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Revenue Committee
February 08, 2012

[LB976 LB977 LB1061 LB1102 LB1117]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 8, 2012, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB1061, LB976, LB977, LB1102, and LB1117. Senators present: Abbie Cornett, Chairperson; Greg Adams; Lydia Brasch; Deb Fischer; Galen Hadley; Pete Pirsch; and Paul Schumacher. Senators absent: LeRoy Louden.

SENATOR CORNETT: Good afternoon and welcome to the Revenue Committee. I'm Senator Abbie Cornett from Bellevue; to my left Vice Chair Senator Louden will not be joining us today; to his left is Senator Deb Fischer from Valentine; Senator Greg Adams from York will be joining us; on my far right is Senator Schumacher from Columbus; Senator Brasch from Bancroft; Senator Pirsch from Omaha will be joining us; and to his left will be Senator Hadley from Kearney. Our research analyst today is Steven Moore to my right; committee clerk is Matt Rathje on my far left; the pages are Michael Killingsworth and Matt McNally. Before we begin the hearing, could you please turn your cell phones to either off or vibrate while in the hearing room. Sign-in sheets are provided by both back doors for testifiers wishing to testify. The sheet needs to be completed by everyone wishing to testify and a separate sheet needs to be completed if you're testifying on more than one bill. Please print and complete the form before coming up. When you do, please hand them to the committee clerk. There are also clipboards at the back of the room. If you do not wish to testify but wish to indicate either your support or opposition to a bill, they will be included in the official record. We'll follow the agenda posted on the door today. The introducer or representative will present the bill followed by proponents, opponents, and neutral. Only the presenter of the bill will be allowed opportunity for closing remarks. As you begin your testimony, please state and spell your name for the record. If you have copies, please bring ten copies for committee and staff. If you do not have ten copies, we will make them for you. When you come up to testify, hand the copies to the pages. With that, we'll begin the hearing on LB1061. Senator Heidemann, you are recognized to open.

SENATOR HEIDEMANN: Are we ready?

SENATOR CORNETT: Yes, sorry.

SENATOR HEIDEMANN: Senator Cornett and members of the Revenue Committee, I'm Senator Lavon Heidemann, spelled H-e-i-d-e-m-a-n-n, representing District 1 covering the southeast corner of the state. I'm here today to introduce LB1061. LB1061 would reduce the valuation of agriculture and horticultural land for school district taxation purposes by 2 percent per year for five years, reducing the valuation from the current 75 percent to 65 percent by the tax year 2017 and thereafter. Likewise, for equalization purposes before TERC, an acceptable range for school district taxation purposes would be gradually reduced from 69 to 75 percent to 59 to 65 percent of

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actual value over the five-year period. The adjusted value of agriculture and horticulture land for state aid purposes, TEEOSA, would reduce from 72 percent to 62 percent of actual value over the five years. Under LB1061, agriculture and horticulture land would remain valued at 75 percent for all other taxation purposes, which would be like counties, NRDs, ESUs, and such. LB1061 decreases the valuation of agriculture land for school taxation purposes. This in turn would trigger an increase in equalization aid to school districts that contain agricultural land, allowing such school districts to lower their levy for property taxes. Although LB1061 will not have a fiscal impact during the fiscal year 2012, 2013, nor the first year of the next biennium, it is expected to increase state aid approximately 5.5 to 6.5 million a year. However, I feel that farmers and ranchers are disproportionately funding our rural schools. Farmers and ranchers represent a small percent of the state's population but shoulder a significant portion of the property tax burden. Ag land values are increasing more rapidly than other types of property which enhances the problem and places an increasing heavy burden on farmers and ranchers to fund K-12 schools. Additionally, the number of schools that receive no state aid is increasing. LB1061 would help reverse that trend, hopefully. The fiscal note projects that each 2 percent drop in adjusted valuation, four to six on equalized school districts, a possibility depending on what we do with...how much money we put into TEEOSA could become equalized. All the farmers are paying a large portion of the bill for K-12 schools. All residents in school district benefit equally from having their children educated in the public schools, and that goes statewide. LB1061 would help lessen the effect of soaring agriculture land values and the resulting decrease in our elimination of state aid that burdens our rural land owners from supporting K-12 school districts. I do want to point out that one group that was hesitant to be supportive of this was NACO because they thought it was going to put an undue burden on their assessors. I will say, over the last couple of weeks I've worked with Larry Dix and NACO and they've put a lot of time and effort in this and I'm not for sure if they're here today and if they're going to testify in support or in neutral position or in opposition, but we have come a long ways to making this work as far as the counties are concerned. And a lot of their fears have been alleviated when it comes to the time and an effort and the burden, what it would take from them to implement this and the logistics of it. And they've talked to programmers and they think they've come to a spot that they can make this work and that was one concern. So logistically speaking, maybe we're a little bit closer. We've got people actually thinking that, you know, this can be done instead of just always just saying no all the time. This is my eighth year in the Legislature. I've been trying for eight years, and it's the reason I got in the Legislature. It was the reason that I got mad and I was complaining and I determined that people complaining just...you know, it doesn't do any good unless you try to make a difference, and I've been here trying to make a difference for eight years. I get a little frustrated and this might be one of the things that I look back in my career of the Legislature that I haven't been successful in being able to do anything. It's an issue, without a doubt. Hopefully, someplace I had a sheet on...Tom Bergquist in the Fiscal Office ran for me, how many...and I'm not going to find it here, how many unequalized school districts are going to be and I'm going to have to do this

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from memory. But going back until about the time I got in which was 2003, 2004, we actually had 31, 32 school districts that were unequalized. And it went to like 60, and then, I think, we're at about 90 right now. And I see Senator Adams has arrived and I think he can probably agree with me that it's going to get worse. And as I was preparing for this, I was working with Tom Bergquist in the Fiscal Office and we started talking about burden of taxation from property tax purposes. And I thought that the burden would be increased more and more and more year after year, which you'd think that's the way it's going...would be because ag land values have been going up. An interesting thing is starting to happen that the burden isn't increasing that much any more because we have so many unequalized school districts that as ag land values are increasing, and it doesn't matter anymore because we have so many unequalized districts. And when it comes to the state level figuring that up then, it isn't increasing as much as you would think. And that makes me think that much more we have a problem that we need to address. And we kick the can down the road year after year, and we talk about other taxations that we need to do something on. I know we talk about corporate tax this year. We talk about income tax and we talk about other taxes. But when I go home, and as I look around here, ask yourself this question. What do you hear about? You might not hear this in Omaha, you might not hear about it in Lincoln, but we don't hear about corporate income taxes in our part of the state. We don't hear about income taxes in our part of the state. We hear about property taxes, property taxes, property taxes, and especially on ag land. And I don't know what we can do about that this year or the next year or the next year, but I guess all we can do is try, continue the conversation, and maybe some year down the road, maybe it will be our turn, I don't know. But it needs to be looked at. I will try to answer any questions that you might have of me and if...I might stay around for close if I'm here. If it looks like I'm going to come up, I'll be here. I do have some Appropriations things that are happening, but if you have any questions. [LB1061]

SENATOR CORNETT: Senator Adams. [LB1061]

SENATOR ADAMS: Thank you, Senator Cornett. Senator, you're right on the mark. Less question than just conversation between the two of us: That goes on almost daily, right? You know, what we're experiencing, I think you would agree, what I've wondered is, that even if we lowered this number, if...how many more school districts...we're probably going to hit a 100-plus this year out of 249... [LB1061]

SENATOR HEIDEMANN: That's what I'm told. [LB1061]

SENATOR ADAMS: ...that will be nonequalized. And a large part of that, I think you're right, is because of these land values going up. Some of it, I think you know, is probably attributable to declining population in the needs calculation. And let's face it, I'm to blame, a lot of it is because of what we've had to do to the formula in the last two years to make this state budget, pushing that LER up. What I wonder what would happen is, if

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we took the LER back to a buck where we normally live, or supposed to live, would...even if we brought that land down to 65, would it...given the amount of increase, we bring it to 65, the declining enrollment, would we see, do you think, a large number of nonequalized becoming equalized? [LB1061]

SENATOR HEIDEMANN: Actually, I know where you're going with this. Probably not. We've got so far out of whack that it's a possibility that you wouldn't have. I did talk to Tom a little bit about when you see the movement from 30 to 40 to 49, a lot of it is when we do do things inside of the state aid system and that forces more out. And he exactly agreed with you when, you know, when it went down to a buck, a lot more equalized districts came in, but when we took the LER to almost to a \$1.04, we bumped a whole bunch more back out again. It would make a difference, I would hope. It might bring some more back in but as ag land value continues to rise, you know, it doesn't quite have the effect anymore. [LB1061]

SENATOR ADAMS: If I were to cut a little bit deeper, is the problem, do you think, the value of ag land, or is it very simply proportionately the number of people...literally the number of people writing the checks? [LB1061]

SENATOR HEIDEMANN: I believe you hit on something there. When you look back 50 years ago and the amount of ag land property tax that was going to K-12 schools, I don't think you would have heard quite the complaint. But now we have such a small group of people supporting a small percentage of their kids going to school, but taking the rest of that valuation and, you know, educating a lot more. It's, you know, I'm a small farmer and it's scary what I have to pay for K-12 education anymore. [LB1061]

SENATOR ADAMS: And there's two ways, as you know, because we've talked to this many times, there's two ways we could begin to remedy that and one of them, get that LER back, or even below a dollar. I mean, there was a day, remember we had... [LB1061]

SENATOR HEIDEMANN: Originally, it was supposed to be below that. [LB1061]

SENATOR ADAMS: That's right, and... [LB1061]

SENATOR HEIDEMANN: Well, it was supposed to be at a dollar, the levy was, which would force the LER backwards. [LB1061]

SENATOR ADAMS: Right. And then we'd have to take the LER below that. And we could have...there was a time, I remember, when I first came here, we tried that for about nine votes up on the floor to do that very thing. But the other way to approach it is exactly what you're doing right here. I'm not sure that it solves the problem, but at least recognizes the problem. [LB1061]

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SENATOR HEIDEMANN: And to be right truthful, even if you took it back another percent, if you remember in 2006, I believe it was, Bob Kremer had a bill that took the valuation from 80 to 75 percent and I actually made that my priority bill so if I gained anything in my eight years, it was that. I remember we passed that bill on final reading and I got an e-mail from somebody in my district that said, thanks a lot, you saved me 5 percent but unfortunately my valuation went up 6 percent. [LB1061]

SENATOR ADAMS: Because now that we're down to 75, I'm more inclined to want to buy land and drive the price up, is that what you're saying? [LB1061]

SENATOR HEIDEMANN: Well, you could maybe go there. No, he had actually...he had got his property tax, his property valuation went up 6 percent that year. [LB1061]

SENATOR ADAMS: Oh, I see what you're saying. [LB1061]

SENATOR HEIDEMANN: We had took it down by 5 percent, he still had to pay another percent. [LB1061]

SENATOR ADAMS: I gotcha. Okay. [LB1061]

SENATOR CORNETT: Senator Pirsch and Senator Hadley. [LB1061]

SENATOR PIRSCH: Just to clarify. Was there something about that act and Senator Kremer passed that 80 to 75 percent of valuation and you got that e-mail. You're not saying there was something inherent about that action of reducing it maybe to 75 that led to a...and would lead us to suspect that were to occur again. It just so happened in that one year. [LB1061]

SENATOR HEIDEMANN: Ag land valuation had went up 6 percent for this individual and we had brought it down by 5, so he still ended up paying more. [LB1061]

SENATOR PIRSCH: Yeah. And that's just, you know, circumstances beyond the Legislature's control. You're saying that it just so happened on that year that it went up 6 percent, although you decreased it 5. If you had done nothing, it would have went up, obviously, 11 percent. [LB1061]

SENATOR HEIDEMANN: Right. He would have paid more, I mean, but I do want to say something on that after that question. We did it in such a way that this will not hurt the counties. And I don't think there's a person out on a farm doesn't realize that counties need money so that we have roads and culverts and bridges. When Bob Kremer did that bill and I prioritized it, it did it for every entity. This bill actually only does it for K-12 education. [LB1061]

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SENATOR PIRSCH: Sure. At the end of the day, it's the state through TEEOSA that's going to be...if there's any other type of cost effects that would transfer to TEEOSA, right, through TEEOSA to the state? [LB1061]

SENATOR HEIDEMANN: There's a possibility that in a nonequalized district, and Senator Adams, listen to me here so if I say it wrong you can come in, that this could actually increase the burden on commercial land, residential land, because if you have less ag land and if you're a nonequalized district, if you live in town, it's a possibility that burden will somewhat shift. [LB1061]

SENATOR ADAMS: Yes. [LB1061]

SENATOR HEIDEMANN: Okay. So it's not always just the state. If you're a nonequalized district by a long ways, this isn't going to really help you. It might shift it within but not get state money. [LB1061]

SENATOR PIRSCH: Okay. Thank you. [LB1061]

SENATOR CORNETT: Senator Hadley. [LB1061]

SENATOR HADLEY: Senator Cornett, Senator Heidemann, thank you for coming. First a comment, you're absolutely 100 percent on. When I go home to my district I don't hear about income tax, I don't hear about sales tax. But I'll guarantee you, it's a rare day that I don't hear about property taxes and the check the farmers are writing. I'm way too young to remember this, but my banker friends of ag friends remind me of the '80s when land went the other way very quickly and very precipitously. What would happen if we were to have a decrease in land values? Would this...how would your bill...would it be impacted at all if we were to lose 20 percent in ag, just as a number? [LB1061]

SENATOR HEIDEMANN: This way it would still be in effect. I mean, if you would vote this out, it would still be in effect where the ag land would be different. I mean, in reality if that happens, it's not going to be good for what your scenarios with the 20 percent, it's not going to be good for the farmer, or the state of Nebraska. If ground goes down by 20 percent, there's a reason. And one thing about that, it's because of ag...something happened in the ag sector that's driving that land down. The trouble with that is, it's going to take several years for that valuation to actually go down and be recognized by the assessors. As sales go down, it takes a while for the assessors to pick that up and we see a decrease in valuation, a decrease in taxes. There were times, in my younger years, that when it came at the end of the year I didn't make any money. And in December I got a property tax statement and bill and you're going to pay it. You know, if you want to keep your land, you're going to pay it. And that's part of the problem I see with relying too much on ag land for K-12 educational purposes. It just really isn't fair.

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There's no money making and we've had conversations about income, factors coming in for ag land and it's difficult to get there. There are other states that are there. You have to watch what you do. But, you know, there's been that conversation. But the funny thing about property taxes, you don't have to make money and you're still going to pay them. [LB1061]

SENATOR HADLEY: Just so I completely understand, this is basically neutral then for the schools, that be...for the school districts because they would lose under the property tax, but the state would pick up that difference so the net effect for 90 or the districts in 93 counties would effectively be... [LB1061]

SENATOR HEIDEMANN: It should be the same. If you're unequalized to a certain point, if you're close to being equalized, the state will pick it up and make the difference. If you're not equalized by a long ways, it will be just a little bit of a shift inside of who pays it between ag land, residential, and commercial. But this should not affect, that I know of, the schools whatsoever. [LB1061]

SENATOR CORNETT: Senator Adams. [LB1061]

SENATOR ADAMS: I might respond. The only way that it might, Senator, would be simply how much we fund TEEOSA. That would be the variable that would otherwise skew what you're suggesting. Otherwise, it should be a wash. [LB1061]

SENATOR HADLEY: Yeah, if we don't put back what we've taken away in property taxes, effectively if the state didn't fund TEEOSA to pick up, you know, the \$5.4 million or so a year, effectively there could be a loss to school districts, so the burden would shift to the state to pick that up or the schools could be shortchanged. [LB1061]

SENATOR CORNETT: Senator Schumacher. [LB1061]

SENATOR SCHUMACHER: Thank you, Senator Cornett. When I go back to the district now, it never used to be this way, I'm hearing complaints about incomes taxes. In fact, I had one farmer tell me he thought he was going to have to fire his accountant because the guy couldn't figure out a way to get him out of income taxes now. That's besides the point. Traditionally, we've in good farmlands where they broke up townships into 36 sections, they donated one toward the school, financing the school way back historically. And that would be one out of 36 portions of income from land was due for the schools, roughly 3 percent. How does that stack up today? Does the...out of a section of land or not a section, a township of land, is that 3 percent of that net farm income, is that to education, is that a high or low figure would you say? Or is there any place we could get those numbers? [LB1061]

SENATOR HEIDEMANN: You're going to have to ask somebody besides me for those

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figures, probably. [LB1061]

SENATOR SCHUMACHER: That kind of traditionally has been 3 percent of what the land produces goes to education, at least back in history. [LB1061]

SENATOR HEIDEMANN: I think education is costing a little bit more these days. [LB1061]

SENATOR SCHUMACHER: Thank you. [LB1061]

SENATOR CORNETT: Senator Pirsch. [LB1061]

SENATOR PIRSCH: I appreciate that and your testimony. And so, yeah, there are factors that obviously play a role in this, how much the state funds TEEOSA on a given year, but just kind of use...I'm trying to get a ballpark sense because it makes a difference in terms of in the absence of this, you know, whose affected, commercial, residential, on one hand. If it's so far below the levy there that it is going to continue to be nonequalized notwithstanding the fact that the, you know, that the rate has gone down from 75 to eventually 65, right? [LB1061]

SENATOR HEIDEMANN: Right. [LB1061]

SENATOR PIRSCH: So do you have an idea percentagewise, you know, ballparkish, if all factors kind of stayed what they are this year, is a great majority of these if this was put into place, a great majority of these affected, would they continue to be nonequalized? I think you had mentioned that, right? You said majority. [LB1061]

SENATOR HEIDEMANN: If they're close to being nonequalized and they have a heavy burden of ag land, they would come into being equalized. [LB1061]

SENATOR PIRSCH: You're saying, if it was marginal, right? [LB1061]

SENATOR HEIDEMANN: If they was close to being equalized, yeah, but, and with a lot of ag land in that district, they would probably then...with not a lot of ag land in that district they would probably become equalized. [LB1061]

SENATOR PIRSCH: Right. I'm trying to get a flavor for how many in percentage terms, you...I think you stated before a majority probably still would be nonequalized. [LB1061]

SENATOR HEIDEMANN: Probably. I think they talked about four...every 2 percent is maybe another four districts or something that would become equalized. But as you do that, depending on once again and what happens with ag land valuations, I mean, if they continue to increase or if they become stable, there's all these things that you're

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not...if we had a crystal ball, we probably wouldn't be in the Legislature, we'd be doing other things. [LB1061]

