it's spelled M-a-r-i-l-y-n. I'm the Seward County Assessor and I'm here as Seward County's assessor and also representing the state of Nebraska Assessors Association. My main concern with speaking to you today is when assessors look at this bill our first thought is, how is this going to work, what we always say, out there in the real world? And so in visiting with the assessors...what's being passed out are some comments from other assessors that I'm going to share with you, but first off I'd like to tell you that we, as assessors, are all for property tax relief. The one that we've had in the last two years has worked real well for us once it got implemented and some of the quirks worked out of it. I'd like to, on the bill, go to, for example, on page 2, lines 8-13, new language where it says that this will be a homestead, and for the purpose of the property tax relief, homestead will be the same as the meaning in Section 77-3502. Well, 77-3502 is a definition of a homestead and the basis of that is that you have to be owner-occupant January 1 through August 15. Well, that's probably our first, as assessors, little concern is how do we verify that requirement? Our thoughts are, are we literally going to have to know where everyone in our county lives and also try to keep track of that occupancy through August 15 date? Maybe not so hard for a small county, but I'd say that's a great task for some of the larger counties. Some assessors have even indicated in some of the smaller towns those people don't have addresses at their homes, but rather their addresses are a P.O. box number so that would make it a little bit more challenging to know who would live where. You can't depend on the phone book--phone books are published once a year--to see where somebody lives. And also more and more people are going away

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from land phones into cell phones to try to get addressing that way. On page 4, the new part of Section 5 and continues onto the next page, talks about the assessor shall determine who qualifies for that homestead exemption in succeeding years without reapplication, and if an owner doesn't apply--file for an application--they can't receive an exemption. Our thoughts was this isn't really giving true property tax relief to everyone that would qualify and is this really a fair property tax relief? I've been in the assessor's office since 1979; assessor since 1995, and I can remember at a time where the current homestead exemption that we have in place people didn't have to reapply every year. And it was challenging and a little bit more difficulty in trying to keep track--well, did that person still live in their home and try to find that information out. Go back to where, and your application, and a lot of it's to do with the new change in the homestead exemption because income has to be required. We did have people back then that probably property shouldn't have gotten that homestead exemption because of that reason and it did take some time, maybe a couple of year or two, to catch up with that to say oh wow, that person, that property shouldn't have had that exemption any more. Today, we have...I'm sorry...Douglas County states that they have about 140,000 properties that might qualify and they say they would have no idea how they would process that many. And with no application, from the next year would be actually even worse yet for them to try to see who was really a qualified applicant. And how would we know if a qualified claimant sold that house they occupied last year and moved into another house and still qualified? How would you know if they owned two homes and moved from one to the other? How would you know if they just moved away and rented out their house? Also on page 5, line 6 says that this pertains...the Section 77-3501 to 77-3529 apply. That's the entire Homestead Exemption statutes. And so does that mean income has to be reported? The maximum value of a house is taken into consideration? What about transferring your homestead exemption? How does that incorporate back into the current homestead exemptions that we have for people over 65? Do they get both? If assessor says that they don't qualify...finish my sentence...that...do we send them out a notice of rejection? Once you send a notice of rejection they can appeal that to the County Board of Equalization and that can further be appealed to TERC, so. We just, as assessors, have some questions for any law that passes, you know, we think about it how does it work for us? And we'd like those to take that into consideration as you further discuss this bill. Thank you. Sorry. [LB13]

SENATOR CORNETT: Oh no, that's quite all right. You may want to bring your written concerns to Senator White, also, so he can look at those. But with that I'll open the committee up for questions. Senator White. [LB13]

SENATOR WHITE: Thank you for your comments. Right now, you know, of course, under the tax code you get deductions for owning homes that you own on interest but you don't in other ways. We enforce these kind of things all the time; you do understand that? [LB13]

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MARILYN HLADKY: On...for...when it's applied for income tax, you mean? [LB13]

SENATOR WHITE: Certainly. [LB13]

MARILYN HLADKY: Okay. [LB13]

SENATOR WHITE: You get a deduction of interest paid for a home, a principle residence, but you don't for others, against personal income tax. You understand that? [LB13]

MARILYN HLADKY: Yes. [LB13]

SENATOR WHITE: Okay, thank you. [LB13]

SENATOR CORNETT: Let me ask you a question. When you were talking about the homestead exemption you said that they had to be occupied between January and August? [LB13]

MARILYN HLADKY: January 1 through August 15. [LB13]

SENATOR CORNETT: So how would that affect like the snowboarders, or whatever they are that, you know, that leave the state from fall until usually spring? [LB13]

MARILYN HLADKY: Well, we try to find out if...make sure they're not getting a homestead down where they've moved to but if, like for example, we do have people that have gone to nursing homes and as long as their house is empty and the furnishings are in it, there's intent to come back to that home, so. I don't know if I have that many in Seward County. [LB13]

SENATOR CORNETT: Okay, thank you. Senator White. [LB13]

SENATOR WHITE: If the law is amended and the draft of the bill is amended to say that they are entitled to claim this on the home they list on their income tax as a principle residence and it's crosschecked and that becomes the responsibility of the Department of Revenue as well--they simply fill out an application, they crosscheck it, verify that it is a principle residence, would that help your concerns? You don't, then, have to go out and separately verify? [LB13]