SENATOR PIRSCH: Yeah. No, it's helpful. You said, maybe four or so, you didn't...thank you very much. [LB1061]

SENATOR CORNETT: Senator Heidemann, we've worked a lot on ag land valuation in the committee. We've looked at different ways to evaluate income-based, production-based, valuation-based on soil gradient. Would it be fair to say that we just need to look at how we fund schools differently? That this really doesn't solve the problem. [LB1061]

SENATOR HEIDEMANN: To a point, I agree with what you...if we put more into the formula, or even look at the formula... [LB1061]

SENATOR CORNETT: I mean, just like...I would say, just like when you got it passed when we were first here. In the end it didn't really help because valuations grew. [LB1061]

SENATOR HEIDEMANN: It still helped the 5 percent. I mean, that guy argued instead of going up 6 percent it... [LB1061]

SENATOR CORNETT: It went up 1 percent. [LB1061]

SENATOR HEIDEMANN: ...only went up 1 percent for him, yes. [LB1061]

SENATOR CORNETT: But what I meant is, not per se on each individual person but in the number of equalized versus unequalized school districts as the valuations continue to increase at the rate they've been increasing. Should we look at how we assess differently? [LB1061]

SENATOR HEIDEMANN: You could probably come out this in more than one way. I've been before the Education Committee with ideas about how we fund our schools and it might have not exactly helped the ag land valuation as much, but it would have helped the more rural districts which should have been helped, you know, ag land valuations. There's all different ways that...I would, yeah...you could attack this somewhat in Education. There's people in Education that will argue with that. (Laugh) What we can legally do and what constitutionally what we can't do. But I still believe when you even look at needs, in the needs calculation, it can do things that I don't exactly agree with. [LB1061]

SENATOR CORNETT: Okay. Thank you very much. Further questions from the committee? Seeing none. [LB1061]

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SENATOR HEIDEMANN: If I'm around when we close and come up, I'll be around, otherwise... [LB1061]

SENATOR CORNETT: If not. [LB1061]

SENATOR HEIDEMANN: Yes. Thank you. [LB1061]

SENATOR CORNETT: You're welcome. With that we will open the hearing, first proponent. If proponents, please move to the front of the room. [LB1061]

BEN STEFFEN: (Exhibit 1) Good afternoon, Senator Cornett and members of the committee. My name is Ben Steffen, that's B-e-n S-t-e-f-f-e-n. My wife and I produce milk, corn, soybeans, and wheat on a farm near Humboldt, Nebraska in the southeast corner of the state. I serve as vice president of the Humboldt Table Rock Steinauer School Board and I serve as president of Richardson County Farm Bureau. I appear today before you on behalf of Nebraska Farm Bureau in support of LB1061. I want to start by expressing our appreciation to Senator Heidemann for introducing this piece of legislation. As you know, farmers and ranchers account for a small percentage of our state's population. However, when it comes to school funding, this small segment of the population shoulders a significant portion of the property tax burden in funding many districts across our state. In many districts ag property accounts for over 60 percent of the school's valuation base. And the map I've provided illustrates ag land as a percentage of the total assessed value in each school district in 2010. School districts in which the ag land exceeds 60 percent of the valuations base are colored green. And the map demonstrates visually the inequities of the current school funding. There's an old axiom in tax policy, that taxes paid should roughly equal the benefits received. And to farmers, school funding seems to violate this axiom. As citizens and taxpayers, farmers do benefit from educating kids, but the benefits farmers receive derive from educating kids are not greater than any other person in the local district, and yet they're consistently asked to contribute more towards providing the education. This is difficult for our members to reconcile. It's even more frustrating when they see these students leaving their communities for urban areas for productive careers there. Since 2006, property tax increases statewide on ag land, on ag real estate, have increased roughly \$244 million since 2006, or 54 percent. That's increases on statewide on ag real estate. In the past three years alone, increases in property taxes on ag land have exceeded ten percent each year. The burden of paying local property taxes is shifting on to agriculture land owners. From 2009 to 2010, 52 percent of the total change...the total amount changed in property taxes was attributed to increases in ag land taxes. LB1061 would help by providing a modest adjustment in the level of value for ag land for school funding. The adjustment would better balance the local burden of funding schools and distribute a burden a bit more evenly. The changes in LB1061 may also direct more state aid to school districts which rely heavily on ag property taxes. The likely effect of

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LB1061 would be to slow down the rate of shift to ag land taxes. Given the three year lagged effect inherent in the state's ag land assessment process, the large increases in ag land values are likely to continue for at least the next one to two years, even if the market stabilizes. As such, the reductions contemplated in LB1061 will be more than offset by valuation increases. But again, LB1061 would at least serve to blunt some of those increases. We believe LB1061 is a reasonable step towards a better equalization of the burden of funding education. We support the bill and we would urge the committee to advance the bill to General File. I appreciate the work you do and the opportunity to testify today, and be glad to answer questions. [LB1061]

SENATOR CORNETT: Questions from the committee? Senator Adams. [LB1061]

SENATOR ADAMS: Thank you, Senator Cornett. Ben, thank you for being here. And we can argue off the mike about the inequity of TEEOSA. It's not inequitable, but I would agree with you in terms of who is writing the check to fund schools, not necessarily the way the money is distributed. You know, one of the things that stands out to me here and I think it makes your point, but it also makes the point of the existing TEEOSA formula. As I look at this, with exception, I say, where are the people at? And it looks to me like these colors follow the interstate corridor, metropolitan area, so my point is that's where the students are, therefore, the TEEOSA aid moves in that direction. That doesn't ease the pain of the ag producer on keeping the Sioux County School or the Banner County School or Humphrey going, but it really illustrates the fact that the student population is sandwiching and moving east, and from a needs calculation standpoint, therefore, the TEEOSA moves. You know that because you're on a school board. You can respond if you want. It really wasn't a question, so. [LB1061]

BEN STEFFEN: Well, I would respond in this way. I think that funding a public education system is a fundamental public obligation, no question. And the fact is, that obligation has been shifting increasingly to ag producers. Now, if it was ever inequitable, it's getting worse. Now, and as we have more and more districts that are not equalized, think we're...I don't see how we can say this isn't more and more inequitable. So I guess we'll have to continue the discussion and we'll be... [LB1061]

SENATOR ADAMS: Yes, we will. [LB1061]

BEN STEFFEN: ...we certainly won't solve it today and I'm certain that we'll want to do that. [LB1061]

SENATOR CORNETT: Senator Hadley, then Senator Pirsch. [LB1061]

SENATOR HADLEY: Senator Cornett. Ben, thank you for being here. I guess maybe it's more of a statement than a question. The one worry I have about this is that I'm concerned for the schools because when we shift back to the state, we're expecting the

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state to pick up that difference. And we've just gone through some relatively tough times at the state level. And we've seen what has happened to school aid funding and I just always worry when we put more school aid funding into the political arena of 49 votes on the floor, and I guess I want to make sure that we make the school systems in all counties as whole as possible if we make this shift. That we don't end up lowering the ag valuation and then some Legislature in a year or two or three years says, well, oh, well, we can cut school aid funding now, you know, or we don't have the money to make up this amount that the schools have lost because of this change. And you can respond if you want, but that's just a worry I have. [LB1061]

BEN STEFFEN: It is a reasonable worry. I think the point...you know, the point that I would make is that the public's obligation here doesn't stop in a year when the economy turns down, and I would make no apology for asking for the public to continue to support education. And I'm thankful that I can help do that, and I'm privileged to help do that. And I think rallying support for education in my community and in this state is a critical piece of leadership and is certainly, you know, something that everyone should take pride in, in those results. So I think in those districts that receive state aid, the state would need to pick up that obligation. As it stands now, that leaves a lot of districts outside of that ability. And I think it's a high public value. [LB1061]

SENATOR HADLEY: I am very concerned about the number of nonequalized school districts continuing, as Senator Adams talked about, going over 100 at this point in time. That is a concern. Thank you, Ben. [LB1061]

SENATOR CORNETT: Senator Schumacher. [LB1061]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you for being here, Ben. You know, we talk about the wash of money back and forth and how it ends up from rural to urban, urban to rural. Do you know of any place where there's a reasonably good analysis that's done? For example, takes the school issue, that money washes toward the urban sector from the rural area, take the telecom area where the local phone companies in order for the farmers to have broadband get a big subsidy that's put on the backs of the...principally Omaha and Lincoln are ratepayers, the federal monies that flow back and forth, when all of those things, the road system in order to maintain farm to market roads, when all those things are taken into account where the money goes one way and this program is backed the other way, how everything that's out? Do you know of any study like that? [LB1061]

BEN STEFFEN: Well, as a matter of fact, I think that, you know, fortunately we have this body right here for that job and I'm privileged to be in front of you. But, you know, that's absolutely part and partial of the job of this Legislature, I think, to evaluate that. And I certainly can't, except I can tell you that my cell phone call was dropped three times between Humboldt and Auburn, and I can tell you the road is falling apart, and I can tell

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you that my school district receives no state aid. So we are sending young people to urban areas, without a doubt, and it is critical to this state that we provide public education, that we provide roads across the state, that we provide telecommunications. Those are all important obligations. And I wish all of you luck sorting that out. [LB1061]

SENATOR SCHUMACHER: To the extent that land prices at least, fingers crossed, for the present and, hopefully, for into the future are record highs, is that an opportunity...is there an opportunity to take advantage of that record high situation and build some of that infrastructure, and how might we do that in outstate Nebraska? [LB1061]

BEN STEFFEN: I think we are taking advantage of it, and we're paying for schools right now. We're paying for county bridges. I mean, we're seeing that valuation and the value, but the property tax value being washed into school districts. We're seeing that value being washed to help provide for roads, I think we are. [LB1061]

SENATOR SCHUMACHER: Thank you for your testimony. [LB1061]

SENATOR CORNETT: Senator Pirsch. [LB1061]

SENATOR PIRSCH: And just to give an understanding of how other states not...you know, obviously, it's not going to be controlling but just to have an understanding of how other states balance their valuation of agriculture lands and obviously states like Wyoming are going to be skewed because of their unique, and South Dakota to a certain extent, whatnot, but more closer states, Kansas, Iowa, Missouri, those kinds of things, how do they go about, or how do they compare in terms of valuing ag land with respect to the approach Nebraska takes? Are you familiar with that, or...? [LB1061]

BEN STEFFEN: No, I can't speak directly to that but I know that we've had...our membership in Farm Bureau has had extensive conversations about it, so I don't think I can give you definitive information but I'm certain we can bring you some. [LB1061]

SENATOR PIRSCH: Wonderful. Thank you. [LB1061]

SENATOR CORNETT: Senator Adams and I just...we've had a number of conversations about this and one of the things that has come to my attention particularly over the last couple of years is land valuations are increasing in double-digits percentagewise. And, obviously, valuation is based on comparable sales. And we hear farmers bidding against farmers for a piece of land and driving the price up higher than it should be, but...so they can complete that area or connect their land together. Instead of looking at maybe comparable sales, putting in an inhibiting or inhibitor in what valuation can grow out every year. Say you can't grow over X percent. I'm not talking about the sales, but in how it's valuated for... [LB1061]

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BEN STEFFEN: (Laugh) Well, maybe that's an option to study. You know, I'm not sure that that...I'm not sure if that's...I doubt that's the total answer. [LB1061]

SENATOR CORNETT: You wouldn't get the huge jumps... [LB1061]

BEN STEFFEN: Right, something... [LB1061]

SENATOR CORNETT: ...that people are talking about where their valuation goes up by 10 or 15 percent in one year. [LB1061]

BEN STEFFEN: And looking at the entire agricultural sector for...to derive all of that revenue, even if we try to control the increases in valuation as you suggested, is fundamentally inequitable, I would say. I mean, we're deriving tremendous amount of revenue off of property tax for local schools from ag valuation. And, fundamentally, that's just...it's inequitable. [LB1061]

SENATOR CORNETT: Senator Schumacher. [LB1061]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Kind of...Senator Cornett's questions kind of triggered some thoughts. To the extent that some of this problem at least is due to the rapid increase in the farmland prices. And when a farm brings \$10,000 an acre instead of \$5,000 an acre, it doesn't make any more corn and any more productive. It's harder for younger people to get involved in agriculture. It compounds this kind of problem. Should we be looking at something that when a farm is...because of the emotional nature of the market out there, when it goes way higher than...so much above its previous valuation or the mean or some other statistical analysis, that we disincentivize the bidding with a large transfer tax or some other mechanism to stop land from going up, so that it remains affordable to the small guy? [LB1061]

BEN STEFFEN: I don't...I don't think that would work. I really don't. I don't see that that's an avenue to pursue but, you know, perhaps other people would consider it a possibility. [LB1061]

SENATOR SCHUMACHER: Thank you. [LB1061]

SENATOR CORNETT: Senator Brasch. [LB1061]

SENATOR BRASCH: Thank you, Chairman Cornett. Thank you for your testimony today, Mr. Steffen. Property taxes are a tremendous challenge and they have been historically for this state. I worked in the Revenue Department back in the '70s, '78, and Nebraska had gone through a great farm recession. There were banks foreclosing and farms. I'm, you know, I'm trying to think on how education kept their doors open when

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there was not...you know, what were...how did they do that? And today, truly, as we see the land, you know, I'm from Cuming County. We farm up there and land is an investment anymore. It makes more money than a CD and the 401K and people from out of the state are buying land, you know, surgeons, or whoever, and even local farmers are...I don't know Cuming County, I've heard elsewhere, are forming the buddy system to buy a piece of the land. That it's not affordable for one person but you partner up and maybe three of you may be able to keep the land. And Nebraska, I believe, is the only state that taxes property tax this way, you know, with the sales factor in it. And so, you know, seeing this change here, Senator Heidemann was truly, you know, I think making a best effort where Senator Adams is saying, that's not enough. Are you saying that any relief is good relief, that...let's take baby steps, or this will make life on the farm much better? [LB1061]

BEN STEFFEN: Well, the saying, all money is green applies here certainly. An improvement is an improvement. Fundamentally, the situation seems unfair, and do we need to fundamentally look at the way we fund public education? Yes. Yes. And so...but, and is this a small change that moves us in the right direction? Yes. It's not the total answer. [LB1061]

SENATOR BRASCH: And then the population decline, I believe in the communities is a huge factor as well and we see schools consolidating. You know, there's just not enough children to fill all the classrooms. You know, it's not a lack of teachers or...it's just the population isn't there, so the tax base needs to be broadened on main street perhaps. You know, some different opportunities would help, you know, on the income tax, but... [LB1061]

BEN STEFFEN: I think you're absolutely right. We are shifting population, we're shifting students, and yet, we do need to maintain these schools and we can only put these, you know, a certain distance apart, so it's a lot like roads. It is a lot like telecommunication services. We need to cover this entire state with those services and we need education to be covered in this entire state. And the whole state benefits when we have good schools in urban areas and when we have good schools in rural areas as well, just as we benefit statewide from transportation and telecommunications. So I think moving in the direction of, you know, statewide contributions is the direction we ought to be fundamentally looking. [LB1061]

SENATOR BRASCH: Thank you, Mr. Stebben, for your testimony. [LB1061]

BEN STEFFEN: Thank you. [LB1061]

SENATOR CORNETT: Further questions? Seeing none, thank you. [LB1061]

BEN STEFFEN: Thank you. [LB1061]

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SENATOR CORNETT: Next proponent. [LB1061]

PETE McCLYMONT: Chairman Cornett, members of the Revenue Committee, for the record my name is Pete McClymont, P-e-t-e M-c-C-l-y-m-o-n-t. I've vice president of legislative affairs for the Nebraska Cattlemen, and I'm here today representing our membership in support of Senator Heidemann's bill, LB1061. First off, we want to thank Senator Heidemann for his commitment to this issue as what he's done in the past. Also too, to Chairman Cornett and your committee a few years ago when you and your committee had numerous hearings throughout the state to get a pulse of what's being talked about on this issue. And so from that standpoint, we in ag like to discuss, if not complain, we consider economic development is going to the coffee shop and belaboring this point as it is done all the time. But I'm not going to go into ad nauseam to what's been repeated here in this committee. But the fact is, this is an issue of practicality in philosophical because in practical nature, we as a state, as Mr. Steffen said, it's a state responsibility to educate our youth and so we have that responsibility and we need to do that. Philosophically, I've enjoyed the comments from Senator Adams, Senator Hadley, and you, Senator Cornett, on this issue because there's some things that we can do that will help and...but then, philosophically, if we address the total issue in the long-term and it's a complex issue and I like your point about the formula being so complicated as Senator Raikes was so...and Senator Adams, thank you. I'm now in trouble in York County. But it's a complex issue, and if there's anything we can gain out of what Senator Heidemann is trying to do here is to try to address the growing needs. [LB1061]

SENATOR CORNETT: Senator Adams. [LB1061]

SENATOR ADAMS: Thank you. I'm not going to pick on you. It's not complicated, it's complex. And part of the reason it's complex is because 249 school districts from Sioux County to OPS that look mighty different, and our attempt to try to account for some of the schools out there. But here's my question. We can help this situation right here, but you can give me your personal opinion or Cattlemen's opinion or no opinion if you want, one of the things that we could do is take the property tax credit and put it in the aid formula and drive the LER down and have the same affect, but would your organization be willing to go along with that? You know, we've got that, what is it, \$115 million a year that's being paid out in a property tax credit. If you took that same amount of money and you put it into TEEOSA and you drove that local effort rate down, maybe even below a dollar, you could impact a lot of things out here. So if your organization had a choice, or if you personally had a choice, if you don't want to respond I get that too. [LB1061]

PETE McCLYMONT: Well, I think the net benefit is there to do what you said, so I have no problem with that. And one of the things I liked about Senator Hadley's comment is, is the fluctuation. It's naive to think that our valuations are going to continue on this

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upswing like we saw in the '80s, and we had tremendous issues to deal with then. So, you know, that goes back to Senator Cornett's point is, you have the inhibitors in place and, you know, obviously, it goes up and we benefit and there's the worry, but then also when it goes down, to be fair to the system, you have to be concerned about what that effect is. So that's why whether it's complex or whatever the issue, it's something we still have to fund education. [LB1061]

SENATOR CORNETT: Senator Hadley. [LB1061]

SENATOR HADLEY: Thank you, Senator Cornett. Pete, just a quick question and more for my own knowledge. You know, we've heard about the significant increases in ag land. Has that been true across pastureland, cropland, irrigated, nonirrigated? Is that pretty much across the board in ag land, or is there certain ag lands that have gotten more valuable or gone up more in the state than others? Maybe you can't answer it, but. [LB1061]

PETE McClymont: Fair question. Just to give you the knowledge that we've seen from our membership is that I know personally being from Holdrege that there's a quarter just outside of town that a year ago went for over \$6,000 an acre, which is pretty typical in Senator Adam's district in that land. As little as five years ago, four years, it would have been half of that. Conversely, in pasture ground, you're seeing that go up too. Granted, some of those figures are obviously less because of the capacity of...the earning capacity of that. But you're talking about maybe \$200, \$250 an acre to now over \$500. So, I think, the same gain is there regardless of pasture or irrigated. [LB1061]

SENATOR HADLEY: Okay. Thank you, Pete. [LB1061]

SENATOR CORNETT: Pete, with the increase in valuations, you're seeing an increase in the amount of property tax collected, correct? How come we're not seeing a reduction in the levy in the counties? [LB1061]

PETE McClymont: I can't answer that. [LB1061]

SENATOR CORNETT: Do you see my point? [LB1061]

PETE McClymont: Yes. [LB1061]

SENATOR CORNETT: If there's a corresponding increase in valuation and the counties have more money, there's not been a corresponding decrease in the levy in the majority of the counties. And I guess that's something that is an interesting observation. [LB1061]

PETE McClymont: Well, obviously, with...you know, we saw here a couple years ago

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with the flood and bridges going out and what the counties have to do there, so those are small issues but, nonetheless, in that. But so I think it goes back to what the Governor has tried to get people to do to get on school boards and county boards and be respectful and I think that's going on, but individual... [LB1061]

SENATOR CORNETT: That inherently isn't a state problem. [LB1061]

PETE McCLYMONT: That's correct. You're correct. [LB1061]

SENATOR CORNETT: Okay. Thank you. [LB1061]

PETE McCLYMONT: Thanks. [LB1061]

SENATOR CORNETT: I asked at the beginning of the hearing, could I please see a show of hands of the number of proponents? [LB1061]

GEOFF RUTH: (Exhibit 2) Good afternoon, Senators, my name is Geoff Ruth. It's G-e-o-f-f R-u-t-h. I'm currently the president of Nebraska Soybean Association and I come on behalf of soybean producers and farmers to look for support for this bill. I appreciate the question you asked earlier. I also sit on the school board for the Shelby Rising City School District and I didn't prepare any testimony. I just prepared a letter and after hearing your question I thought I'd get up and speak. We currently are maxed out at our levy in our school district and we had an opportunity this year to reduce that. And I fought tooth and nail for that reduction and was greeted by...we have a nine member board currently and six of them are nonagricultural members and they made the motion or mention that farmers are making good money right now. Let's keep the tax levy up so they can pay it while they can afford it. And so that is my answer to that question. It wasn't that we had a need for the money or the extra. They wanted to build our funds for a time when times got bad, build onto our building fund at a time when we see a growth of students in our district. But that was the answer that I got. And so we had an opportunity to reduce our levy by roughly .03 and still have a very good, a very good budget. And we didn't do that. And so that would be my only comment and really my only testimony that I have. And so I guess I would ask you to support this bill. Any questions? [LB1061]

SENATOR HADLEY: Thank you, Mr. Ruth. Are there any questions for...Senator Schumacher. [LB1061]

SENATOR SCHUMACHER: Thank you, Senator Hadley. With regard to that situation because that's a very practical, you know, common life situation. The extra money, was it saved, was it spent, was a building built with it, where is it at? [LB1061]

GEOFF RUTH: It is being saved, currently in a building fund. Our school had a need for

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additional facilities and we actually currently with the merger, we are running both a elementary and senior high in one city and a junior high in another. And so we did incur some extra expenses this year because of maintaining two facilities that we haven't done in the past. And so, some of that money is being used, but a majority of it is being saved and resupplying our building fund. [LB1061]

SENATOR SCHUMACHER: So kind of a rainy day fund in case the bubble pops. [LB1061]

GEOFF RUTH: Basically. [LB1061]

SENATOR SCHUMACHER: Okay. Thank you. [LB1061]

SENATOR HADLEY: Any other questions? Senator Adams. [LB1061]

SENATOR ADAMS: Thank you, Senator. Geoff, thanks for being here today. And this probably didn't happen in Shelby, but if you were a school board...you are a school board member, a county board member, the list goes on that uses property tax, check me if I'm not right about this, but when the property tax administrator came out with those spreadsheets and I was looking at the overall valuations, the overall levies, didn't see much of a decline and I think part of it was because with new values, great time for a bond issue and construction rates, that sort of thing. Do you think there's also a prevalent attitude...maybe not prevalent, but an attitude amongst some elected officials that, well, we could lower the levy by .03, but, boy, when we have to raise it back .03, we will catch the dickens, so let's just leave it alone? [LB1061]

GEOFF RUTH: I think that's a fair assessment. I also think we didn't see any backlash in our district by keeping it at what it was, mostly because we...I guess, people don't seem to be as involved as maybe they should. But I think people would have appreciated the reduction, and I think in times when we needed it, I don't know that farmers would have been upset about the increase down the road too. So I guess I don't know how to answer your question. I think there is some of that attitude that if you're going to lower it, keep it there, and don't ever raise it back up. But I think most people are fairly common-sense based. [LB1061]

SENATOR ADAMS: I do, too. Thank you. [LB1061]

SENATOR HADLEY: Any other questions for Mr. Ruth? Thank you, Mr. Ruth. [LB1061]

GEOFF RUTH: Yep, thank you. [LB1061]

SENATOR HADLEY: Any other proponents to LB1061? Seeing none, are there opposing? [LB1061]

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MARK INTERMILL: Thank you, Senator Hadley. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP. I am the son of a farmer and I believe that prosperous farms and high-quality schools are essential to our state's growth. Our concern about this bill is the potential property tax shift that might occur. And I am not an expert on TEEOSA, the formula, but I do know that it depends on appropriations. And if there isn't additional money that goes into the state aid formula to replace the funds that would be lost as a result of this bill, inevitably that would be shifted to residential property taxpayers who also have concerns about property taxes. As I look at the information from the property assessment and taxation division about the distribution of evaluation statewide, I see that about 20 years ago about 50 percent of the valuation was in residential property. That grew over time until we changed the formula for...went to 75 percent valuation on ag land and it began to come down again. If we do this, I would see that going back up and I think a concern of ours is that that will increase the burden on our members who are homeowners and also would increase the cost of the homestead exemption program which pays for about 4 percent of the cost of residential property taxes. So those are the concerns we wanted to bring to you about the bill, really trying to make sure that residential property taxpayers are heard in this consideration. [LB1061]

SENATOR HADLEY: Thank you, Mr. Intermill. Are there questions? Seeing none, thank you, Mark. Are there further opponents? Seeing none, is there anybody here in the neutral capacity? [LB1061]

JOHN BONAIUTO: Good afternoon, Senator Hadley and members of the committee. John Bonaiuto, J-o-h-n B-o-n-a-i-u-t-o, registered lobbyist representing school boards. And I want to say I really appreciate the testimony of the school board members and their involvement in this, this afternoon. Senator Heidemann and I have had discussions about this and I've been on the wrong side of this issue. I don't know that I'm on the right side of this issue right now. It's one of those things that for the School Board Association, we have positions that talk about good tax policy and we rely on this committee really to debate and work through creating that right balance for that good tax policy. And I don't know if 75 or 65 or what the right number is for ag land, but what I can say is, that having the Chairman of the Revenue Committee on the Education Committee, having the Chairman of the Education Committee on the Revenue Committee, and having a really good communication with Appropriations and someone like Senator Heidemann, who has been very involved in education, makes all the difference in the world to have the balance of good tax policy, a solid funding mechanism that the state has with its formula and then balancing that with local funding. What I hear from the state is, our formula needs to be sustainable and that is a big concern. And when we move more responsibility back on to the state with this type of a bill, that sustainability is a concern to us because we know that the local school districts have more control over their local resources than they do with the state resources. The

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other piece that I hear a lot from school board members is the predictability of their funding from year to year, and the swings that occur. And I know that Senator Adams and his committee really tried to balance that, but there are things that are hard to predict, and the sharp increases in ag values. When districts lose students, how do you temper or balance that type of a situation and how the formula reacts to districts. So my...I think my point here, and I will wrap up, is that having the Education Committee, the Revenue Committee, and the Appropriations Committee work closely, these challenges are not going to get any easier. The demographics aren't going to change. The student population in the rural areas is shrinking and trying to get more districts in the formula, I think is a good thing. I don't know how that's going to happen without some changes in either the local effort rate or in the resources, but I think this is the right discussion. So with that, I will conclude my comments. [LB1061]

SENATOR HADLEY: Are there questions for Mr. Bonaiuto? Senator Schumacher. [LB1061]

SENATOR SCHUMACHER: Thank you, Senator Hadley. You know, in just in thinking this, I know our philosophy has been you have to keep every kid about equal amount of money, you know, spent on them, and you use the property tax base and you equalize it a lot with TEEOSA, but are we doing...is that policy necessarily correct? Should we allow school districts that have the resources, and in a small number of cases might have the will, to double down on education and build a really good school where twice as much in the county of X is spent on education in the rest of the state? Is there something that you see fundamentally right or wrong about that theory as a mechanism for rural development? [LB1061]

JOHN BONAIUTO: Senator, that is a question that probably will be debated a bit in the Education Committee in about a week. There is a bill in Education that has been introduced by Senator Carlson that wants to allow the nonequalized districts to be able to access more of their resources and not have the pesky spending lid that they have to deal with. But I think having the balance again is critical, and it would be...we would create some real equity problems when you have districts that are able to just walk away from the districts that are depending on the state aid formula and the resources that are available rather than the resources that they have readily able to access locally. So again, I go back to that balance of this and that's something that Senator Adams has struggled with in the formula where you try to balance how much districts can access of that local wealth or that local revenue in their budget growth. So it is all about trying to keep things relatively in check. [LB1061]

SENATOR SCHUMACHER: Just one quick follow-up then. The kids in the equalized district, usually the bigger towns, they may have access to all kinds of cultural events, all kinds of other resources that are part of the totality of education, where the kid in the rural areas may not have that ability to access and to have those experiences and to

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have the cultural exposure, maybe, learn languages, so in order so that the rural kid has got a little bit of an edge to offset that, you know, that almost has to enter into the picture too because there's a lot of educational opportunities, not school, that are in the bigger towns. [LB1061]

JOHN BONAIUTO: Well, I understand exactly what you're saying, Senator, because these are the same debates that we have in Education is, you know, when you have a district that where the economy is scale, we always talk about that in the larger districts they're able to do things that the smaller districts really struggle to do. And so again, I go back to the fact that we have to make sure that there is a balance, not saying that every district is going to be equal in what it can do and what it can offer, but we need to make sure that...I like the conversation that the state board has, and we have in the Education Committee, about every child, regardless of where they live or what their zip code is, should be able to count on a quality education and so trying to make sure that that happens is not easy. [LB1061]

SENATOR SCHUMACHER: Thank you. [LB1061]

SENATOR HADLEY: Mr. Bonaiuto, a predecessor from the 37th district used to pound in my head that he thought that one advantage of funding through property taxes is that you have the direct relationship between the voters and the school board. And if the voters don't like the way that the school board is handling the money, the ballot box is there. Do we lose a little of that if we start shifting more and more to the state where you have 49 senators versus the person who lives down the street from you? [LB1061]

JOHN BONAIUTO: Senator Hadley, that is a great point, and there is that worry about losing that connection with the local decision makers. I also know that the school board members are very, very concerned when they have to look at the property tax that is being levied. And they're not...that's not something that they take lightly or for granted. And so, yes, that connection is absolutely critical. So I...we appreciate that. And having...you know, we're an organization that's about local control and that's part of local control. [LB1061]

SENATOR HADLEY: Okay. Any other questions for Mr. Bonaiuto? Senator Fischer. [LB1061]

SENATOR FISCHER: Thank you, Senator Hadley. Thank you, Dr. Bonaiuto. I apologize for just coming in on this. Are you here in the neutral capacity? [LB1061]

JOHN BONAIUTO: I am. I'm not an opponent this year. (Laughter) [LB1061]

SENATOR FISCHER: Dr. Bonaiuto and I kind of went around last year. But so, of course, I just can't sit here quietly when we're talking about the state aid to schools. I'm

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going to disagree with my colleague somewhat, Senator Hadley, and with you, on the last comment you just made about if the local patrons aren't paying property tax they lose that connection. Because I would propose to you that the connection must be very, very strong in the nonequalized districts across this state and that connection will continue to grow as we see those children receiving nothing in state aid, no recognition from the state of Nebraska that they are students in the system that deserves state aid under our current formula, so I believe Senator Heidemann's come up with a good idea. But as he and Senator Adams were discussing quite a while ago before I went to introduce a bill, I think it's too late. I think it's too late for rural Nebraska property owners, but I also think it's at least a first step. How do you address a situation like that? I mean, I see us in this state at the point where maybe we were in the mid- to late '80s before LB1059 was passed, and we have such discrepancies across the state because land is viewed as wealth. And valuation on ag land continues to go up, in my area, double-digit increases, and commercial and residential is going down lately. How do we address that as a state? Does your association have thoughts on that? [LB1061]

JOHN BONAIUTO: You know, and again, this is back to some of the discussions Senator Hadley and I had earlier in the...and Senator Schumacher, as far as trying to find a balance between good tax policy, the state's participation in getting more districts into that equalization formula, and then the local taxpayers' participation. And I don't disagree at all that some communities are participating a lot more than others. And so the challenge, as we look at our leadership that is term limited, moving out of this body, the new leaders coming in are going to have their hands full because in Revenue and Appropriations and Education, trying to find long-term solutions. We've done a lot of things to fix it for the short term, but I think long-term solutions...when we get to the point where we've got half the schools and we're fast approaching that are not part of the equalization formula, you've got to scratch your head and say, is this a good way to operate? And when the budget goes to the floor and senators start to talk about, you know, where does this money go and how are we supporting education from the state level, having more districts in equalization is a good thing. [LB1061]

SENATOR FISCHER: You know, I've been involved with school finance for 30 years and it's one of my biggest disappointments as I'm term-limited that I don't believe we've had a policy discussion on it. I believe we have tweaking for numbers on it. [LB1061]

JOHN BONAIUTO: Yes. [LB1061]

SENATOR FISCHER: That's how we vote. That's very disappointing. But I have hope because a community college bill was just passed and there was agreement between the colleges on that, there was agreement overwhelmingly on the floor, and foundation aid was a part of that community college bill, because community colleges now in their formula, they receive money per pupil. Part of that is in that. But yet, with K-12 education we're told that we can't do it because we'll be sued and we've been told that

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for 30 years. And I'm on a soap box. I apologize to all of you. (Laughter) But I believe the time has come to quit being worried about a lawsuit and take action that truly will meet the needs of all the children in this state. Would your organization, do you think, get involved in a discussion on that with...moving from equalization to at least some form of foundation aid? [LB1061]

JOHN BONAIUTO: Yeah, and this is an area that for our association, we have historically been very supportive of growing the resource side of the formula. [LB1061]

SENATOR FISCHER: Well, you just want more money. [LB1061]

JOHN BONAIUTO: We...distribution is always very, very tricky for us. [LB1061]

SENATOR FISCHER: Okay. Thank you. [LB1061]

SENATOR HADLEY: Just one comment, Mr. Bonaiuto, since Senator Adams is gone, I can say this without him hitting me. But I did look and the number I thought I found was that 45 states use some form of foundation aid across the country. You know, it's a very common method of distribution is using some kind of foundation aid to get away from kind of have and have-nots and kind of equalizing the playing field. So that's just more of a comment than a question. Any other questions for Mr. Bonaiuto? [LB1061]

JOHN BONAIUTO: Thank you. [LB1061]

SENATOR HADLEY: You're walking away alive and well this time. (Laughter) [LB1061]

JOHN BONAIUTO: I appreciate it. (Laughter) [LB1061]

SENATOR HADLEY: Next, in the neutral? [LB1061]

LARRY DIX: (Exhibits 3 and 4) Good afternoon, Senator Hadley and members of the committee. For the record, my name is Larry Dix and I'm executive director of the Nebraska Association of County Officials. I've got just a couple of handouts. We are here in a neutral position. We are not coming at this from the point of view of state aid and the TEEOSA formula or anything. We're more coming out from the details of, if this bill were to be passed. I've spent, you know, numerous, I don't want to say hours, but probably close to an hour with Senator Heidemann just going through the implementation if something like this would happen and probably spent about three hours with our programming staff to say, if this bill were to pass, what would we do in the computer side of it? Because it's easy, you know, to say, well, here we're just going to go and do this, and then let the counties carry it out and put the information on the tax statement. I think you'll note even on the fiscal note, there was a statement in there that we may, may have to have multiple tax statements. There's a statement in there that

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says, we may have to have multiple notice of valuation increases. So what I handed out to you was just a sample tax statement from a county and a notice of valuation increase. But if you look at the tax statement side of it, and we take this bill, and as Senator Heidemann and I have talked through it, it's my understanding that on the tax statement we would have to have a valuation that represented the value that taxing entities would pay except for the school districts. And then you would have to have a separate value so that you could multiply the tax rate of the K-12 school district components and so that would show up on the tax statement. In doing that, while we say in this day and age of computers that's easy to do, I would tell you it's easy for somebody who isn't a programmer to say it's easy to do. It takes a little bit of work to do. But when we do that, we want to be cautious. We want to make sure that we explain this to the taxpayer because now we're going to have a tax statement that has two differing values, two differing multipliers, if you will, on there and then we want to carry that forward. Then once we go beyond that, we have to carry it forward into the distribution side. We have to carry it forward into the certificate of taxes levied so that when we calculate and send values back to the state of Nebraska for the state aid, that the proper values are sent back so that then it enters into the Department of Education and the folks that actually work on the state aid formula. So the point I'm making is, it...while when I read the bill it's very straightforward and says we're going to lower ag land 2 percent per year or next five years down to 10 percent, that's a very, very straightforward, you know, thought process. But behind the scenes, there's quite a little bit of work that would have to be done. And certainly we want the committee to be aware of that because although we did not submit a specific fiscal note because we're still having a hard time getting our hands around how exactly we would do it, there would be a fiscal note. There would be a significant fiscal note to that. But as I visited with Senator Heidemann and myself, I believe there are some ways to do it to simplify it, but we just want to make sure that we're there for that discussion because one of the things in the bill, of course, it never gets down into the implementation side of it, and so for that purpose, that's why we're here certainly in a neutral position saying, we want to make sure we understand the implementation and what could be impacted throughout that implementation process. And at the end of the day, we want to make sure our taxpayers understand it. It's interesting, and I just walked in on a comment, I think, Senator Cornett had made about, well, since the valuation is going up, how come the counties...how come the taxes aren't lowered. And if you look at this tax statement, the county is one of the entities on there but there are many, many other entities that make up that tax component. And we actually did have some counties this year that did lower their levy. Certainly, the one that comes to my mind I think is the most prevalent, Fillmore County dropped their levy a number of cents. And so we do have counties...counties that are lowering their levy. But it's a joint effort. It has to be everybody that's listed on here, the county, the school, the fire, the ESU, NRD, township, ag society, all of those folks, really, have to look at that before you end up seeing a true drop in that tax statement. So, with that, I'll be happy to try to answer any questions anybody has. [LB1061]