MARILYN HLADKY: Somewhat. I guess we would still have that August 15, you know, if they... [LB13]

SENATOR WHITE: No, would take care of that too. [LB13]

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MARILYN HLADKY: You would take care of that? That would help somewhat, yes.
[LB13]

SENATOR WHITE: Thank you. [LB13]

SENATOR CORNETT: Any further questions? Seeing none, thank you. Is there anyone else in a neutral capacity? Wait, one more, Senator White. [LB13]

NATHAN BARTELS: I haven't signed in. Do I need to sign in before I testify? [LB13]

SENATOR CORNETT: Go ahead and testify and then fill out the paperwork. [LB13]

NATHAN BARTELS: My name is Nathan Bartels, N-a-t-h-a-n B-a-r-t-e-l-s. I'm from Johnson County, by Elk Creek--that's my address. I was here today and there was more proponents for LB13 than there was opponents and I wanted to make sure that people knew that there was more opponents to LB13. [LB13]

SENATOR CORNETT: I'm sorry, sir; we've moved to neutral testimony. [LB13]

NATHAN BARTELS: Oh, I'm sorry. [LB13]

SENATOR CORNETT: That is only where you analyze the bill. [LB13]

NATHAN BARTELS: Oh, I'm sorry. [LB13]

SENATOR CORNETT: That's quite all right. We'll submit your written testimony, though.
[LB13]

NATHAN BARTELS: I did not bring it. [LB13]

SENATOR CORNETT: You're welcome to send it. [LB13]

NATHAN BARTELS: Okay. [LB13]

SENATOR CORNETT: Thank you. [LB13]

SENATOR WHITE: Thank you, Senator Cornett, members of the committee. What we are doing, in part, is talking about who gets a share of a pie. And that can always be divisive. The basic rule where I grew up was you had to eat what you took and you don't waste. AARP has given you, in front of you, some numbers that should have opened anybody's eyes, whether you are a farmer, a rancher, or a homeowner in Omaha, Nebraska. In order to give the tax breaks that the rural community says they must have, the agriculture community--not necessarily the rural, not the small towns--but the ag

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industry...47,000 farmers according to my best numbers, we have to send, just in Lancaster County, \$33,534 to Tokyo, Japan from the Kawasaki Plant. We have to send to New York City \$26,687 of Nebraska tax dollars from income tax and sales tax. Embassy Suites owned...out of Cincinnati, Ohio, we have to send them \$18,630.61. Target, Minneapolis, Minnesota--this is just out of the ones in Lancaster County--not all the Targets. Not the Targets in Omaha, just Lancaster County's one Target. We have to send them \$13,077.12. Wal-mart in Bentonville, Arkansas, gets \$12,220.97. It is wasteful. We are taking money from people, including the young man who wants to farm who's trying to earn income and save enough out of his income tax to buy land so he can pass onto his children a rural lifestyle. We are taking his income tax money and we're sending it to these folks because some folks in the ag community want money now. We don't have enough money and they're wasting it. And there are ways we can do it far more efficiently. We can get more real relief to the people who want to live in the state, who want to raise their families here, who pay income tax, who shop here, and not send this money out of state. But we're not going to do it if people continue to say, I don't care what it costs the state. I don't care if you waste three-fourths of this, give me mine. And that's not acceptable. We don't have the money or the resources. Thank you. [LB13]

SENATOR CORNETT: Thank you, Senator White. That closed the hearing on LB13. Senator Haar, you are recognized to open. I don't think you were here when we went over the committee, but we're limiting testimony to five minutes for introducers and three minutes for proponents and opponents. [LB13]

SENATOR HAAR: Okay, can you give me a minute notice? [LB270]

SENATOR CORNETT: Yes. [LB270]

SENATOR HAAR: Okay. Senator Cornett and members of the committee, this is my first time in front of Revenue so you've got the easy job, so. I serve with Senator Adams--Education is tougher, I think. Well, first of all I just want to tell you when I started this morning I had a fiscal note of \$212 million; now it's \$140 million. I've saved you \$50 million (laughter) between this morning and now. When I was on the Lincoln City Council I remember reading an article. All I remember is the headline, it said: love services, hate taxes. And so I know we're all operating in that place. I just came...I'm a new person to the State Senate. I just got through a campaign. I knocked at about 7,000 doors and probably talked to half of those people, and of course...so I have to explain the background of my bills here. Much of that was during the time when the state had a record cash reserve. And for a while, quite a while, people's main complaint was that we...what were we going to do with this huge cash reserve? Were we just going to sit on it or what were we going to do with it? And so my proposal at the time, and it, in some ways, doesn't apply any more but to say let's set a goal of a reasonable cash reserve--perhaps 10 percent of the biennial budget. And then what do you do with the