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SENATOR HADLEY: Senator Adams. [LB1061]

SENATOR ADAMS: Thank you, Senator. Larry, do you know, and I'm asking you to reach back, if this is potentially a logistical problem for county assessors, what about the property tax credit that we did a few years ago? What are your treasurers telling you about the implementation of that? [LB1061]

LARRY DIX: Yeah, I...you know, we'd have to go back, and the programmers and I went through and talked about it and it's sort of the calculation of where you make the property tax credit. If you make the property tax credit at the very bottom line, or do you make the property tax credit on each one of these individual levels? If you make it at each individual level, then it becomes rather problematic because the county is going to take their rate times the total valuation. But the next one, the school, is going to take their tax rate times a different valuation, and so then that can have an impact on that very bottom tax credit. It just depends and that's something that you're not going to see in the bill, but it's probably something that from the Revenue Committee it probably should be in there so that everybody knows how to calculate it. The worst thing that could happen is that we have people calculating this in different ways because then you have folks who own property across county lines or own property in multiple counties that their credits are not being applied the same. And that is our concern that we make sure we understand the details of it and how it's supposed to work. [LB1061]

SENATOR HADLEY: Other questions for Mr. Dix? Senator Schumacher. [LB1061]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Mr. Dix, in follow-up a little bit to Senator Cornett's question that you addressed a little bit, if values are falling, you know, big inflation pattern, and the levy isn't going down in those counties, I know you can't speak for all the other little entities of tax, but in those counties where the levy has not gone down, where's the money going, salaries, infrastructure, bank account, do you know? [LB1061]

LARRY DIX: Well, you know, when we look at that, you know, we've sort of had a track record that hasn't been necessarily very good as far as state aid over the years, the last ten years that I've been here, about every year we've had some whittling away of different state aid programs. Up until last year when we lost all state aid, which now will be a reflection on next year's tax statement actually, so that's a component of it. The other thing that's happening in the counties that we see in the counties is, when you're at the eastern part of the state there is a significant amount of costs going into the court systems, law enforcement, and the juvenile justice system. And many of those things, the counties you don't really have a lot of control over what you can do. You don't have a control over how many people are going to break the law and then spin through the court system and have to have court-appointed attorneys and things like that. So it's a

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little bit hard to control that. As you move across the state to the west, you see a little bit...the counties budget are not as made up as much of the court in law enforcement but then it becomes a little bit more of road maintenance, bridge, and some of those things. Of course, as fuel prices go up, the counties can't control that, but as you can imagine, running a road grader down a road is not the most fuel efficient vehicle that we have on the road and so we're tied to some of the same increases that the general public is tied to in their everyday operation. [LB1061]

SENATOR SCHUMACHER: Thank you. [LB1061]

SENATOR HADLEY: Are there other questions for Mr. Dix? Mr. Dix, not that you would have a heart attack, but we could just amend the bill that it applies to everything that's on this sheet. (Laughter) [LB1061]

LARRY DIX: Then the official neutral position, I think, would change. [LB1061]

SENATOR HADLEY: Okay, thank you, Mr. Dix. Okay. Are there any other people in the neutral? I would guess Senator Heidemann is not going to be here to close. So with that, we'll close LB1061. And Senator Nordquist is here for LB976. Senator Nordquist. [LB1061]

SENATOR NORDQUIST: Good afternoon, Senator Hadley and good friends on the Revenue Committee. For the record, it's Jeremy Nordquist. I represent District 7, which covers downtown and south Omaha, here today before you to introduce LB976, which is a bill that would fully exempt Social Security benefits from state income taxation in our state. I think as we look at all the revenue proposals before us, this should take priority. I believe we need to continue across the board to work to relieve taxes for Nebraskans, and this one specifically is a priority of mine. Before I go into the specifics of why I think this is a top priority, I want to say a few things, though, about where we're at in our state's fiscal picture. As a member of the Appropriations Committee, I would be remiss if I didn't take a chance before your committee to say that I am not convinced that we are able to afford significant revenue reduction packages in the next biennium. And that includes the full cost of the package that's before you...or this bill that's before you. I know this committee is grappling with the unanswered questions about how we will fund our state budget in the next biennium. And I hope that we can work together between our committees to do that. And I know you have a number of potential bills before you, one specifically introduced on behalf of the Governor, and we have yet to hear answers on where funding reductions would come from if that piece of legislation were passed. It is my fear that this budget chasm that would be created by a significant reduction in revenue would result in the flat-lining of K-12 and higher education well into the next biennium, child welfare system being flat-lined, cuts to our developmental disabilities safety net and other critical Medicaid programs, and cuts to roads and public safety and other core functions of government. Of course, we all want to go back to our districts

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and talk about potential tax relief. Everyone would love to be able to do that. But I think it's time for the Legislature...we need to be adults, talk about what are those core functions of government, talk about how we fund them, and then talk about how we can provide tax relief back to our constituents. I know in the past, prior to my time at least as a senator, the legislators on the Appropriations Committee and the Revenue Committee often had joint meetings to discuss a common, shared vision about the fiscal picture of our state. And I would fully recommend that our committees look at that going forward. That being said, should this Revenue Committee choose to move forward with a tax cut package, I am convinced that LB976 should be our top priority. Kiplinger recently rated Nebraska as the third-worst tax climate for retirees, in large part because Nebraska is one of only five states that fully taxes Social Security benefits. We are only behind on that ranking of third worst behind Vermont and Minnesota. Under this bill, 100 percent of the tax relief would go to seniors living in Nebraska who have worked hard their whole lives, paid into the system, and certainly could use the economic benefit that comes from this bill. We are talking about hundreds of thousands of Nebraska seniors that would benefit. And they live in every community in our state. My concern with the difference between this bill and an income tax bill: I think that certainly we know that many of the wealthiest Nebraskans live in eastern Nebraska, certainly in the community of Omaha, where this bill applies to seniors who live, again, in every community in our state. With this bill, I present what I believe really should be our top priority, and that is making headway on the ranking of being the third-worst tax climate for retirees. Thank you. [LB976]

SENATOR HADLEY: Are there questions for Senator Nordquist? Senator Fischer. [LB976]

SENATOR FISCHER: Thank you, Senator Hadley. Thank you, Senator Nordquist, for being here. I've pulled up the fiscal note for LB970, which you referenced. And in 2013 the lost revenue is almost \$52 million. In your bill it's \$69 million. That is a big difference. Do you... [LB976]

SENATOR NORDQUIST: I talked to the Fiscal Office... [LB976]

SENATOR FISCHER: I...I... [LB976]

SENATOR NORDQUIST: Yeah. Oh, go ahead. [LB976]

SENATOR FISCHER: Well, I understand your stated concerns with LB970, but how do you plan to balance it--your bill that you are introducing here... [LB976]

SENATOR NORDQUIST: Sure. [LB976]

SENATOR FISCHER: ...LB976--with that \$69 million loss in revenue? [LB976]

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SENATOR NORDQUIST: I think it's a matter of the timing. And, granted, in the first two years...I introduced my bill as a full-out repeal of the taxes on the first year, knowing full well that that was unlikely and that we can look to scale that back and phase it in. But when both these packages, LB970 and this piece of legislation, are fully phased in, this bill would only be about half the cost of LB970. So I understand. I talked to the Fiscal Office...I didn't understand on the LB970 package why the fiscal impact was offset so far. I got an explanation of there's an issue of withholdings and estimated tax payments, and I didn't quite get my hands all around that. But when fully implemented, this package is about half...will be about \$75 million and that package being about \$140 million. [LB976]

SENATOR FISCHER: In what year do you see them both being fully implemented, then? [LB976]

SENATOR NORDQUIST: It would be the year following the last year on the fiscal note. Mine is fully implemented on the fiscal note, so it would be in '14-15 that we would realize the full revenue reduction on LB970. [LB976]

SENATOR FISCHER: Almost \$73 million, is that correct? [LB976]

SENATOR NORDQUIST: On my bill, that's what it would be, yeah. And... [LB976]

SENATOR FISCHER: And do you know what it is on LB970? Because we don't have it out that far. [LB976]

SENATOR NORDQUIST: I believe it's...the last I saw it was in the neighborhood of \$143 million, but I can get that to you. [LB976]

SENATOR FISCHER: So you're saying, in 2014-15 we would see LB970 jump from about \$52 million to \$140 million... [LB976]

SENATOR NORDQUIST: Yeah. [LB976]

SENATOR FISCHER: ...in a fiscal year? [LB976]

SENATOR NORDQUIST: That's my understanding. Oh, I think it's at the... [LB976]

SENATOR FISCHER: But you... [LB976]

SENATOR NORDQUIST: I'm sorry. [LB976]

SENATOR FISCHER: But you are aware that your bill would be difficult to implement at

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this time? [LB976]

SENATOR NORDQUIST: In the first year certainly. And I would welcome the committee's phase-in of this. Iowa did a phase-in over five years. And just know, we are the only state of the surrounding states that fully taxes this. If you look on the bottom of LB970, on the fiscal note, it shows the total General Fund impact, and it goes up to \$51 million, then \$130 million, \$143 million, and then \$150 million, so it's...towards the bottom it shows the years beyond. [LB976]

SENATOR FISCHER: Okay. [LB976]

SENATOR NORDQUIST: Yep. [LB976]

SENATOR HADLEY: Other questions for Senator Nordquist? Senator Schumacher. [LB976]

SENATOR SCHUMACHER: Thank you, Senator Hadley. You said Iowa did this? [LB976]

SENATOR NORDQUIST: Yeah, Iowa did a five...I think a five-year phase-out of it. [LB976]

SENATOR SCHUMACHER: And this is about \$70 million? [LB976]

SENATOR NORDQUIST: Yeah. [LB976]

SENATOR SCHUMACHER: I wonder where they got that money from. (Laughter)
Thank you. [LB976]

SENATOR NORDQUIST: I don't know; it's a good question. [LB976]

SENATOR HADLEY: Senator Nordquist, I guess we always talk about a three-legged stool of taxation. [LB976]

SENATOR NORDQUIST: Um-hum. [LB976]

SENATOR HADLEY: Income tax, sales tax, property taxes. I guess I haven't seen how we rank with especially surrounding states, whether they have things like a homestead exemption. I know South Dakota taxes food. [LB976]

SENATOR NORDQUIST: Um-hum. [LB976]

SENATOR HADLEY: Has there been any studies on the total tax burden on retirees,

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when you include all three taxing entities? [LB976]

SENATOR NORDQUIST: I can get the specifics on the Kiplinger report about that, but I think, I mean, that one took into account a number of factors. I don't know if it got to the level of property taxes... [LB976]

SENATOR HADLEY: Okay. [LB976]

SENATOR NORDQUIST: ...and homestead exemption, but... [LB976]

SENATOR HADLEY: I'm just curious. [LB976]

SENATOR NORDQUIST: Yeah. [LB976]

SENATOR HADLEY: Because when we talk about tax policy... [LB976]

SENATOR NORDQUIST: Yeah. [LB976]

SENATOR HADLEY: ...I think we got to be sure... [LB976]

SENATOR NORDQUIST: Sure. [LB976]

SENATOR HADLEY: ...that we're talking about all... [LB976]

SENATOR NORDQUIST: Yeah. [LB976]

SENATOR HADLEY: ...three legs of the stool. [LB976]

SENATOR NORDQUIST: Sure. Sure. And there will be a number of good testifiers after me that also can speak to the impact of Nebraskans leaving the state because of... [LB976]

SENATOR HADLEY: Okay. [LB976]

SENATOR NORDQUIST: ...retirement tax climate. So... [LB976]

SENATOR HADLEY: Any other questions? [LB976]

SENATOR NORDQUIST: ...thank you. [LB976]

SENATOR HADLEY: Thank you, Senator. Are you...? [LB976]

SENATOR NORDQUIST: I'll be around, yeah. [LB976]

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SENATOR HADLEY: Okay. The first proponent. [LB976]

JAMES CAVANAUGH: Senator Hadley, members of the Revenue Committee, my name is James Cavanaugh. I'm an attorney with the Cavanaugh Law Firm and a member of the National Organization of Social Security Claimants' Representatives. I appear here today in support of LB976. Our firm is the oldest and largest Social Security law firm in Nebraska. And we handle lots and lots of these types of cases, and therefore we get involved with lots and lots of people's Social Security finances. And the great thing about LB976 is that it's real tax relief for real people. You're going to affect people, as Senator Nordquist indicated, across the state, and you're going to affect them very far down into the economic standings. If you file a federal income tax return as an individual and your combined income is between \$25,000 and \$34,000, you may have to pay income tax on 50 percent of your Social Security benefits. If your combined income is more than \$34,000, up to 85 percent of your Social Security benefits are subject to income tax on the federal level, and this translates down to the state level, like all other income tax provisions. If you file a joint return, you may have to pay taxes on 50 percent of your benefits if you and your spouse have a combined income that is between \$32,000 and \$44,000. And if your combined income is more than \$44,000, up to 85 percent of your Social Security benefits are subject to income tax. This works a real hardship on people with very limited resources and, a lot of times, not in very good health and at a stage in their life when concerns like heating and food and transportation and medical expenses are uppermost in their minds. In addition to the broad swath of retired people in Nebraska, there's a significant number of disabled people receiving Social Security benefits in Nebraska. And neither one of these categories save from their benefits. If you receive Social Security benefits, it's a rare, rare person who has enough resources to then put part of that benefit into savings. These benefits are spent each and every month. So if you look at the fiscal note and it says, well, we're going lose all of this income from the income tax to the General Fund. What it doesn't account for is all of these dollars are being plowed back into the Nebraska tax economy every month, and so they're buying things that they pay sales tax on, at least, every single month pretty much for the entirety of their benefit. For all of those reasons but especially for the fact that Senator Nordquist is proposing real tax relief for real people in Nebraska and, in a way, the greatest good for the greatest number, we would urge you to give favorable consideration to LB976. I'd be happy to answer any questions you might have. [LB976]

SENATOR HADLEY: Any questions for Mr. Cavanaugh? Senator Schumacher. [LB976]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And your average client on Social Security, how much relief would they get in a general proposed reduction to income tax? [LB976]

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JAMES CAVANAUGH: Well, say your benefit was \$2,000 a month, okay, and you fall into the 85 percent category on your federal taxes and then, you know, the equivalent category when you translate it down. You know, you could be talking a couple hundred bucks a month maybe, which is a huge thing to these people. [LB976]

SENATOR SCHUMACHER: Under this plan. [LB976]

JAMES CAVANAUGH: Under this plan, you know, if you take all the bites out that you get from the federal down to the state level, you could be giving them, you know, maybe 5 percent tax relief. [LB976]

SENATOR SCHUMACHER: And under the other tax-relief proposals? [LB976]

JAMES CAVANAUGH: I don't know. [LB976]

SENATOR SCHUMACHER: Thank you. [LB976]

JAMES CAVANAUGH: I don't know. But I don't know of any one that would cover these many people in this precarious economic situation and this stage of their lives. I mean, this is really the greatest good for the greatest number of the tax proposals I've seen this year. [LB976]

SENATOR SCHUMACHER: Thank you. [LB976]

SENATOR HADLEY: Mr. Cavanaugh, we...on the other tax proposals that we've heard, the name Warren Buffett has been kicked around a lot. So Warren Buffett would basically get his Social Security tax exempted under this bill, is that correct? Or his Social Security benefits would be exempted under this bill. [LB976]

JAMES CAVANAUGH: Yes, that, you know, that portion that would be exempted under this bill would be exempted. You know, there are a lot of problems with the way that Social Security is set up and funded. For instance, I'm not a billionaire, but I pay dollar for dollar as much Social Security tax as Warren Buffet does. And a lot of people do. And, you know, there are some inequities built into it. This deals with the economic inequity of: okay, you've worked all your life, you've earned this benefit, you've paid in, you know, this is yours; and now at the point in time where you're unable to earn any more, we're going to tax you on what you paid into this thing. I mean, it's... [LB976]

SENATOR HADLEY: And I...I guess I understand that, but I guess one of the concerns I have with it is the person that's making a quarter of a million dollars a year in retirement, we're going to exempt their Social Security from taxation. And if we're really trying to help the working...or not the working...they're retired...but those people that this...your comment of \$100 or \$200 a month, it's going to mean nothing to a person who's making

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a quarter of a million dollars a year on their investments and retirement. So maybe...is there a way to look at this so that we really target it toward those people that it will make an impact on? [LB976]

JAMES CAVANAUGH: I see what you're saying. And that might be, you know, a way to do a couple things. I mean, it certainly would reduce the impact of the fiscal note if you capped it at some reasonable amount. And I don't think that it would put out people like Warren Buffet, at the top end of our, you know, economic earnings scale. So, you know, that might be a way to look at it. You know, nothing is perfect. [LB976]

SENATOR HADLEY: Sure. [LB976]

JAMES CAVANAUGH: And the perfect is the enemy of the good. So if you can't do the whole thing like this, I think that's actually something that would have a lot of merit... [LB976]

SENATOR HADLEY: Okay. [LB976]

JAMES CAVANAUGH: ...and would have some equity in it... [LB976]

SENATOR HADLEY: Okay. Thank you. [LB976]

JAMES CAVANAUGH: ...as well. [LB976]

SENATOR HADLEY: We're on the proponents. [LB976]

SENATOR CORNETT: Mr. Cavanaugh, I'm sorry, I may have misunderstood you. When you were saying \$200 a month... [LB976]

JAMES CAVANAUGH: I was just...that's a ballpark estimate. [LB976]

SENATOR CORNETT: Okay. Because at \$24,000 a year, married filing jointly, would you even be subject to income tax, or would you have a refund on that? [LB976]

JAMES CAVANAUGH: I'm sorry. [LB976]

SENATOR CORNETT: Married filing jointly, at \$2,000 a month, wouldn't you be not subject to income tax? You would receive your refund at the end of the year? [LB976]