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leftover money? Because that's what people were asking me, what are you going to do with this record cash reserve? And so I got a group of citizens together and what we came up with is a two-pronged approach and my second part, which I'll talk about in a few minutes is the car tax, but the first part, we were looking for a meaningful property tax relief and my proposal is actually very much like Senator White's. And basically what this group came up with it said let's have a reasonable cash reserve and give the excess back to the taxpayers. And so that's what my two bills address. Again, it talks about owner-occupied homes, just as Senator White's does. And since it's very similar, except for...I would just like to tell you about the differences. First, the amount in my bill is \$15,000 homestead exemption rather than \$13,000 in LB13, and second, under Senator White's bill there will be a decreasing exemption for high-value homes. My bill gives every owner-occupied home a \$15,000 exemption regardless of the value of the home. And those are kind of the main differences between his proposal and my proposal. Looking at meaningful property tax relief, I think one thing that we have to remember is that when the state gives property tax relief it comes from income tax and sales tax. That's true of education, it's true of any other kind of property tax we'll give at the state level. So with that I would like to listen to the testimony and then I would like to close and then go on to my second part of my proposal and that's a car tax. [LB270]

SENATOR CORNETT: Thank you very much, Senator Haar, and welcome to the committee. Are there any questions? Senator Hadley. [LB270]

SENATOR HADLEY: Senator Cornett. Senator Haar... [LB270]

SENATOR HAAR: Yes. [LB270]

SENATOR HADLEY: ...thank you for being here. If I heard you right, this basically had its germ in the idea of having this large surplus. [LB270]

SENATOR HAAR: Right. [LB270]

SENATOR HADLEY: If you had to do it right now, the fact that this surplus might melt away just trying to meet our current obligations, would you be bringing this type of bill then? [LB270]

SENATOR HAAR: It'd probably be different, although I brought it forth anyway because I recognized that times have changed but I think it's a very interesting tax discussion. And from listening to the testimony I realize that there is this push and pull--should it be property tax for basically everyone or for owner-occupied homes? So I'm sitting on the fence right now. At the time I introduced this, I thought there was a possibility of doing this on top of the current tax relief and so, you know, that would be an ideal situation: you do some to give property tax relief to everyone and then another part of this that would concentrate on owner-occupied homes, because I also am really bothered by the

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fact that a lot of this property tax relief goes out of state. [LB270]

SENATOR CORNETT: Senator Utter. [LB270]

SENATOR HAAR: Yes. [LB270]

SENATOR UTTER: Senator Haar, thank you for bringing this. Tell me how you arrived at the fact that you think a 10 percent reserve is adequate. [LB270]

SENATOR HAAR: That's a good question. I talked to a lot of people and nobody could give me an answer. So what I did is, I'm a computer professional, basically, do consulting work, and a lot of times we sort of do like this when we can't... [LB270]

SENATOR UTTER: You snatched that out of the air? [LB270]

SENATOR HAAR: Yeah, I think, because nobody is really willing to say, and maybe we can't say but at some point we're going to have to say what is a reasonable cash reserve? So I snatched 10 percent out of the air. [LB270]

SENATOR UTTER: Would you give any credence to the fact that the size of the reserve may change based on the economic environment? [LB270]

SENATOR HAAR: You bet, you bet. [LB270]

SENATOR UTTER: And that where we're headed, as far as an economic environment is concerned, even the reserve we've got today may not be enough? [LB270]

SENATOR HAAR: You bet. But I think there's some point, Senator, where in better economic times we're going to have to speak to taxpayers about that cash reserve. Because...and again, in July, you know, when the newspapers were saying record cash reserve...at some point we're going to have to address that and say what is a reasonable cash reserve, I think, in opposition to just letting it be whatever it is and at some point, perhaps, growing. [LB270]

SENATOR UTTER: Then you're suggesting, also, on this bill, as with Senator White, that this is just a bill to...that this reduction in this tax benefit, that would just accrue to owner-occupied homes? [LB270]

SENATOR HAAR: Yes, this part of it would be only owner-occupied homes. [LB270]

SENATOR UTTER: In the case of a person who rents a home and the owner of that...and it seems to me like one of the components of the rent that they pay... [LB270]

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SENATOR HAAR: Um-hum, um-hum. [LB270]

SENATOR UTTER: ...is going to be the tax component. [LB270]

SENATOR HAAR: Um-hum. [LB270]

SENATOR UTTER: So in a sense, this is going to penalize a little bit the... [LB270]

SENATOR HAAR: The renter. [LB270]

SENATOR UTTER: ...the folks who rent homes because in their rent it's going to be a higher tax than what would have normally been charged. [LB270]

SENATOR HAAR: You bet. And obviously, there's no perfect system, especially when you're giving money back, but the second part of mine--and we'll get to that in a minute--will be car tax relief. And so it kind of balances off. What we were looking...again, I met with a group of citizens, we put some ideas together and so... [LB270]

SENATOR UTTER: So if the folks...are you saying that the folks that are renters, then, are going to get a double car tax benefit, or... [LB270]

SENATOR HAAR: No, no, no. It's a separate issue. And so if somebody rents their home--under my two proposals somebody who rents their home and has no car would get no tax relief. [LB270]

SENATOR UTTER: Now is there any sense that as we look at this that we have designed this to get at the Mormon Church and the Ted Turners of Nebraska, and as a consequence we're going to leave the agricultural community out of then receiving any of this benefit? Albeit the taxes they've paid, and particularly the taxes they've paid in the last two or three years, have probably contributed very heavily to the fact that the state's got a healthy tax reserve or had what we thought was a healthy tax reserve. [LB270]