JAMES CAVANAUGH: I think you begin at, married filing jointly, at \$32,000. [LB976]

SENATOR CORNETT: At \$32,000. [LB976]

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JAMES CAVANAUGH: Right. [LB976]

SENATOR CORNETT: So that's... [LB976]

JAMES CAVANAUGH: Right. [LB976]

SENATOR CORNETT: ...that's my only point, is... [LB976]

JAMES CAVANAUGH: It would be... [LB976]

SENATOR CORNETT: It would be higher than that. [LB976]

JAMES CAVANAUGH: ...yeah, a different number. [LB976]

SENATOR CORNETT: Okay. [LB976]

JAMES CAVANAUGH: Correct. [LB976]

SENATOR CORNETT: Senator Schumacher. [LB976]

SENATOR SCHUMACHER: I think that was my question... [LB976]

SENATOR CORNETT: I was going to say... [LB976]

SENATOR SCHUMACHER: ...at what point does... [LB976]

SENATOR CORNETT: It's \$32,000. [LB976]

SENATOR SCHUMACHER: ...does it kick in? [LB976]

JAMES CAVANAUGH: Right. [LB976]

SENATOR CORNETT: And that would be...you're only talking about exempting the state portion. [LB976]

JAMES CAVANAUGH: Right. Correct. [LB976]

SENATOR CORNETT: Which, even over \$32,000, would be a much smaller amount, just for the state portion on the Social Security. [LB976]

JAMES CAVANAUGH: It would. [LB976]

SENATOR CORNETT: Correct. [LB976]

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JAMES CAVANAUGH: Yeah. You're right. [LB976]

SENATOR CORNETT: Thank you. Further questions from the committee? Seeing none. Thank you. [LB976]

JAMES CAVANAUGH: Thank you. [LB976]

SENATOR CORNETT: May I see a show of hands for the number of proponents? All right, I am going to limit testimony to three minutes. It's getting late in the afternoon, and we're only on the second bill. [LB976]

ROGER REA: (Exhibit 5) Senator Cornett and members of the committee, for the record, my name is Roger Rea, R-o-g-e-r R-e-a. I live in Omaha and am the president of NSEA-Retired, an organization of approximately 5,000 retired school employees. NSEA-Retired is an affiliate of the Nebraska State Education Association. LB976 addresses a very real problem in Nebraska. That problem: Nebraska is one of the least retiree-friendly states in the nation. One of the reasons that Nebraska has that dubious distinction is that Nebraska is one of just five states in the nation that tax Social Security income to the full extent that's allowed by the federal government. But there's a key difference in how the federal tax on Social Security is used and how the Nebraska tax on Social Security is used. The federal tax on Social Security benefits is used to help shore up the Social Security Trust Fund and the Medicare Trust Fund. The Nebraska tax on Social Security benefits is used to fatten the general revenues of the state. Because Nebraska state income tax is calculated as a percentage of federal income tax liability, Nebraska got a windfall profit when Social Security was taxed at the federal level to help ensure the solvency of both the Social Security Trust Fund and the Medicare Trust Fund. And it's time to return that money to the rightful owners of the money, the recipients of that Social Security income. In examining the seven-state region around us including the seven states that touch Nebraska, Nebraska ranks dead last in terms of treating retirees and senior citizens with a tax break. In fact, the only retired Nebraskans who get a tax break are those who retire from the railroad, because the state does not tax railroad retirement. One unintended consequence of this unfavorable tax treatment of retirement income is that a significant number of Nebraskans leave the state at the time they retire. The 2010 census data shows the losses, and you will hear testimony later on about that population loss. It's difficult to predict exactly how many Nebraskans will leave the state as they retire over the next decade, but a good indicator comes from how many of the retirees who receive a pension from one of the six defined benefit plans leave the state at the time they retire. About 10 percent of Nebraska Retirement Systems benefits payments go to other states. That gives us a good rule of thumb that Nebraska will lose about 10 percent of those close to retirement age to other states. I would make the case that the retirees represent an untapped economic resource in Nebraska. The income that retirees have

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from Social Security, pensions, savings, and investments, as well as the money that comes to them in the form of Medicare benefits, represents a huge economic engine for the state. The reason for this economic engine is very simple: retirees spend their retirement incomes where they live. They support their local grocery stores, restaurants, clothing stores, hardware stores, movies and theaters, car dealers, and doctors and pharmacies, just to name a few businesses. How large is that economic engine? It is huge. I see that my time is about up here. Let me just say that if you calculate the benefit to the state from the lost income, if we were just to slow the out-migration by 1 percent--from 10 percent of the people who leave, down to 1 percent--the state would hold onto an additional \$125 million of revenue every year. That's assuming that each retiree brings in \$35,000 in combined Social Security, pension, and Medicare benefits. I regret that we are not able to testify completely on behalf of the citizens, but I'll respond to any questions you might have. [LB976]

SENATOR CORNETT: Senator Hadley. [LB976]

SENATOR HADLEY: Thank you. Mr. Rea, we rank 42nd in teachers' salaries in the country, out of 50 states. [LB976]

ROGER REA: That's right. [LB976]

SENATOR HADLEY: Where shall we put our dollars? Shall we put it with the current teachers that are teaching now, or do we put it to the retired teachers? Because this has a price tag of \$60 million that potentially could be used for teachers...the current...to move that from 42nd to 35th or 32nd. I guess, what would be the priorities for your retired and, what, NREA (sic)? [LB976]

ROGER REA: I won't respond for the teachers' perspective. I'll let the NSEA do that kind of testimony. I'll simply say this, Nebraska was one of the five states in the nation that has not come to grips with the idea that retirement income is used to keep the elderly and disabled out of poverty. It's not intended to be a source of revenue for the states. Nebraska is one of five states that hasn't picked up on that concept. In essence, the retirees represent a cookie jar. And the Nebraska state government, when the federal government started taxing Social Security benefits, put their hand in the cookie jar and took the cookies out. When you get caught with your hand in the cookie jar, it's difficult to put those cookies back and say, we made a mistake. I think what happened is that Nebraska made a mistake and they ought to return that money. [LB976]

SENATOR HADLEY: Okay, but there's already eight states that pay their teachers worse than us, is that a fair statement? [LB976]

ROGER REA: That's true. That's true. [LB976]

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SENATOR HADLEY: Okay. [LB976]

ROGER REA: But that's not the intent of this bill. The intent of this bill is for Social Security recipients. [LB976]

SENATOR HADLEY: But we only have so many dollars. Right? In the state. And so we have to make a priority as to where we're going to spend the dollars. Or if we give up \$69 million in revenue, there's got to be a corresponding decrease in expenditures by the state. And that's the only thing I'm saying, is that we'll have to look at...if we pass this bill, we'll have to look at where expenditures by the state will go down. And I just happened to think of the teachers, since you said...you introduced yourself as a part of a retired teachers organization. [LB976]

ROGER REA: Um-hum. [LB976]

SENATOR HADLEY: So that...I was just curious as to where... [LB976]

ROGER REA: Yeah. Keep in mind, there are three hundred and some-odd thousand Social Security recipients in the state; only a fraction of them are teachers. [LB976]

SENATOR CORNETT: Senator Adams. [LB976]

SENATOR ADAMS: Thank you, Senator. Thanks for being here today. When you...in a follow-up to Senator Hadley's question, this came to mind. You correctly, I think, made the statement that the federal...when they take Social Security, it goes back into Social Security Trust Fund; when Nebraska gets it, it goes into the General Fund. I think Senator Nordquist would know the number better than I, but didn't two years ago we take about \$60 million in General Fund and put into the Nebraska Retirement System in order to keep the defined benefit program afloat? [LB976]

ROGER REA: This is not a debate about the defined benefit programs; this is a debate about Social Security. [LB976]

SENATOR ADAMS: I understand that, but in... [LB976]

ROGER REA: And I think we ought to try to keep that pure. The purity of this thing is what's at stake here. This is about Social Security benefits being taxed, and that's all it's about. [LB976]

SENATOR ADAMS: But it did help with the defined benefit plan that all... [LB976]

ROGER REA: Yes, it did. [LB976]

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SENATOR ADAMS: ...teachers retired take advantage of, including me. [LB976]

ROGER REA: Yes, it did. And keep in mind that... [LB976]

SENATOR ADAMS: Thank you. [LB976]

ROGER REA: ...that amount of money goes back in the state economy as well. That's about \$400 million a year. [LB976]

SENATOR CORNETT: Only a point of clarification. [LB976]

ROGER REA: Sure. [LB976]

SENATOR CORNETT: Railroad employees are exempted under federal law. The state doesn't choose to exempt them. [LB976]

ROGER REA: Understood. [LB976]

SENATOR CORNETT: Thank you. Further questions? Seeing none, next... [LB976]

ROGER REA: Thank you. [LB976]

SENATOR CORNETT: ...oh, if you have written testimony you'd like to submit to the committee, we will be happy... [LB976]

ROGER REA: I'll do that. [LB976]

SENATOR CORNETT: ...to accept that. Next proponent. [LB976]

MARK INTERMILL: (Exhibit 6) Thank you. Madam Chairman, my name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here representing AARP. We support the concept of LB976, but we're also aware that there are some concerns about the amount of lost revenue of LB976. So attached to my statement I have a proposed amendment for your consideration. What we would propose is that there would be some limits placed on the amount of Social Security benefits that would be exempt and also on the individuals who receive the exemption. What we are proposing is that there be a limit of \$4,000 per person, as that would be the maximum amount that would be exempt from taxation of Social Security benefits. But... [LB976]

SENATOR CORNETT: Go ahead. Keep testifying. [LB976]

MARK INTERMILL: Oh, okay. Also, the other thing that we're adding to this is that there be some other classes of retirees that be added. Because while most Nebraskans

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receive...retirees receive Social Security benefits, there are some who don't. For example, retired State Patrolmen may not receive Social Security benefits. And in the interest of fairness, we think it would be good to include them as well. There may be some retired federal employees who retired prior to 1984 who don't have Social Security benefits. The other part of our proposal is that the exemption be limited to individuals with adjusted gross incomes of less than \$70,000 for married filing jointly and \$50,000 for all other returns. Those amounts were selected because back in 1984 when we began to tax Social Security benefits, as was mentioned earlier, the level was set at \$25,000 for a single person, \$32,000 for married filing jointly. It's still \$25,000 and \$32,000. And had those been inflated, they would be about \$54,000 for a single, around \$70,000 for married filing jointly. So we...that's where the \$50,000 and \$70,000 come from to try to raise that income level so that those individuals who would have originally been exempt would still be exempt. That's the...in essence. I've also included just a table that shows you who has their benefits taxed, which income levels. And you can see there are certain individuals that wouldn't be...quite a few...quite a bit of taxable Social Security benefit that would still be taxed under what we're proposing. With that, I would be happy to try to answer any questions. [LB976]

SENATOR CORNETT: Senator Pirsch. [LB976]

SENATOR PIRSCH: Thank you, Mark. And I suppose the fiscal note with the green copy was \$66 million, is that right? [LB976]

MARK INTERMILL: Yes. [LB976]

SENATOR PIRSCH: Do you have a--and I know this hasn't been formally submitted--but do you have an idea of how much this would reduce the overall fiscal note, or... [LB976]

MARK INTERMILL: My... [LB976]

SENATOR PIRSCH: ...ballpark? I know. [LB976]

MARK INTERMILL: Don't hold me to this. [LB976]

SENATOR PIRSCH: Sure. [LB976]

MARK INTERMILL: My back-of-the-envelope calculation is that this would bring it down around \$8 million. [LB976]

SENATOR PIRSCH: Okay. [LB976]

SENATOR CORNETT: Senator Schumacher, then Senator Hadley. [LB976]

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SENATOR SCHUMACHER: Thank you, Senator Cornett. Does your organization have any data on the number of...or percentage of people when they reach retirement, that earned their incomes in Nebraska, deciding to take off for different states for either climatic or tax reasons? [LB976]

MARK INTERMILL: Or grandchildren. [LB976]

SENATOR SCHUMACHER: Or grandchildren. [LB976]

MARK INTERMILL: Yeah. We don't. And that there may be some people that will testify later. We did look at...and we looked at the Sioux City area because that's a point where there are three states that come together. And there is some data that shows that there is movement towards South Dakota, especially for higher-income individuals. But we don't really have any...from AARP's perspective, we don't have good data on that. [LB976]

SENATOR SCHUMACHER: Thank you. [LB976]

SENATOR CORNETT: Senator Hadley. [LB976]

SENATOR HADLEY: Thank you, Senator Cornett. Mr. Intermill, thank you. I guess this was the question I had asked earlier about being able to really help the people that we want to help, and I think Mr. Buffett probably doesn't care much about whether he's taxed. It is interesting, if I remember hearing the Governor comment a couple times, we've actually had an increase in Nebraska's population between 2000 and 2010, isn't that a correct statement? [LB976]

MARK INTERMILL: Yeah, I think...yes, we have. And as we watched the...you can get estimates of single-year age groups. There are certain populations that are growing, certain age groups. There are also certain age groups that are not growing. And it's the early-retiree age groups, say from about 60 to 66, that don't seem to be growing. We seem to be doing well at attracting college-age kids to Nebraska. But there are a couple of different age groups where we do see some declines. [LB976]

SENATOR HADLEY: Okay. Thank you, Mark. [LB976]

SENATOR CORNETT: Further questions? Seeing none, thank you. [LB976]

MARK INTERMILL: Thank you. [LB976]

SENATOR CORNETT: Next proponent. [LB976]

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AL MUMM: (Exhibit 7) Good afternoon, Senator Cornett and members of the committee. My name is Al Mumm, M-u-m-m. I'm president of the Nebraska Alliance for Retired Americans. I just wanted to give the committee some information on what other states are doing. For instance, the National Governors Association in a study on Florida and Louisiana...for instance, in Florida they found that the retirement-age residents provide a net public economic benefit of \$1.42 billion and provide a \$105 subsidy for every younger Florida resident. Similarly, Louisiana's retirement-age residents provide a net public economic benefit of \$319 million and provide a \$96 subsidy for every younger resident. In Maryland, in a report to the governor and the Maryland General Assembly, a task force on "The Dynamics of Elderly and Retiree Migration into and out of Maryland" said for every new elderly household that leaves Maryland on an annual basis, 0.5 jobs are lost; over \$70,000 in new income per household is lost. Arkansas is one state that has a whole policy based on attracting retirees because of their economic impact on the state. Another thing that was talked about in Louisiana was that retirees as a group represent a significant source of economic activity. Unlike other age groups, a substantial portion of their income can come from outside of the state--Social Security--and as such represents an injection of outside money into the state's economy. Further, retirees can move between states taking their income with them. This represents a net drain on the economy. In contrast, when a typical worker leaves the state, the worker's income remains behind in the sense that the employer will fill the vacant position with another worker. In Alabama, recent research has shown that elderly population not only is an important source of income that adds to local sales and service revenue but also produces high employment multipliers. The study found that \$4,000 of Social Security payments is sufficient to create a job in the local economy, compared with \$91,743 in manufacturing payroll, or \$65,516 in agricultural sales to produce one job. In fact, retirees are more apt to spend their income locally on items produced with a higher degree of labor than are younger workers or proprietors. One of the things that perhaps there are some myths about...positive aspects making retirees...keeping them in your state as sound economic development strategy. Attracting retirees will not strain social services, will not strain healthcare services, do not strain school systems, do not strain the criminal justice system, and do not create major environmental problems. In Florida, a study at the University of Florida's Bureau of Economic and Business Research says that retirees are a plus for state economics. Retirees cost states money for Medicaid but generally require less in state and local services. Generally, retirees provide \$4 in revenue for every \$3 they cost in government services. With that in mind, neighboring states are aggressively developing plans to not only keep their retirees but to attract them. In Georgia, the Governor wants to exempt the first \$35,000 in retiree income, all income, from tax. Tennessee has created an initiative called "Retire Tennessee" to attract...North Carolina is one of the others that attracts people. And I see that I'm running over here. Is there any questions that I can answer for the committee? [LB976]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you very

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much for your testimony. [LB976]

AL MUMM: Thank you. [LB976]

SENATOR CORNETT: Next proponent. [LB976]

JOHN McCOLLISTER: (Exhibits 8, 9, and 10) Senator Cornett, members of the committee, my name is John McCollister. I'm the executive director of the Platte Institute. Sorry for the voice; we'll try to get through it. The Platte Institute for Economic Research is a Nebraska-based free market think tank which promotes free enterprise, limited government, and personal responsibility. Three years ago, Senator Jeremy Nordquist of Omaha introduced LB303 to exempt Social Security benefits from being subject to Nebraska state income taxes. This year Senator Nordquist introduced LB976 with the same purpose, which the Platte Institute is pleased to support. Nebraska is only one of six states...and I know, as many of the speakers have indicated: five. So apparently when we did the research last year there were six. But Nebraska is only one of five or six states that levied income tax on Social Security benefits that are also taxable at the federal level. Four states tax Social Security but exclude the portion paid to the federal government. And three provide general retirement income exclusion, which may include Social Security. Yet Nebraska provides for none of these exclusions and levies the income tax on Social Security benefits just as it would any other income. Taxing Social Security benefits constitutes a double tax on seniors, and it could even be considered a triple tax if one considers both the state and federal income taxes. Seniors paid into this system all their working life through payroll taxes, and once they finally receive their money back through Social Security, that money is taxed again by both the federal government and the state. Representing a special situation, Social Security benefits are the sole source of income for some seniors and therefore should be exempt from state income tax. Pensions and other retirement income will continue to be subject to Nebraska income tax. After 2014, Nebraska will be alone among our neighbors in taxing Social Security, as Iowa begins phasing out taxing benefits this year and Missouri will do the same in 2014. Nebraska should now join the other states in the Midwest and exempt Social Security income from taxation with passage of LB976. I also handed out some other attachments. This was a Wall Street Journal article yesterday which shows that income taxes are being reduced throughout the Midwest. And then finally this map, which showed how Nebraska compares in per capita spending. And I'm sure we'll get into that momentarily. Thank you. Questions? [LB976]

SENATOR CORNETT: John...I'm sorry. Go ahead, Senator Hadley. [LB976]

SENATOR HADLEY: Just a quick question. Since for a couple it doesn't start until \$32,000 that Social Security is taxed, so the real lower-income, this bill will really have no impact on them, isn't that correct? Because you have to have \$32,000 of income before we start taxing Social Security. [LB976]

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JOHN McCOLLISTER: That's my understanding. [LB976]

SENATOR HADLEY: Okay. [LB976]