SENATOR HAAR: Sure. Again, this is not a perfect proposal, and at the time I was looking at this you'd have some where everybody gets the tax money back because...one of the problems that I've found in talking to people...for example, under the current tax relief in the Governor's budget and so on, the average homeowner's getting something like around \$80. And \$80 doesn't feel like much of a tax break. And part of the problem I think we face is to give people a tax break that feels like a tax break. [LB270]

SENATOR UTTER: Going back to the nonresident owners of property: business

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property, homes... [LB270]

SENATOR HAAR: Um-hum, um-hum. [LB270]

SENATOR UTTER: ...farms, ag land, ranch land, whatever. Those folks are...in another life I was a country banker... [LB270]

SENATOR HAAR: (Laugh) Okay. [LB270]

SENATOR UTTER: ...and I'm aware of leases of what referred to as net-net-net leases. That the cost of the rent to the farmer or the cost of the rent to the person that was renting the commercial property was a fixed amount plus the real estate taxes, whatever they might be. And as those taxes changed through the years, why...and normally have changed upward, why, their rents went up. So without precluding that tax relief to that farmer or to that businessman that's renting that business property, it's going to increase the cost of his operation because his rent goes up. Seems to me like then he gets hit another time, almost, with the lack of this tax relief. Doesn't get it on his own farm, he certainly doesn't get it on the other farm, it looks to me like the only relief that he can...that we as a state can think is important is the fact that that nonresident owner does have to pay income taxes on that income. Would that be true? [LB270]

SENATOR HAAR: Sure. [LB270]

SENATOR UTTER: So if we take a look at this information that was given to us by the AARP that talks about...that talked about in the previous testimony... [LB270]

SENATOR HAAR: Yeah, I didn't see that but I'd like to have a copy if I could. [LB270]

SENATOR UTTER: ...of Senator White's where he was talking about the additional taxes, or the benefits, that Wal-mart got and the other people got, it's kind of been my experience that when taxes go up on businesses and on their property, what happens? The price on the merchandise they sell go up. And who ultimately pays those taxes? The consumers do. So I really wonder what we're really accomplishing here. I'm not sure that what we are doing is worth going after the \$72,000 that we supposedly gave Ted Turner in tax relief and admittedly he paid them a lot, well, nobody's referred to the amount of taxes that he paid and I'm not a Ted Turner fan, but I'm just wondering about the equity of this whole thing. I think this has got a real equity problem. Would you agree or not? [LB270]

SENATOR HAAR: Well, sir, and I think anytime you deal with taxes and you deal with issues of fairness you make decisions like that. And again, when I was proposing this...and I would suggest maybe there's a way of doing some kind of combination of things that doesn't please everybody but in the final analysis is more fair. And certainly I

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hear you saying that you feel that this is quite unfair. [LB270]

SENATOR UTTER: Well, I'm not sure. It looks like we're trying to pick out a segment of our population and treat them differently than we are another segment. But the end result may not be...it may affect an awful lot of people. [LB270]

SENATOR HAAR: Yeah, yeah, you bring up some good points. [LB270]

SENATOR UTTER: Thank you. [LB270]

SENATOR HAAR: No question. [LB270]

SENATOR CORNETT: Senator Hadley. [LB270]

SENATOR HAAR: Yes. [LB270]

SENATOR HADLEY: I guess I don't know if this is more a question or a statement, but you know the ag industry is our number one industry in the state. [LB270]

SENATOR HAAR: You bet. [LB270]

SENATOR HADLEY: And it seems to me that, both Senator White's bill and this bill, we want to pick on our number one industry. And I guess I really wonder about that, you know. Why would we try to make it more expensive for our number one industry to do business when, especially our number one industry is probably as pure a competition as we can have because, as was mentioned earlier, they don't have the ability that a Wal-mart...a Wal-mart, prices go up...their input costs go up, they raise their prices. The cattlemen, if their input prices go up they can't say okay, I'm going to sell my cattle for more because I don't have that ability. So I'm just concerned that we picked out...that we're throwing the baby out with the bath water. That we're so upset with the Ted Turners or the Church of Latter-day Saints that we're going to penalize the thousands of agricultural producers across the state to try and get at a few others. And years ago, in the Marine Corps, we had a...the old Sergeant told me about the 10 percent rule, that, you know, 10 percent of the people are going to figure out how to job the system no matter what. And if you spend all your time worrying about the 10 percent and not about the 90 percent, then you're chasing, you know, it's like the dog chasing his tail. So I guess it's more of a statement, but I just worry about that we're kind of picking on ag at this point in time in this kind of a bill. [LB270]

SENATOR HAAR: Gotcha. Sometimes it's higher than 10 percent. (Laugh) [LB270]

SENATOR HADLEY: Maybe it's higher than 10 percent. [LB270]

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SENATOR LOUDEN: Other questions for Senator Haar? Seeing none, thank you, Senator. [LB270]

SENATOR HAAR: Thank you. [LB270]

SENATOR LOUDEN: First proponent. How many proponents do we have for this bill? Okay, there are no proponents. Then first opponent for this bill. Seeing none. Anyone in the neutral testimony? [LB270]

JON EDWARDS: Good afternoon, Senators, my name is Jon Edwards, J-o-n E-d-w-a-r-d-s. I'm assistant legal counsel with Nebraska Association of County Officials. We are here today neutral on LB270, I think that, for all the reasons based on the property tax relief ideas that were already discussed--those are still on the table--it's kind of the same idea. Certainly the assessor's concerns, just as a technical matter, the assessor's concerns basically are the same with this bill so as a matter of record we just wanted to make sure that that concern is on the record. So with that I'll just conclude my testimony. [LB270]