SENATOR CORNETT: John, just because I'm in a little surly mood today...the Platte Institute has come in on a number of bills, and we've had a number of correspondence from you in regard to not taxing a number of items. [LB976]

JOHN McCOLLISTER: That's true. [LB976]

SENATOR CORNETT: Prioritywise... [LB976]

JOHN McCOLLISTER: Well... [LB976]

SENATOR CORNETT: I mean, I can go down the list I have in my office of everything you recommend that we eliminate the tax on. And I know that you were in...not you specifically but the Platte Institute was in last week or the week before with other ideas. [LB976]

JOHN McCOLLISTER: The inheritance tax. [LB976]

SENATOR CORNETT: Yes. [LB976]

JOHN McCOLLISTER: Quite true. Good point. You know, as you look in the environment, you'd have to say that the income tax is currently the rage. You know, they're talking about reducing it in Oklahoma, Missouri. Kansas is looking at a reduction. So that's a very current type of interest. And Nebraska does not want to be an outlier in being a high-tax state in income tax or property tax or even the, you know, the income tax. We need to be in the pack, so to speak. And, you know, if these other states were to start reducing their income tax, we'd be alone, from that standpoint. Now, I think we can also see, with this particular bill, you know, there aren't many states that tax Social Security benefits, either. So you don't want to be an outlier. [LB976]

SENATOR CORNETT: Okay. [LB976]

JOHN McCOLLISTER: Was I responsive to the question? [LB976]

SENATOR CORNETT: You were. I guess my point is...you brought up income tax, so I'll go there. Would it be better to expand the brackets? Make that cutoff, instead of \$32,000... [LB976]

JOHN McCOLLISTER: I think it's... [LB976]

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SENATOR CORNETT: ...higher? Doesn't it benefit more people that way? I think Senator Hadley made the point, we have to pick and choose, we have a limited resource. [LB976]

JOHN McCOLLISTER: That's one viable alternative, is to expand the brackets. That's true. [LB976]

SENATOR CORNETT: And we've indexed them once in the eight years that I've been here. I mean, should we be indexing on an annual basis? [LB976]

JOHN McCOLLISTER: Are you talking about the... [LB976]

SENATOR CORNETT: Brackets. [LB976]

JOHN McCOLLISTER: Yeah. [LB976]

SENATOR CORNETT: Wouldn't you see a lot of benefit for that also? [LB976]

JOHN McCOLLISTER: I...I am not...but, you know, it's the...at the very highest rates, you know, because Nebraska is a good percent higher than most of the adjoining states. You know, we pack the...on a personal level, it's 6.8 percent. And on the corporate taxes, it's 7.8 percent. [LB976]

SENATOR CORNETT: It's seven-point, yeah. [LB976]

JOHN McCOLLISTER: And so that applies, at least on the corporate income tax, anything over \$100,000. So it's, you know, I think it would be a mistake not to adjust those rates as the other states around us do the same. [LB976]

SENATOR CORNETT: What's the Platte Institute's stand on the flat tax? [LB976]

JOHN McCOLLISTER: Flat tax, we haven't taken a position. [LB976]

SENATOR CORNETT: Okay. Senator Schumacher. [LB976]

SENATOR SCHUMACHER: Thank you, Senator Cornett. In looking at this--and thank you for your testimony--this map that you handed out, north of the Mason-Dixon there's very few states that are in the orange color, which is the lowest color for expenditures. We're in the next-best. And most of the other ones are far more expenditures per citizen than what we are here in Nebraska. And so that's on the expenditure side. We're not banking any money right now, so how do we bring down our expenditures per citizen to offset reductions in all these taxes? [LB976]

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JOHN McCOLLISTER: Good point. Good question. The current average for all states in the country is \$5,251 per capita in each state. Nebraska is at \$5,260. So we're right at the average. And part of the problem is our neighbors. Kansas is \$4,923. South Dakota...and that's a tough number to beat, but it's \$4,692. So it's a good \$500 per capita difference between what a citizen would pay in South Dakota versus Nebraska. For every \$100, for every \$100, that's \$170 million. And you've got a population of 1.7 million. So you can see what the effect of spending is. You know, if you spend a lot of money...and in Nebraska we have to balance the budget. So it's driven by what you spend. [LB976]

SENATOR SCHUMACHER: So where do we cut to get down into South Dakota's color? [LB976]

JOHN McCOLLISTER: Well, we did a study a couple, three years ago, and, you know, we've heard a lot of discussion about education. But, you know, I think Nebraskans pay more for education per dollar per capita than some of the adjoining states. You know, we looked at five different categories, and higher ed and K-12 is a significant area where we probably spend more per capita than the states around Nebraska. [LB976]

SENATOR SCHUMACHER: So that in order to make possible the suggestion on tax decreases that you're suggesting, particularly this one on the income tax, we should cut education? [LB976]

JOHN McCOLLISTER: You know, I recognize you've got a tough situation in the Legislature. You've got to balance things out, and that's the word we've heard here today. It's a juggling act. And, you know, how you balance the needs of the citizens of the state versus the right of a taxpayer to spend their own money is quite difficult. So I understand that situation, and I know you'll do your best. [LB976]

SENATOR SCHUMACHER: Thank you very much for your testimony. [LB976]

SENATOR CORNETT: There seems to be a corresponding relationship between the amount spent, when you look at the red state or the orange states, and the states that are spending less on education than we are. But isn't it also true that up until last year we were considered to have one of the best Medicaid programs in the country, and we still lead the pack on Medicaid? Do you want to cut Medicaid services too? [LB976]

JOHN McCOLLISTER: Well, there's...boy, Medicaid is a... [LB976]

SENATOR CORNETT: Because you look at Florida, and their Medicaid system is abysmal. [LB976]

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JOHN McCOLLISTER: Yeah, it's not an easy problem. Medicaid is probably the fastest component of a state expense. [LB976]

SENATOR CORNETT: It's the fastest-growing component. [LB976]

JOHN McCOLLISTER: Yeah. And, you know, we came out with a paper earlier this year that talked about some ways we could reform it. [LB976]

SENATOR CORNETT: I was going to say, I read that paper; that's why I'm asking you the question. [LB976]

JOHN McCOLLISTER: Yeah. And, you know, changing the federal mechanism and doing some of the other things that we advocated in the paper is a possible alternative. But Medicaid...and I've listened to the...read the newspaper accounts of that, and it's going to take a sharp pencil. [LB976]

SENATOR CORNETT: Here's just where I'm at, looking at this. People under \$32,000, Social Security benefits aren't being taxed. People above \$32,000, particularly in the upper brackets, Social Security are being taxed. If we cease to tax the Social Security benefits, are we going to have to see a corresponding reduction in Medicaid coverage? [LB976]

JOHN McCOLLISTER: Well, in the big...yeah. I'm not going to tie the two together. [LB976]

SENATOR CORNETT: Okay. [LB976]

JOHN McCOLLISTER: And it's a... [LB976]

SENATOR CORNETT: Somebody has to. [LB976]

JOHN McCOLLISTER: Yeah, I know. [LB976]

SENATOR CORNETT: Senator Hadley. [LB976]

SENATOR HADLEY: Just a quick comment, and it's more of a comment than a question. I did spend 20 years in South Dakota, so I...and Senator Nordquist is from South Dakota. Three things. We used to always look at the teachers' salaries, because--thank God for Mississippi--because South Dakota would have been 50th if it wasn't for Mississippi. Secondly, they had a bill last year to put a sales tax on the rodeo clowns fee. They were expanding their tax base. They tax food. They tax...any service of any kind whatsoever is subject to a sales tax in South Dakota. The third thing, at the University of South Dakota, our peer group one time asked us if they could take us out

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of the peer group, because our salaries were so low that they didn't want us in the peer group because they wanted people with higher salaries. So while South Dakota does have a low tax burden, there are some things that come with that... [LB976]

JOHN McCOLLISTER: That's true. [LB976]

SENATOR HADLEY: There are some things that are...make it a little tough. [LB976]

JOHN McCOLLISTER: May I respond? [LB976]

SENATOR HADLEY: Sure. [LB976]

JOHN McCOLLISTER: You mentioned sales tax. Nebraska has a weird situation with sales tax where we cover so few things. Just only about a third of the items are presently taxable. And so, you know, I recall the bill to broaden the sales tax, and that brought in a tremendous amount of money. [LB976]

SENATOR HADLEY: But we also had to have a room bigger for the hearing, didn't we? (Laughter) [LB976]

JOHN McCOLLISTER: Yeah, I know. [LB976]

SENATOR HADLEY: Thank you. [LB976]

SENATOR CORNETT: Just one comment in response to that because my committee did an in-depth study after that bill on sales tax. Nebraska actually exempts less than a lot of other states. We fall in the middle, if not the upper part, in what we exempt. So when you say it's an unusual situation what we exempt, it's really not, is it? [LB976]

JOHN McCOLLISTER: Yeah. I appreciate knowing that. I...sitting here today I've really got some ideas on studies that we could undertake that might be helpful to, you know, talk about the rural/urban tax equality kind of situation. And it's been fascinating. Thank you. [LB976]

SENATOR CORNETT: Further questions? Seeing none, thank you. [LB976]

JOHN McCOLLISTER: Thank you. [LB976]

JANE KLEEB: (Exhibit 11) Hello, members of the committee, Senator Cornett and Chair Cornett. It's true that I have not gotten lost looking for the Natural Resources Committee. I actually am here to present some information from Bold Nebraska. My name is Jane Kleeb, K-l-e-e-b. We are here today on the same side of the Platte Institute, which I don't think has happened on any other bill since Bold has been around,

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for one simple reason. We think that senior citizens should be able to keep more of their income. I hear the concerns. I know that there's a lot of tax cuts being thrown at the Legislature this year, especially at a time when we are not sure what our income forecast is going to be: it could be good this year; it could not be so good in the next couple of years. But we just want to make sure that the tax cuts that you all do adopt help the middle class as much as possible, because we think that middle-class families take those tax cuts and actually spend them back in our communities. In particular with senior citizens, in rural communities in particular, they are the backbone of everything that we do. They volunteer in our schools; they help out with gardening programs. They really are the heart of what we do. So we want to do anything and everything we can to not only make sure that they keep more of their income but that we keep them in the state of Nebraska as well. And so for those simple reasons, we strongly support Senator Nordquist's bill and hope that you guys can vote it out of committee so we can have a full debate on the floor of the Legislature. Thank you. [LB976]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. [LB976]

JANE KLEEB: Thank you. [LB976]

SENATOR CORNETT: Next proponent? We'll move to opposition testimony. Are there any opponents? Neutral? [LB976]

DAVID DROZD: (Exhibits 12 and 13) Good afternoon. My name is David Drozd; that's D-r-o-z-d. I'm the research coordinator at the Center for Public Affairs Research at the University of Nebraska at Omaha, here today to testify in a neutral position on this bill. I will forgo my prepared remarks in the interest of time but will walk you through the slides that were prepared, that you're receiving. As you're well aware, in 2011 the leading edge of the baby boom born in 1946 began turning age 65. So for the next nearly 20 years or so, we're going to have a relatively higher number of individuals reach this age milestone. It has obvious implications, as we discuss this bill, and that's what my testimony is for today to provide a background in which this discussion can take place. So as you'll see on slide 2 of the handout, the baby boom, shown in the red-checked, represents people age 45 to 64 in 2010. And there are about 472,000 baby boomers of that age, and it represents a full quarter of Nebraska's population. We also know that people as they approach and reach retirement age, they're going to tend to leave the state. Slide 3 will show you the net migration rates between 2000 and 2010 and that they turn negative starting at age 55, become more negative for those age 60 to 64, and bottom, or become most negative, for those age 65 to 69. During the last decade, Nebraska also had a net out-migration of people age 70-74. So if we juxtapose those two slides, Nebraska will have a large segment of its population age into the years in which they're most apt to move away from the state, creating the potential for a large net out-migration of our baby boomers over not only the next few years but for those

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subsequent 10 to 15 years as well. This out-migration pattern leads to Nebraska performing relatively poorly, from a population standpoint, among older age groups. While Nebraska had the 30th-best growth rate during the 2000s among all states for the general population, we rank only 48th regarding those age 65 to 69, growing at only half the U.S. average. Among all persons 65 and older, Nebraska's growth rank was only 44th-best. Additional data indicate that older Nebraskans are relatively more likely to be working and not retiring here, compared to other states. As you'll see on slide 5, Nebraska has the highest labor force participation rate among leading-edge baby boomers age 55 to 64. We're also in the top five for those who are age 65 or older. Thus, Nebraska residents are more likely to be working if they are still here. This has an impact on our structure of income and earnings. But Nebraska ranks relatively high, number 9, as shown on slide 6, regarding the percentage of households that receive earnings. We also rank relatively high for those receiving interest and dividends but in the bottom 15 regarding receipt of Social Security or railroad retirement income and next to last regarding overall retirement income, which is generally defined as pensions. So people are voting with their feet and moving out of state at certain ages, as I've already illustrated. Why is this important? I'll provide three reasons to conclude my remarks. First, population totals drive political power. The decennial census, or head count, is taken to apportion the House of Representatives, as you know. We currently have three congressmen, but that could well shrink to two after the 2020 census is conducted. Projections by our office using various assumptions show that we are going to be very close to the cut line of the 435th and last seat in the House of Representatives, so policies that we put in place now or over the next few years will impact the likelihood of people moving to or from our state and will largely determine whether we can keep those three congressional seats. As I've stated to the media in the past, if people age 60 to 74 move out of the state per past trends, we will likely see them take a congressional seat with them. Secondly, I mention that baby boomers are relatively a large portion of the state's population. This is especially true for certain parts of the state, as you'll see on slide number 8: the same age pyramid for Nebraska's 74 most rural counties, those that are nonmetro are not containing a city of 10,000. You'll see here that the baby boom generation is the dominant population group. So thus if they move out per past trends, who will be left in these more rural areas? Who will be there to support local businesses and help maintain viable communities? Finally, Nebraska already has a large amount of rural population loss. The final slide, number 9, shows that in the 2000s decade, which was relatively good from a population-growth standpoint for the state overall, we had one of the highest proportions of nearby states losing population regarding counties. A full 75 percent of our counties lost population. And that was, again, the most compared to nearby states. So I hope this presentation and testimony provides a good sense of the local dynamics that we're facing as the population ages, per the discussion on this bill. I'd be happy to answer any questions you might have. [LB976]

SENATOR CORNETT: Senator Hadley. [LB976]

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SENATOR HADLEY: Senator Cornett. Just a quick question. Has there been any studies...the assumption we seem to be making is that the people are leaving because we tax retirement. Nebraska's climate is not the greatest in the world. And a lot of my friends who have retired have left, and they don't talk anything about taxation, they talk about the climate is pretty nice in Florida or... [LB976]

DAVID DROZD: Sure. [LB976]

SENATOR HADLEY: ...Arizona and such as that. Have there been studies of why people are leaving Nebraska at age 65 or older? [LB976]

DAVID DROZD: I'm not aware of particular studies that break out the components. And as you mentioned, it's true that we cannot change our weather. But when you do look at the data and we rank near the bottom, even behind states such as South Dakota or Minnesota that do not have favorable weather either, that there seems to be an economic reason that is adding to that impact. And from the standpoint...as you see...I didn't really mention in the slides, but we do have some return migration for people in their 70s or 80s. And part of what happens is when they come back, they have the choice of where they're going to reside. And if they moved originally from the Omaha area and they're coming back, they're just as easy to locate on the Iowa side of the river as they are on the Nebraska side. And it becomes a competitiveness issue, especially as other states phase out the tax on Social Security benefits. So there are economic impacts that drive people's decisions, and it's apparent in the data. [LB976]

SENATOR HADLEY: You know, we talk about surrounding states, that surround Nebraska. There probably aren't many states in the Union that have two of their surrounding states without income tax also, right? Wyoming and South Dakota. So that becomes... [LB976]

DAVID DROZD: That does not help us, no. [LB976]

SENATOR HADLEY: That does not help us, does it? Okay. [LB976]

SENATOR CORNETT: Senator Schumacher. [LB976]

SENATOR SCHUMACHER: Thank you, Senator Cornett. And thank you for your testimony today. I find graph or slide number 5 kind of interesting. What does the research behind that...or is there any research behind that as to why Nebraskans stay in the work force that long? Is it because we're, you know, generally lower paid and underemployed while in our productive years and can't retire? Or is it just because we like to work, or...any data on that? [LB976]

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DAVID DROZD: Well, again, it's hard to break out the components without surveying those specifically and asking them, you know, why, in their situation, are they in the work force? But as you'll see, you know, in general, the states that are higher tend to be more Midwestern, more rural states that tend to have a large farm economy. And been a lot of testimony today about rural, and we know that a lot of people tend to at least stay on with the farm operation if, you know, part time. And per some of the definitions, sometimes, you know, a person to be included in the work force, might only have to work, you know, five hours for a week, you know, or have unpaid family farm labor to be included in the labor force. So that's why I think you see higher numbers there for those on the leading edge of the baby boom. When it comes more to those 65 and older, you'll see some separation there between Nebraska and Iowa and Kansas. And again I think it goes back to partly related to the work force structure and taxation structure of those states, in that if you're older and...if you're over 65 in Nebraska, you're more likely to be working, less likely to be retired, than in those other states. So we tend to see our retirees move out, as I mentioned. [LB976]

SENATOR SCHUMACHER: Thank you. [LB976]

SENATOR CORNETT: One quick question. Have you updated this study on the time period people continue working since they increased the age on Social Security benefits? [LB976]

DAVID DROZD: That would not have been something we've done. So... [LB976]

SENATOR CORNETT: Senator Fischer. [LB976]

SENATOR FISCHER: Thank you, Senator Cornett. Maybe you know this and I won't have to look it up. What year did Nebraska go from four to three congressmen? [LB976]

DAVID DROZD: That would have been... [LB976]

SENATOR FISCHER: Pre-1960? [LB976]

DAVID DROZD: ...between 19...in 1950 census we should have had four. After 1960 census, it went down to three; that's correct. [LB976]

SENATOR FISCHER: Thank you. And, then, you mentioned that Nebraskans tend to move out of state and then return when they're older. Do you think that might be because they can afford to move and they're still in good health; and they move for weather and whatever activities they want to do; and then as they get older and aren't as mobile, they move back to the state? [LB976]

DAVID DROZD: What we hear--and again this is just tangential, or I'm sure you have