SENATOR LOUDEN: Any questions? Senator... [LB270]

SENATOR UTTER: Mr. Edwards, you did make a statement in your earlier testimony, and you said that the testimony is similar for this bill, you made the statement that you weren't concerned about fairness and I'd just like to have a little clarification of that if I could, please. [LB270]

JON EDWARDS: For purposes of our organization, from NACO's point of view, our debate...as we discuss these bills and try to determine what is the best path forward in terms of property tax relief...for us the fairness issue is more from our perspective--one for the Legislative body to have as they try to determine how they feel best to go forward with property tax relief for property tax payers in the state. [LB270]

SENATOR UTTER: Let me just say I find that an interesting concept that an association like yours would not be concerned about fairness. [LB270]

JON EDWARDS: It's tricky, it's tricky for us to... [LB270]

SENATOR UTTER: It sure is, as far as I'm concerned, thank you. [LB270]

SENATOR LOUDEN: Other questions? Senator Hadley. [LB270]

SENATOR HADLEY: Just a quick question. [LB270]

JON EDWARDS: Yes. [LB270]

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SENATOR HADLEY: You know, as the Association of County Officials you deal with all the citizens of Nebraska. Of the three taxes, which ones do the citizens of Nebraska really think are fair and would be willing to raise to make up for any...if property tax is terrible and we need to reduce it and such as that, which of the two remaining taxes do they think fairest; that we ought to increase to make up for any lost revenue on the property tax side? [LB270]

JON EDWARDS: Great question, Senator Hadley, and I can't answer that for you. Much like you, you probably don't hear the answer to that question either, but you hear a lot about lowering the property tax. [LB270]

SENATOR HADLEY: That's right. [LB270]

JON EDWARDS: We're kind of in the same position. [LB270]

SENATOR HADLEY: Okay. [LB270]

SENATOR CORNETT: Seeing no further questions, thank you. Are there any other testifiers in a neutral capacity? Seeing none. Senator Haar, you are recognized to close. [LB270]

SENATOR HAAR: Actually, since again, it's so much like Senator White's and we got some good questions and stuff, I guess I, you know, unless there's some more questions on that or statements you'd like to make, I see no reason to close on that. [LB270]

SENATOR CORNETT: Okay. You are welcome to open on LB271. [LB270]

SENATOR HAAR: (Exhibit 4) Okay, I need these passed out. Senator Cornett and members of the Revenue Committee, again, I would like to repeat where these two are really companion proposals and the second part of the proposal of giving excess cash reserve back to the people is through a car tax. And next to hearing about property tax, probably car tax is the one that I heard about the most. The bill itself will create a fund that will appropriate money to credit all Nebraskan's who own a car or light truck a percentage of their motor vehicle tax. Reducing the motor vehicle tax will reduce taxes to Nebraska residents without sending back tax dollars to non-Nebraskans. The way the fund would work is that the counties would credit the owners and then get reimbursed by the state for the difference. This assumes the car owner gets the tax credit and the local governments are held harmless. Under the bill as proposed, it would take \$50 million from the cash reserve and transfer it to the Car Tax Reduction Fund. This amount of money would cut the car tax by approximately 30 percent. This amount of money would be for 2010 tax year and each year the Legislature would have to

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reappropriate money to fund to continue with the car tax reduction for each year. This would allow the Legislature a flexible way to reduce taxes each year. They can be adjusted based upon the fiscal outlook of the state. This is really a retread that the group of citizens I met with thought was a good idea. It came from Senator Landis, LB806, in 2006. And I handed out--I don't know whose registration this is, it may be fake--this is what Landis handed out at the time. But what we're talking about is that top thing on your tax statement--motor vehicle tax. It's not the other items, it's just that item of motor vehicle tax. There are several appealing parts to this. One is that if you could cut a tax by 30 percent, people would notice it. Again, the problem with much of the tax relief we get is maybe \$80 or \$10 or something like that, and it's very hard to notice as a tax relief. His tax relief was actually 50 percent; I'm saying 30 percent. But this is something that citizens would recognize as tax relief and, I believe, would appreciate. It's got an element of variability in it in that it would be reappropriated each year. So if, you know, in good years there'd be a greater tax relief; in bad years the tax relief would be smaller. Again, just...I'm sort of reacting to things as a new candidate who'd knocked at a lot of doors and some people were just plain angry about the car tax. And so with that I would say, you know, I'm, again, presenting a concept which was part of a two-pronged approach to give people some real tax relief. I'd be open to questions. Yes. [LB271]

SENATOR UTTER: Thank you, Senator Cornett. Senator Haar, the...this is limited to 310? [LB271]

SENATOR HAAR: Yes. [LB271]

SENATOR UTTER: So that would take most pickup trucks, as we know it. [LB271]

SENATOR HAAR: Right, yeah the idea was to include pickup trucks. [LB271]

SENATOR UTTER: But we're not going to exclude farmers and ranchers? [LB271]

SENATOR HAAR: Correct. [LB271]

SENATOR UTTER: And so they're going to get a little piece of this. [LB271]

SENATOR HAAR: Yeah, yep. [LB271]

SENATOR UTTER: But what are we going to do about the pop truck, the delivery truck that delivers stuff up and down the street and the contractors that have the trucks that they use and the...we're not going to give them any relief? [LB271]

SENATOR HAAR: Again, we've been selective. [LB271]

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SENATOR UTTER: So there again, that lack of relief that you're giving them is going to be reflected in the price of their commodities and ultimately the consumer, whether it's a contractor or whether it's the pop truck or the delivery truck or whatever it is in these towns, is going to end up footing the bill. Right? [LB271]

SENATOR HAAR: Well, I guess I would...I'm kind of looking at it a little differently. I would look at this as tax relief. It doesn't raise the prices; it gives money back to certain people. So, but, the point is, certain people are not getting the tax relief. There's no question, no question. [LB271]

SENATOR UTTER: Thank you. [LB271]

SENATOR CORNETT: Senator Louden. [LB271]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. First of all, Senator Haar, I'm wondering what you're trying to do here. Are you going to give everybody that owns a vehicle that weighs less than 6,000 pounds 20 bucks tax relief? [LB271]

SENATOR HAAR: Yeah, yeah. [LB271]

SENATOR LOUDEN: Because how are you figuring it? Because this isn't...this is county taxes. I mean, the taxes on a car here in Lincoln is a lot different than the taxes on the car in Sheridan County. [LB271]

SENATOR HAAR: Well, actually it's... [LB271]

SENATOR LOUDEN: So how are you going to justify that? [LB271]

SENATOR HAAR: Yeah, yeah. If you look at that item on this statement here, what's called the motor vehicle tax is based on a schedule that's used across the state and basically... [LB271]

SENATOR LOUDEN: Yeah, but that's what...\$15 or \$20? \$15, \$25? [LB271]

SENATOR HAAR: Well, we figured out with \$50 million going into this, the average vehicle would get \$100 tax relief. But again, it depends on, you know, if you have a brand new car it would be greater. [LB271]

SENATOR LOUDEN: No, it depends on where you live. I mean, I went through this with Senator Fulton when he first got here about how high his car taxes was. [LB271]

SENATOR HAAR: Um-hum. [LB271]

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SENATOR LOUDEN: So I showed him the taxes on my mom's 1990 Oldsmobile in Sheridan County and the whole bundle was about \$30 for the license plate, the whole thing. Now, are you going to give me back 100 bucks for that car that's the taxes? When you take your car taxes you're talking about what your city's added onto it and some of that. I mean, he had 200 and some dollars worth of taxes on his car that was about four or five years old. But all but \$25--I think it was, like, what, \$25 of that was all that was state tax, the rest of it was all your local county and city taxes. [LB271]

SENATOR HAAR: Well, but the motor vehicle tax, that item on your tax statement is based on a schedule that's used across the state. Now, you know, in certain counties like Lancaster County you add a wheel tax and those kinds of things. [LB271]

SENATOR LOUDEN: Yeah, but that isn't part of your motor vehicle tax. [LB271]

SENATOR HAAR: That's correct. [LB271]

SENATOR LOUDEN: You've got the thing there, what is it on there? Is it 15 or 20 bucks for your state motor vehicle tax? [LB271]

SENATOR HAAR: Well, on this particular one it was 47...I don't know how much this car, but it's always based upon the value of the car. Again, and I'm...you know, we could argue about this, I guess, without seeing it, but... [LB271]

SENATOR LOUDEN: That value is what the counties use to levy their tax--that's what that value is all about. The state doesn't get any of that money. [LB271]

SENATOR HAAR: Now, I do agree that the way that the money...for this motor vehicle tax, the way that money goes back to the state is it goes to the counties, it goes to the cities, and it goes to the schools. But the amount of that tax is the same across the state based on the value of the car. Because there's one schedule that, I guess, the Department of Motor Vehicles puts out and it says like if you have a 1998 Chevy whatever--Lumina or something like that--that motor vehicle tax is the same anywhere in the state. [LB271]

SENATOR LOUDEN: Right. [LB271]

SENATOR HAAR: Yeah. And that's the one we're talking about. [LB271]

SENATOR LOUDEN: But that's the valuation for tax purposes and that's what the counties use to levy their taxes. [LB271]

SENATOR HAAR: And that's what I'm talking about in here, so... [LB271]

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SENATOR LOUDEN: Okay then, this is a county problem; it isn't a state problem. [LB271]

SENATOR HAAR: Well, the state remits that money back to the county. So again, if I'm paying \$50...in terms of just pure motor vehicle tax on my 1998 Chevy, I would pay that same \$50 no matter where I am in the state. [LB271]

SENATOR LOUDEN: Not necessarily. I think it depends on what your county levy is in different parts. It depends on your county levy. [LB271]

SENATOR HAAR: Well, we may have to come back to...but I've seen the schedule... [LB271]

SENATOR LOUDEN: Anyway, I have a question about this. The other thing I question is how come this wasn't in the Transportation Committee? [LB271]

SENATOR HAAR: I have no idea. [LB271]

SENATOR LOUDEN: Okay, well, thank you. [LB271]