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your own stories that you hear--is that, you know, the quality-of-life aspects here are tremendous. And people often move back to be near family, whether that's to see their grandchildren or to be near an aging parent who might be in their 90s or, you know, something like that, where they need additional in-home care. You hear the stories of people wanting retirement, and they get into their warm location and start playing golf every day and those kinds of things, and they find out it's not all it's cracked up to be, that you hear. So, again, Nebraska does look pretty good from a cost-of-living standpoint. Again, a lot of cost of living does not take taxation into account on the certain indexes as they try to compare, you know, across states or across metros and things like that, where they tax differently. But, yeah, there is a lot to be said for Nebraska's quality of life. [LB976]

SENATOR FISCHER: Thank you. [LB976]

SENATOR CORNETT: One thing that I'd like to point out is, one, if I'm not mistaken, for the first time in the history of Nebraska, Nebraska actually...population grew faster than the national average over the last couple of years' statistics that we've got. But beyond that, when you show on slide 9 the population loss for counties, it's somewhat misrepresentative; it looks like Nebraska as a whole is losing population. You don't put that we have some of the fastest...matter of fact, the fastest-growing county in the country, if I'm not mistaken, in Nebraska also. Am I correct? [LB976]

DAVID DROZD: Not on the fastest-growing county. What you mentioned about Nebraska being above the U.S. average the last couple years is true. [LB976]

SENATOR CORNETT: Isn't Sarpy County one of the fastest-growing counties in the United States, populationwise? [LB976]

DAVID DROZD: It would not be. I'd have to look at the numbers, but I don't think it'd be even in the top 100, to be honest. [LB976]

SENATOR CORNETT: Actually, I think it is. But that's okay. Senator Schumacher. [LB976]

SENATOR SCHUMACHER: Just one follow-up. As far as people moving back when they get old, it's pretty much, on slide number 3, it doesn't really bounce back into the green with any strength until over 85. Would that maybe be the widows who have lost their husbands? Is there a female element to that, women living five years longer than men, on the average? Is that...? Because that's the only age category, 85 and up. And that encompasses everybody from 85 to 102, whereas all these... [LB976]

DAVID DROZD: Sure. [LB976]

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SENATOR SCHUMACHER: ...other increments are, like, four-year increments. [LB976]

DAVID DROZD: I think there's something to be said for that, but what you might find interesting is that both in Nebraska and nationally we're having larger growth among our older men than we're having among older women. So it might be from the standpoint that even both could be coming back at that point in time. So, again, it's hard to break it out specifically, but there would be some impact there. Yeah... [LB976]

SENATOR SCHUMACHER: Thank you. [LB976]

DAVID DROZD: ...I could show you those slides too. [LB976]

SENATOR CORNETT: Senator Brasch. [LB976]

SENATOR BRASCH: You have some fascinating data here. But did you step forward as an opponent? [LB976]

DAVID DROZD: Neutral. [LB976]

SENATOR BRASCH: Neutral. Okay. Because I was going to say, I'm trying to figure out why you oppose this. (Laugh) All right. Very good. Thank you. [LB976]

SENATOR CORNETT: No further questions. [LB976]

DAVID DROZD: Thank you. [LB976]

SENATOR CORNETT: Anyone else in the neutral capacity? Senator Nordquist, you're recognized to close. [LB976]

SENATOR NORDQUIST: Thank you, members, for your attention to this issue today. I didn't know that my bill would give Senator Hadley an opportunity to take shots at South Dakota. But I am a product of their K-12 education system, and all I could find is a job that paid \$12,000 a year, so...(laughter). But specific to this bill, you talked about the options that were available to us. And we made Bill Drafters work on this. We ended up working through the interim and had six versions drafted. And ultimately we decided to introduce the most wide, broad, sweeping version of it to give this committee options and not to put blinders on us. One option would be the model that Kansas has, where they say below \$75,000 on your AGI it's exempt, above it's not. That's one option that would get more targeted, more middle-income seniors. So there are a lot of options out there. Certainly the amendment that AARP brought reduces the cost significantly. You know, I think, as I said in my opening, between this committee and the Appropriations Committee, I think we need to work together to find a common vision for our fiscal future in the state and what we can afford this year and in the next biennium in

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tax relief. And, for me, I would encourage this committee, if we can afford tax relief, to look at moving the ball forward on Social Security. Thank you. [LB976]

SENATOR CORNETT: Could you repeat what you said about Kansas? [LB976]

SENATOR NORDQUIST: Yeah. Kansas, theirs is...sets a...kind of a...the breakpoint at \$75,000. [LB976]

SENATOR CORNETT: For Social Security? [LB976]

SENATOR NORDQUIST: For...or if your adjusted gross income is above \$75,000, your Social Security is not exempt. If your adjusted gross income--and that includes all income, Social Security benefits and other retirement--if it's below, then it is exempt, so. [LB976]

SENATOR CORNETT: What is the average income for a family of four in Nebraska? [LB976]

SENATOR NORDQUIST: Boy, we just saw these last week; I thought it was like \$47,000. [LB976]

SENATOR CORNETT: So we'd give someone an exemption under \$75,000 just because they're old, and we don't for a family of four? [LB976]

SENATOR NORDQUIST: Well, this is...I mean, I think it gets to the point that this is a little different than normal income. Social Security, I think, is a social insurance program that we all pay into, and I think there's a lot of arguments to be said that this is double taxation and that...and then also the argument of the out-migration, so. [LB976]

SENATOR CORNETT: Further questions? Seeing none. [LB976]

SENATOR NORDQUIST: Thank you. [LB976]

SENATOR CORNETT: Thank you. That closes the hearing. Senator Mello, you're recognized to open on your bill. [LB976]

SENATOR MELLO: (Exhibit 14) Good afternoon, Chairwoman Cornett and members of the Revenue Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o, and I represent the 5th Legislative District in south Omaha. Both as a candidate first running for the Nebraska Legislature and now as an elected state senator, the issue of tax relief comes up frequently in discussions with my constituents in south Omaha. And the number one tax relief issue that comes up in my district, as probably in many of yours, is property tax relief. In fact, a poll that was conducted in 2007, the last time this Legislature considered

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significant tax relief, asked Nebraskans what type of tax relief they preferred, and an overwhelming majority, 62 percent of those polled, said property tax relief. In comparison, just 24 percent of those polled selected income tax relief. I believe that similar numbers would be found if Nebraskans were polled again today on the very similar issue. Even the ultraconservative Tax Foundation, which Governor Heineman has relied upon as evidence in support of his tax relief package, shows that Nebraska ranks worse in property taxes in comparison to any other tax ranking considered by that organization. The 2012 Tax Foundation report which was unveiled last month ranked Nebraska's overall tax climate as 30th among 50 states. Of the five different tax burdens measured in the report, Nebraska's property tax ranking was 37th. So if the Legislature's goal is to improve our state performance in the Tax Foundation rankings, LB977 and not the Governor's proposal is the solution. LB977 would adopt the Property Tax Relief Act and the goal of the act is simple--providing tax relief to middle-class Nebraskans who are currently struggling as a result of Nebraska's high residential property tax. Under the bill, Nebraska homeowners would receive approximately \$76 million in property tax relief through a homestead exemption of the first \$8,000 of value of their property. Based on average property tax rates and valuations, the average homeowner in Nebraska would receive between \$150 and \$160 in property tax relief under LB977. Unlike Governor Heineman's LB970, LB977 is specifically targeted relief for middle-class Nebraskans. While most Nebraska families would receive between \$150 to \$160 under my bill, in comparison, a south Omaha family earning \$30,000 a year that Governor Heineman cited in his State of the State Address would receive just \$30 in income tax relief under LB970. In fact, the majority of tax relief called for in Governor Heineman's proposal, 55 percent of the total dollar amount, would go to the wealthiest 20 percent of Nebraskans. The language in LB977 was based off the language in a bill introduced in 2009 by our former colleague, Senator Tom White, which had been interpreted by the Department of Revenue and the Legislative Fiscal Office as providing a homestead exemption for all owner-occupied single-family homes, not just those eligible for the existing homestead exemption. After the bill was introduced, it was brought to our attention that the department is now interpreting the language to limit the relief called for in LB977 to existing homestead exemption qualifiers. The committee should have received copies of AM1897, which is an amendment that would ensure the bill has the intended effect of providing property tax relief to all Nebraska homeowners as under the original LB13. Thank you for your time, and I'd be happy to answer any questions you may have. [LB977]

SENATOR CORNETT: Okay. Go ahead, Senator Hadley. [LB977]

SENATOR HADLEY: Thank you, Senator Cornett. Senator Mello, I'll ask the same question I asked earlier: So Warren Buffett, we'll give him relief on his tax bill? [LB977]

SENATOR MELLO: His property taxes? [LB977]

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SENATOR HADLEY: Property. [LB977]

SENATOR MELLO: Currently as drafted, LB977 would affect any owner-occupied residential property in the state so if he owns owner-occupied property as his homestead, he would currently receive the \$8,000 exemption that all owner-occupied Nebraskans would receive. However, I do know that this committee will hear another proposal by Senator Dubas that I believe is a good proposal as well, regarding property taxes, which is more of a circuit breaker model that targets property tax relief based on income, not so much a flat homestead exemption, which I've put forward in LB977. [LB977]

SENATOR HADLEY: Okay. Thank you, Senator Mello. [LB977]

SENATOR CORNETT: Senator Mello, how many people who have an income of \$30,000 in your district own their homes do you suppose? [LB977]

SENATOR MELLO: Well, that's a great question, Senator Cornett, and I was anticipating a potential question about that in regards to the number of people their median household income based on owner-occupied information. And the Legislative Planning Committee, you've probably all received this green copy of a report that was done by the Planning Committee, breaks down the best in detail some of the census information over the last four years based by legislative district. And so giving the basic background of my specific legislative district, it says that my median household income in District 5 is \$42,000...\$42,543 which is about \$7,000 less than the Nebraska median household income. As well as the owner-occupied housing percentage of total occupied housing, the state's average is 68.6 percent and my district actually is 72.8 percent. So roughly 72.8 percent of the people in Legislative District 5 have owner-occupied housing, which is actually greater than the number of people statewide according to the census information. [LB977]

SENATOR CORNETT: But you said \$42,000 is your income. [LB977]

SENATOR MELLO: Median household income. [LB977]

SENATOR CORNETT: You used \$30,000. I guess... [LB977]

SENATOR MELLO: I used that number based on the Governor's citation of that in his State of the State. I believe in the Governor's proposal if you use the median household income, which is \$42,000, I think the Governor cited \$40,000 in his proposal, is about \$40 a year. So it's about a \$10 increase based on about a \$10,000 increase in median household income. So... [LB977]

SENATOR CORNETT: So I'm going to play the devil's advocate. What does your bill do

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for people who don't own their homes, young people or old people that are no longer in their home? Or better yet, why didn't you just look at putting the money in, like, the property tax credit so you get ag land relief also? [LB977]

SENATOR MELLO: Well, that's...those are all three great questions, Senator Cornett, and I'll do my best to answer all three of them. [LB977]

SENATOR CORNETT: And I know I told you I wouldn't pick on you today. [LB977]

SENATOR MELLO: The first component is obviously this is a targeted tax package. It's not going to affect all Nebraskans. I've openly admitted that. I think the reality is property tax relief is still the number one issue that Nebraskans talk about when it comes to taxes. I think looking at my projected fiscal note with the amendment, which I think if you just for clarification purposes, the LB977 fiscal note says the next biennial budget first year is \$7.6 million. With our amendment it changes it to \$76 million and that was part of the conversation I said in my opening in regards to the amendment change. It's still a targeted tax cut. It will not impact 100 percent of Nebraska income taxpayers because it's not an income tax package. The second component, essentially, of why did I choose not to put it in the existing property tax credit program: as many of the members of this committee remember, probably 2009, LB13 was the bill that LB977 is roughly fashioned after, which looked to change that existing program to target that money more towards Nebraska landowners and property owners. I think ultimately that we still have some challenges in the existing language regarding the property tax credit program because a significant amount of money that we provide in property tax relief goes to out-of-state landowners. And that's a philosophical belief I have that I don't think we should be providing tax relief to people who just take that money out of state. I think we can find a better use of providing tax relief to Nebraskans who currently live, work, and pay income taxes or other taxes in Nebraska. [LB977]

SENATOR CORNETT: Two points. [LB977]

SENATOR MELLO: Questions or points? [LB977]

SENATOR CORNETT: Points. [LB977]

SENATOR MELLO: Okay. [LB977]

SENATOR CORNETT: One, I think that this committee, at least after eight years, would disagree that property taxes overall. I think we hear more that ag land valuation and property taxes on ag land is the more significantly heard-about issue in this committee. And that bill was targeted for the metropolitan residential areas. I was here for that bill. So, I mean, it really does not do much for the rest of the state. And, yes, we do have out-of-state landowners. But how do you limit the tax credit for them, constitutionally, by

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saying they can't have it? We looked at that issue. [LB977]

SENATOR MELLO: I understand you've looked at that issue. And that's a constant, ongoing issue I know you and a few other senators have continually looked at, in regards to the constitutionality of that issue. And, hopefully, at some point in time the Legislature will be able to find a solution to that. [LB977]

SENATOR CORNETT: Change the constitution? [LB977]

SENATOR MELLO: Will be able to find a solution to that issue. [LB977]

SENATOR CORNETT: Senator Schumacher, I believe, had a question. [LB977]

SENATOR SCHUMACHER: You covered it, Senator. [LB977]

SENATOR CORNETT: Okay. Thank you. [LB977]

SENATOR MELLO: Thank you. [LB977]

SENATOR CORNETT: Further questions? None. Thank you. I'll open the hearing to proponents. If there are proponents, please move to the front of the room. [LB977]

ROBERT COURTNEY: (Exhibit 15) Good afternoon, Senator Cornett and members of the Revenue Committee. My name is Robert, R-o-b-e-r-t, Courtney, C-o-u-r-t-n-e-y; and I live in Crete, Nebraska. Thank you for the opportunity to speak with you today. I'm a registered volunteer lobbyist for AARP Nebraska, and I represent them today. The property tax is a tax that generates the most complaints from our members. Annual growth in property taxes collected over the past ten years in Nebraska has averaged about 6 percent per year, exceeding the growth in income for most Nebraskans. We support LB977 as a replacement for the existing real property tax credit for owner-occupied family homes. We have concerns about the state government's ability to afford both. We do not propose any change in the tax credit for agricultural, commercial, railroad, or public service property. But we see advantages to the approach taken in LB977 for homeowners, as compared to the current property tax relief program. The current exemption bases property tax relief on a percentage of property value. In dollar terms, higher-value properties receive a larger tax credit. LB977 would establish a flat amount of home valuation that would be exempt from taxation. The tax credit will vary only with the tax rate. My 2011 property tax credit on my home in Crete was \$49.62. If LB977 had been in effect in 2011, I would have received a property tax relief of \$181.43. This is a meaningful improvement. As home values increase, there would be a point in each taxing jurisdiction at which the current program would be more advantageous than the one outlined in LB977. In Crete, \$241,000 is a point at which a home would receive a larger credit under the current program than under LB977. Even

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as a replacement for the existing property tax relief program, LB977 would result in additional costs to state government, but the tax relief would be directed to middle-income homeowners, who need the relief the most. Some of the additional costs will be offset by reduced costs in the homestead exemption program since most properties eligible for the homestead exemption are on the lower end of the valuation spectrum. That's all I have. If you have some questions, I'd be glad to try to answer them for you. [LB977]

SENATOR CORNETT: Seeing none, thank you. [LB977]

ROBERT COURTNEY: Thank you. [LB977]

SENATOR CORNETT: Next proponent. Opponents. Neutral. Senator Mello. [LB977]

SENATOR MELLO: I'll close briefly. Senator Cornett and members of the Revenue Committee, I know, obviously, many of you have already heard probably numerous tax proposals put forward not only by the Governor but obviously my colleagues today, Senator Heidemann and Senator Nordquist, both members of the Appropriations Committee. And I would read probably a very similar remark that you heard from both of them, which is that this committee feels that tax relief is affordable under our current biennial budget and the projected biennial budgets over the next two years. I would urge the committee to consider property tax relief that directly goes to owner-occupied homesteads as a priority. As you just heard from the testimony from the AARP, our current program actually does incorporate commercial and industrial and ag land valued property as part of that program, which is part of the, I think, the issue this committee has heard before about changing the existing property tax credit to focus more on residential focus...or reprioritize into a residential focus. That's not the intention of my bill today. The intention of my bill today is to create a specific, separate residential property tax relief program that seeks to essentially accomplish what you have heard in previous years regarding the existing program. With that, I'd answer any further questions. [LB977]

SENATOR CORNETT: Senator Fischer. [LB977]

SENATOR FISCHER: Thank you, Senator Cornett. Always a pleasure, Senator Mello. I know that you have supported tax relief and also different tax credits and business incentives. This committee is also being hit with a number of bills that offer tax credits and business incentives. Where do you stand on those? Do you have an opinion on those? Do you think we should be looking...if you have a choice, do we look at tax relief in whatever form, or do we look at business incentives? [LB977]

SENATOR MELLO: That's a great question, Senator Fischer. I think that's a question obviously that this committee has been wrestling with probably since the finishing of bill

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introductions, no doubt, seeing the number of bills that are currently in front of the Revenue Committee. I think that there is an opportunity possibly to look at both options and have both options on the table. I think depending upon where a tax relief proposal, if one comes out, how targeted that is, and what the ultimate goal is, that could be accomplished as well as if you selected tax credits or economic development incentives, depending upon which of those incentives this committee feels best help serve the state's economy. By no means is that guaranteed that all of those proposals would be passed by the Legislature as a whole. But I think there's an opportunity to have those conversations, possibly both, depending upon the size and scope of each. Personally, I think LB970 is misguided, the Governor's proposal is misguided, both in regards to what it seeks to accomplish but also the dollar amount. I question whether or not that's something we can ultimately afford long term. I'd even acknowledge my own proposal, which is \$30 million less than the Governor's proposal, of whether or not that number ultimately is something that this committee also feels may be too big to provide...which provides, as I mentioned earlier, Senator Dubas' bill, which is a circuit-breaker property tax relief option, would kind of fit possibly as a compromise in regards to where my ultimate goal is in LB977, in comparison to what we feel we can afford fiscally as a state. Ultimately these are conversations that, no doubt, you, Senator Cornett, Senator Adams, Hadley, Brasch, and Schumacher, and Loudon will all have as a committee to determine. I think that there's an option to be able to do a few of those options. Right off the bat, for an example, I think I have a recycling tax credit in this committee that is no General Fund cost... [LB977]

SENATOR FISCHER: Now, now, now, Senator Mello. [LB977]

SENATOR MELLO: ...(laugh)... [LB977]

SENATOR FISCHER: (Laugh) [LB977]