SENATOR HAAR: Yeah, I don't know. But you ask a good question and I'm certain of my answer, but now you just make me wonder a little bit. But we'll get that schedule to you and I'm quite sure that the motor vehicle tax is the same no matter where you live in the state and it only depends on the car you're driving. [LB271]

SENATOR LOUDEN: And I'll maintain that it's that license fee--that it's either \$15 or \$25 depending on whether it's a car or a truck, and... [LB271]

SENATOR HAAR: Okay, well, we'll find that out because we both need to know. Okay. [LB271]

SENATOR CORNETT: Senator Hadley. [LB271]

SENATOR HADLEY: Yes, Senator Cornett. Senator Haar, you know I applaud you because I certainly, in going door to door, this is a conversation that people have regarding the cost and they certainly compare us to surrounding states. And someone that called the other morning told me that something like 50 percent of the motor homes in the country are registered in South Dakota now because you can do it using a post office box, which is illegal, but anyway. But my concern is, again, we need a certain amount of revenue to run the state. [LB271]

SENATOR HAAR: You bet. [LB271]

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SENATOR HADLEY: And so, you know, where's the transfer? You know, it's...whether it be property tax, sales tax, income tax, or whatever the tax, if we lower one, where do we look? Because, you know, you're using the cash reserve and I have a hunch when we get the revenue forecast February 28 we're going to find our cash reserve... [LB271]

SENATOR HAAR: Um-hum. [LB271]

SENATOR HADLEY: ...June 30, starting next year, is going to be significantly less than it is right now. So if we were in a position to have to increase some other taxes, any ideas of which ones you might increase? Is it because this tax is unfair and we should use some other method to raise revenue? [LB271]

SENATOR HAAR: Well, I guess you didn't buy...when I said I saved you \$50 million (laugh)... [LB271]

SENATOR HADLEY: Okay (laugh). [LB271]

SENATOR HAAR: ...coming in here (laugh). [LB271]

SENATOR HADLEY: I thought that was great. (Laughter) [LB271]

SENATOR WHITE: Heck, it goes right along with: I still have checks so I must have money. (Laughter) [LB271]

SENATOR HAAR: And you can talk to your research analyst but he said I saved you \$50 million. (Laughter) [LB271]

SENATOR HADLEY: Okay. [LB271]

SENATOR HAAR: Again, I'd go back to the genesis of this, that this is when we had a large tax reserve and I would still say at some point we're going to have to face that problem and say you don't just let the cash reserve grow as big as it gets but you say here's a reasonable cash reserve, and then this is where the money would come from. So that would be my answer to that one. [LB271]

SENATOR HADLEY: I just...Senator Haar, I just have to make one comment on that. [LB271]

SENATOR HAAR: Sure. [LB271]

SENATOR HADLEY: You know, everybody, I know a few months ago, did criticize us for our cash reserves, but I'll guarantee you South Dakota, Iowa, Missouri, and Kansas would trade places in a minute, right now, with their situations. South Dakota--I was just

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reading in the paper again that they're hoping the stimulus will just help balance their budget this year. They need the stimulus to balance the budget. Kansas is going to issue IOUs. The University of Kansas went through a 3 percent mid-year budget cut. So maybe the planning wasn't all bad, to have that cash reserve the way it is right now. [LB271]

SENATOR HAAR: Yeah, and I don't disagree with that. I suppose for South Dakota we just all need to go and play their slots (laugh). I mean, that's where they get their money, but... [LB271]

SENATOR HADLEY: It's their third largest source of revenue in South Dakota and it's a part of their General Fund. [LB271]

SENATOR HAAR: Right, and I have some real problems with that. But at some point, I think we do need to look at the whole issue of cash reserves and this year, yeah, I mean, we're lucky to have a good cash reserve. But let's say if the cash reserve had been a billion dollars going into this year or whatever...the second issue of that that a number of...frankly, it's my treasurer from my campaign and he actually reads all the financial reports the state puts out. He reads those big, thick books (laugh) and...you do that too. And his contention is that at some point we need to look at all the cash reserves that sit all over the place within the state. And I believe I've heard figures as much as \$800 million or \$900 million sits in cash reserves here and there and here and there and here and there. And at some point, then, you say yeah, are we unnecessarily squirreling away money? What's a reasonable amount for that? And I am more than happy that we have what we have right now, yeah. [LB271]

SENATOR CORNETT: Seeing no further questions, thank you. [LB271]

SENATOR HAAR: Yeah. Well, I really appreciate your patience with me and you have good questions. And just coming off the campaign trail, I wish I had answers to all of these questions (laugh). Thank you so much. [LB271]

SENATOR CORNETT: Thank you. Can I have the first proponent? [LB271]

LOY TODD: Senator Cornett, members of the committee, my name is Loy Todd, L-o-y T-o-d-d. I'm the president and legal counsel for the Nebraska New Car and Truck Dealers Association, appreciating this opportunity to bring this issue, or at least our view on this issue, before the Revenue Committee. We do usually get to whine to the Transportation Committee about car taxes, so. And simply put, my membership, as you can understand, believes that the motor vehicle taxes in Nebraska are too high. They're certainly disproportionate to our surrounding states. You know, anywhere from double to ten times as high as South Dakota; about double of Iowa; closer to Kansas; and so we get a lot of mischief in that regard. We would like to see, sometime, there be an

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opportunity to address that. One of the...and as the Senator indicated, this is sort of a recycled idea, Senator Landis came up with it. We weren't so fascinated with the term that's in this bill, and that's at the bottom of page 2: using available excess revenue. You know, that's a term that wasn't so exciting until recent times, and now I wonder what that really would be. [LB271]

SENATOR WHITE: That would be turning in the pop cans (inaudible). (Laughter)
[LB271]

LOY TODD: (Laugh) Apparently it's going to be something like that. But in all seriousness, we do really see a serious impact to the state of Nebraska because of motor vehicle taxes. And we would like to see something, when the opportunity would come along in the future--we're realists and believe that when that does occur, we'll be there to try to work with you in that regard. So we would encourage your thoughts. With that I'll answer any questions. [LB271]

SENATOR CORNETT: Thank you. Questions from the committee. Seeing none, thank you. [LB271]

LOY TODD: Thank you. [LB271]

SENATOR CORNETT: Next proponent. Opponents? Anyone in the neutral capacity? Senator Haar, do you wish...oh, wait. [LB271]

JON EDWARDS: My name is Jon Edwards, J-o-n E-d-w-a-r-d-s. I'm assistant legal counsel with Nebraska Association of County Officials. We are here today neutral on LB271, just basically on practical application issues. Looking at how the bill is structured, there is a concern with how the funding would actually work; the gap funding. When this goes into place you'll have a 30-day period, a month long period there where the funding actually, probably won't be there. So that's just a concern that was brought to our attention. If this bill were to pass and actually were put into place that would be a concern in terms of funds on hand and how that would actually work. The other issue is, as you might have noticed if you looked at the fiscal note, there's some changes in the forms and some change to the software and so forth that will have to be done and there is a cost to that, which the state accounts for. And the one issue we would have there is certainly the treasurers will be on the front line as we try to make this change and make this happen, and of course they'll be there to take the brunt of whatever issues are there with whatever software changes and form changes and so we would just have some concerns about a smooth transition. And obviously this would be a fairly significant change in the way we do the motor vehicle tax. But they're just concerns that were there and we just wanted to lay those on the record with regard to this bill, so. With that I'll conclude. [LB271]

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SENATOR CORNETT: Seeing any questions? Seeing none, thank you. [LB271]

JON EDWARDS: Thanks. [LB271]

SENATOR CORNETT: Senator Haar, you are recognized to close. [LB271]

SENATOR HAAR: Okay, so I didn't save you \$50 million. [LB271]

SENATOR WHITE: You tried. [LB271]

SENATOR HAAR: I tried, I tried. Well, I found that being in government before and now the new experience that I'm having that always listening to other ideas and then balancing is a really important process. I think, at some point, I would urge the committee to look at the issue of cash reserve. And again, what's a reasonable...I'm sure by looking at...you know, if we had \$2 billion in cash reserve, would that be too much? Would \$3 billion? Whatever. And then a way to refund that to taxpayers at some point. And then also this idea, I think, is really very useful of taking a look at all the cash reserves that sits all over. One of the things we found in city government was that if, for example, the mayor really wanted to do something, very often he could find a cash reserve that was sitting there somewhere to do it. And so I think trying to find where those are and at least identifying them and to think about that issue is very worthwhile. And at some point in the future, we hope the economy is going to turn around. And I think the car tax idea is a useful one in that kind of situation to see how we can refund some of that excess money back to taxpayers. Thank you very much. [LB271]

SENATOR LOUDEN: Oh, I'd like... [LB271]

SENATOR HAAR: Yes. [LB271]

SENATOR LOUDEN: ...to mention, Senator Haar, since it's the end of the day, but I was down here in 2003 and you talked about looking for cash reserve funds. I tell you, the place was raked clean. We were looking into everything, we were raiding, they were...they actually tried to raid the Department of Roads' fund. They did a little bit--they took part of the sales tax off of the vehicles. We found underground leaking storage tank funds that was laying there that got raided. I mean, it got raided all over the place in order to keep from raising the taxes any more than what we did. We raised the income tax a half a percent--it raised it back up to where it was when we raised the sales tax up to 5.5. So don't kid yourself--when times get tough they'll find those cash reserves laying around there because they'll eat them up in a hurry. And we didn't have any...barely enough to run the state a week at that time. So the \$500 million, at one time, was a question--how much more do we need? Well, I'll tell you what: a \$80 fat cat right now took care of all of that so you don't need to worry about our cash reserve getting any more than what it is now. It'll be lucky if it stays even half of what we have.

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[LB271]

SENATOR HAAR: Well, on the campaign trail one of the suggestions I heard was to cut Senator's salaries. (Laughter) [LB271]

SENATOR LOUDEN: That was thought of too, and... [LB271]

SENATOR WHITE: You'd make more money turning in pop bottles. [LB271]

SENATOR HAAR: That's right. Put us all out there with a sack to get tin cans. Thank you very much. [LB271]

SENATOR CORNETT: Thank you very much. [LB271]

SENATOR HAAR: I appreciate it. [LB271]

SENATOR CORNETT: That closes the hearings for today. Thank you very much, and have a good weekend. []

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Disposition of Bills:

LB13 - Held in committee.
LB270 - Indefinitely postponed.
LB271 - Indefinitely postponed.

Chairperson

Committee Clerk