SENATOR MELLO: ...is no General Fund cost, that could come out of this committee and not have an impact on the General Fund. [LB977]

SENATOR FISCHER: I know in the last two bills we've heard a lot of mention about the Governor's proposal. But I would point out to you that his proposal doesn't have the highest dollar amount that's been proposed to this committee, either. Thank you. [LB977]

SENATOR CORNETT: Senator Adams. And then I've got to ask you a question also. [LB977]

SENATOR ADAMS: Thank you, Senator Cornett. [LB977]

SENATOR FISCHER: She's trying to ignore us... [LB977]

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SENATOR CORNETT: No, I'm not. [LB977]

SENATOR ADAMS: Is that what...? Yes, she is. [LB977]

SENATOR CORNETT: I might be, you. (Laugh) [LB977]

SENATOR ADAMS: Looking the other way. [LB977]

SENATOR CORNETT: No, I saw you. [LB977]

SENATOR FISCHER: (Laugh) [LB977]

SENATOR ADAMS: I say this with due respect to humor. For three of the introducers today, Senator Heidemann, Senator Nordquist, and Senator Mello, all three members of the Appropriations Committee, and then we've got Senator Wightman on deck, four members of the Appropriations Committee coming to us with tax relief, and I'm just--though yours is targeted, and Senator Heidemann's is towards an issue that's important to him, one that's important to you, and everybody--I'm, as a committee member here, I'm trying to reconcile a budget with...wondering where the revenues are going to go. And then we hear from four Appropriations Committee members on tax proposals. You can respond if you want. (Laughter) [LB977]

SENATOR MELLO: Well, Senator Adams, without hearing Senator Heidemann's or Senator Nordquist's introduction of their bills, I can only speak for myself that when the issue of tax relief was being discussed and bandied about before session started, obviously my proposal, LB977, I've always stated if the Legislature feels tax relief is an option for us to consider that I think property tax relief should be at the forefront of that conversation. I am by all means willing to negotiate and willing to compromise and willing to seek out ways to make an LB977 work in regards to our fiscal and budgetary issues. But I think the issue is that probably no doubt in Senator Heidemann's bill regarding ag valuation, Senator Nordquist's on exempting Social Security income, mine dealing with property taxes, and Senator Wightman's looking at the inheritance tax, there are other ideas out there, obviously, besides what we've heard from the Governor in LB970. And no doubt, I know Senator Cornett has other ideas of her own she's proposed in this committee as well. I guess my underlying focus is that there are significant other tax issues out there besides LB970 and that I have an underlying disagreement with what the definition of, quote, unquote, middle class means in Nebraska, in comparison to our Governor. And my proposal seeks to counter his proposal, in regards to where I think a majority of tax relief would go to middle-class Nebraskans, in comparison to his under LB970. [LB977]

SENATOR ADAMS: And I think it's absolutely fair for any one of the 49 of us to put our

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two bits in, so to speak, if there's going to be tax reduction. I'm just...when you guys close the door on the Appropriations Committee, the yelling and screaming of something that we may put out here... [LB977]

SENATOR MELLO: I... [LB977]

SENATOR ADAMS: No more questions. (Laughter) [LB977]

SENATOR CORNETT: I'm...I've just got to ask you a couple questions. [LB977]

SENATOR MELLO: Okay. [LB977]

SENATOR CORNETT: I know I said I wasn't going to. [LB977]

SENATOR MELLO: Okay. [LB977]

SENATOR CORNETT: Earlier you kind of agreed with me that this is mostly for metropolitan area, because that's where the most residential houses are, correct? [LB977]

SENATOR MELLO: Without numbers in front of me, I can't say specifically the number, without looking at the statewide map. I mean, obviously, populationwise, there's more people who live in Douglas County, Sarpy County, Lancaster County than there are who live in Arthur County, Banner County. I mean... [LB977]

SENATOR CORNETT: And you have issues with maybe not looking at ag land...or property tax relief for ag land. [LB977]

SENATOR MELLO: That's not the focus of my legislation. I mean, I think as a Legislature...I know Senator Heidemann, we've chatted about this. I know other senators have raised...has mentioned this before in other bills, that that's an issue for those who own ag land, valuations; they have concerns about the percentage of which their ag land is being taxed at. [LB977]

SENATOR CORNETT: So we give a property tax relief for residential properties. And in a lot of our western counties, they're up against their lid levies. So now you're getting property tax relief in areas where you're not up against your lid levy. And all of a sudden, the city wants to finance something. What do they do? They raise their property tax. Most of the metropolitan area has at least 50 percent to go up on their property tax, am I correct? [LB977]

SENATOR MELLO: I believe the cities at least I'm familiar with...I used to represent the city of Bellevue, the same city that you're from, as well as the city of Omaha. And I know

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that both of those cities do have some latitude left in their property tax levy limit for the cities. [LB977]

SENATOR CORNETT: Some? Compared to the rest of the counties? [LB977]

SENATOR MELLO: They have some, in comparison to other cities across the state who are at their levy limits. That's correct. [LB977]

SENATOR CORNETT: So we give a property tax credit for residential property in areas where immediately they can go in and raise the levy to finance, correct? And do we freeze the levy, do we lower the levy when we do this? How do...where do we actually get property tax relief? [LB977]

SENATOR MELLO: Well, I...without opening up a very long philosophical debate that we could have as a group here right now, I think the reality is this providing...the one idea...and the one idea that this Legislature passed back in 2007 was giving direct relief to property owners through a rebate program that bypassed local governments. It's no...I've made no qualms about my views that I think the more aid we provide to local governments as a state, the less they rely on property taxes. That's a philosophical view I've had; I've advocated it both on the legislative floor on bills that we've had over the last couple years dealing with aid to local governments. I think that's, once again, I think there's an intertwined component in regard to property taxes and that relationship between the state and local governments in regard to the direct aid we provide. We hear it. And I know Senator Adams hears it on a regular basis in the Education Committee, in regard to property tax levy limits that school districts have in comparison to the amount of state aid that we provide that local school district. So without...there's no real way to answer your question, I guess, Senator Cornett, in the sense that we can't preemptively determine, as a Legislature, what local government entities will do, without fully understanding what projects or needs or concerns they have as individual political subdivisions. I just share the belief that the more aid the state provides the local governments, the less they rely on property taxes, because they're receiving more aid for operations and programming from the state of Nebraska. [LB977]

SENATOR CORNETT: Thank you. Further questions? Senator Schumacher. [LB977]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you for being here, Senator Mello. Unfortunately we're not in Washington and we can't print the money for all these fine programs without...just at will. There was a suggestion I thought I understood Senator Nordquist to make, that since the Appropriations Committee has the fun of giving people what they want and we have the fun of cutting taxes for everyone, that maybe before any of us do a whole lot of anything we, somehow or another, open some kind of channel of conversation so we don't trip on each other. Is that something that is viable or...? [LB977]

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SENATOR MELLO: That, Senator Schumacher, that is a great question. And I would answer wholeheartedly that, yes, I wholeheartedly believe that this committee and the Appropriations Committee should spend an adequate amount of time in the next month or so as we start preparing ourselves for where the Nebraska Economic Forecasting Board...they're meeting at the end of the month to provide where we're going to be at as a state in regards to our economic forecast. I've always said, regarding my proposal, that if it's determined we have funding available for tax relief, that I think property tax relief needs to be the priority. That's the question I think we will hear at the end of the month in regards to the economic forecast. The underlying issue, too, though--and I have mentioned this, I know, to some of our colleagues off the mike and off the floor--is I've yet been able to research and find where the Legislature has passed a sweeping tax proposal in a deficit appropriation year. The only other issue I've heard of the Legislature doing any kind of general tax-related issue that's of any major substance in a deficit appropriation year like we're in this year was when, I believe, this committee did...last time this committee moved on reducing ag land valuation, actually, in the second year of a biennial budget. That was the last time you saw any major tax reform or tax-relief package that was proposed and passed, was that package. And I believe it was five years ago, 2006 is when, I believe, it happened, possibly. [LB977]

SENATOR CORNETT: That'd be six years. [LB977]

SENATOR MELLO: Okay, six years ago, I'm sorry. Which is something that I think to strongly consider as we discuss tax policy and tax relief. This is unprecedented to consider not only LB970 that you heard from the Governor, but any tax-relief package, actually, if whether or not we actually can fiscally afford to do it, because we have yet to see a budget for next...next biennial budget, which is part of the budgeting process that those of us in the Appropriations Committee like to remind people, that we usually do major tax reform packages at the same time we're developing a budget. We don't do tax packages a year in advance, before we do a biennial budget, because we can't make the two work out without asking someone to take a blind leap of faith. [LB977]

SENATOR SCHUMACHER: Thank you, Senator Mello. [LB977]

SENATOR HADLEY: Thank you, Senator Mello. [LB977]

SENATOR MELLO: Thank you, Senator Hadley. [LB977]

SENATOR HADLEY: With that, I believe we'll close LB977. Senator Wightman, come up to the hot seat. We'll talk about LB1102. [LB977]

SENATOR WIGHTMAN: Thank you, Vice Chair Hadley.

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SENATOR HADLEY: I'm not Vice Chair, Senator Wightman. I'm just the low man on the totem pole. (Laughter)

SENATOR WIGHTMAN: (Exhibit 16) Oh, well, okay, thank you low man on the totem pole, and other senators on the committee. My name is John Wightman. I represent District 36. Wightman is spelled W-i-g-h-t-m-a-n. LB1102 was introduced in part as an alternative to the total repeal of the inheritance taxes found in LB970. LB1102 would increase inheritance tax exemptions and lower rates over time, time that the county officials can use to adjust their budgets after the loss of state aid last year, and then consider reductions of inheritance tax revenues. I am very concerned that a repeal of the inheritance tax at this time would result in increases in property taxes. We hope that LB1102 would not have any substantial effect on that. LB1102 was also introduced as a starting place for discussion and debate. I've listened to my constituents and county officials and submit that LB1102, as drafted and introduced, perhaps goes further than we planned, and I will...my aide will pass out a proposed amendment to LB1102. AM1857 will be passed out by the pages and reflects my current position on a starting point for discussion and debate. LB1102, and with the amendment, takes a more measured approach than is intended to allow the impact of the reduction of revenues to the counties to be phased-in and evaluated. In summary, AM1857 would do the following...and I'm really going to address AM1857 rather than the contents of LB1102. For close relatives as defined in (1) on page 1, which includes a father, mother, grandfather, grandmother, really all ancestors and descendants, and in addition, brothers and sisters, the tax rate of 1 percent is reasonable and not a burden, in my opinion. So we don't seek to reduce that. In my practice of law which will soon be a half-century, I have heard few, if any, complaints about a 1 percent tax rate for close relatives. AM1857 does propose to increase the exemptions from the inheritance tax to reflect general inflation and the growth in the value of assets. For each person that receives an inheritance as a close relative that would qualify under Class I beneficiaries, the exemption would increase from \$40,000 to \$60,000 on or after January 1, 2013, and prior to January 1, 2015. After January 1, 2015, the exemption of each person of this class would increase to \$75,000. In my experience in the practice of law, most beneficiaries are members of this close-relative class, probably...I don't know, but I would say close to 90 percent of the estates involve Class I beneficiaries as opposed to Class II and Class III beneficiaries. Raising these exemptions will not result in a significant reduction to the inheritance tax revenues of the county. The extent of the reduction is unknown. And I think it's almost impossible to put any kind of a figure on this, because even from county to county, one year can be double what another year is. Particularly outstate, I don't think that's true in the three more...know they all don't qualify as metropolitan counties, but the three larger counties, Douglas, Sarpy, and Lancaster, they probably do stabilize just from numbers. But if you get outstate, it's easy for one year to double another year just because you have one big estate or maybe two big estates come in and the estate passes to Class II and Class III beneficiaries. For all other relatives...now these will be Class II beneficiaries such as uncles, aunts, nieces,

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or nephews, or other lineal descendants or spouse or surviving spouse of those persons, as found in AM1857 on page 2, line 13 through 16: On January 1, 2013, the rate would be reduced from 13 percent to 10 percent. Under our original bill we had it in two reductions, a 10 percent...a reduction of 10 percent and then to 9 percent. The exemption for each person in this class would increase from \$15,000 to \$25,000 as of January 1, 2013, and at \$25,000 on or after 2015. I think that may be...I may have to get back to you. That sounds like we're at the same figure on both of them. Under AM1857 for all other beneficiaries, which would be Class C beneficiaries, the rate of tax would be reduced from its current rate of 18 percent to 15 percent on or after January 1, 2013. The exemption for person in this class would increase from a current \$10,000 to \$15,000. We submit that the counties should have time to adjust to a reduction in revenues caused by these changes. The impact of reducing tax rates and increasing exemptions should be evaluated before any further changes are made to the inheritance tax law. The Legislature must be concerned about raising property taxes, and that is the number one complaint I think all of us hear from our constituents, probably is property taxes. In conclusion, I do not support the repeal of the inheritance tax in Nebraska. After cutting state aid to counties last year, we need to provide our county officials the opportunity and the time needed to adjust their budgets to any further reductions in revenues. Property taxes should not be raised. Changes should be phased-in to reflect changes in the value of property and assets due to general inflation. Nebraska inheritance tax rates and exemptions just need to be revised and inheritance tax should not be repealed at this time. I would also tell you that we have worked very closely with Larry Dix representing the county officials, and have made the changes in AM1857 largely after discussion with him, at which time they agreed they would come in, in a neutral position. I think Larry Dix will tell you that no matter what we introduced, that they weren't going to come in, in support of it but they would come in a neutral position. So the changes are quite a bit less than they would have been under the original bill. AM1857 will curb those changes substantially. I should in response to some of Senator Adams' previous statements say that this will not change the general budget, so maybe it's more appropriate that an Appropriation member bring this one than some of the others. So...but we are also concerned about what it does to the counties. And we've tried to take that into account. I might just briefly mention the fact that in 2006, or whatever year it was that we changed the inheritance tax law previously, we increased the percentage of tax on Class II beneficiaries from 10 to 13 percent. It had been 10 percent prior to that time, was increased at that time to 13 percent to try to make it revenue neutral. Out in rural counties, I think just because of the increase in valuations, you're going to see a tremendous increase in the revenues that the inheritance tax raises and if we don't offset that some with some reduction of rates, we're going to have some awful high taxes on Class II beneficiaries. Now, how much regard they're entitled to? It seems to me they're certainly entitled to some, and some people that have no children, this is how they intended their farms pass. And so with that, I urge the committee to advance LB1102, as amended, as it would be amended by AM1857, I think the number is. I'd try to answer any questions that you might have. [LB1102]

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SENATOR CORNETT: Questions? Senator Schumacher. [LB1102]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Senator Wightman, maybe we could compare notes a little bit and see if we could get an analysis of the current administration of the inheritance tax. What I found is that if there is no real estate involved, the probability of an heir, who might be on a joint tenancy, or payable on death C.D., or some other asset, ever giving inheritance tax the time of day is pretty slim. [LB1102]

SENATOR WIGHTMAN: Senator Schumacher, I would agree with that. And I don't think that kind of devise comes from very many attorneys. I think it's more likely to come from their neighbor, maybe their accountant in some instances, but the fact is that at the time of...and I think it was...it wasn't 2006, it must have been a 2008 amendment. I wasn't here in 2006, that 2008 amendment we tried to put some teeth into that collection method in which we provided a penalty. Since then we've amended the penalty somewhat, but in addition to the 14 percent interest, there's a 5 percent penalty if they don't at least file something that would indicate that they're going to determine that inheritance tax. Now, they don't have to have it determined under that but they have to file a petition or something at least prior to the day. [LB1102]

SENATOR SCHUMACHER: Are we perhaps in the case of nonreal estate assets not using the correct mechanism? Would you maybe, because some of the committee members aren't lawyers, describe how we go about determining inheritance tax now and is there an alternative short-form method that they file something with the county treasurer or something, that in nonreal estate cases, can bypass the court system? I don't know if everyone realizes how unusual this method of reporting taxes is. [LB1102]

SENATOR WIGHTMAN: Okay. Let me tell you a little bit about the procedure and some of you probably know it, but usually what happens is that the decedent's family contacts an attorney, the attorney then would assist in preparing a worksheet, or sometimes it's an inventory, but usually when it's only an inheritance tax is an inventory attached as an exhibit to a petition or an inheritance tax worksheet, and then that's taken into court. The county attorney has an opportunity to look at it, and frequently do where it's real estate. The personal property they're not likely to know, so the personal property they're going to have to rely even more currently on what is on that form because they don't have much of a procedure under privacy acts with banks and lending institutions and brokerage houses to get to what the value of those assets are or even what the extent of those assets are. So, but again, I think by the penalties we put in place under the current inheritance tax law, we've made it at least less likely, I think, that they would understate that because they are risking a penalty and they are risking 14 percent interest. But could it be changed? I suppose. This is an opportunity a lot of times for, I suppose clients to visit with the attorney and do some estate planning, often in a second

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estate, so I think something is to be gained by leaving it as it is, perhaps. But you might be able to do that even by approaching it with some sort of a provision with the treasurer or even the Department of Revenue. Some states do it through the Department of Revenue. But that was more likely the state estate tax. [LB1102]

SENATOR SCHUMACHER: As far as...you think it would be a fair statement as far as nonreal estate assets are concerned, they have a sizable percentage of them escaping the tax now? [LB1102]

SENATOR WIGHTMAN: I have no doubt about it. What percentage it would be I'd have no way of knowing but it could be easily be 50 percent. [LB1102]

SENATOR SCHUMACHER: So if we can figure out a way to capture that, we might offset this loss from these adjustments. Typically, somebody has a \$100,000 C.D. in the bank, they go add the kids name on to it as joint tenants or with payable on death, the deceased passes away, the heir goes in with a death certificate and walks out with a check. And unless they have a lawyer involved, they have no idea there's even a penalty involved or a tax. [LB1102]

SENATOR WIGHTMAN: I think that's true. Not only could we offset the revenue but we could create a lot more equity and fairness in our current inheritance tax in that right now the people paying it are largely real estate owners. [LB1102]

SENATOR SCHUMACHER: Thank you, Senator. [LB1102]

SENATOR CORNETT: Seeing no further questions, thank you. [LB1102]

SENATOR WIGHTMAN: Thank you. [LB1102]

SENATOR CORNETT: I will warn the audience, we are losing another committee member very shortly, so let's...we're going to keep testimony short. [LB1102]

JESSICA KOLTERMAN: I appreciate your patience this afternoon. I know it's been a long day. On behalf of Nebraska Farm Bureau, my name is Jessica Kolterman, K-o-l-t-e-r-m-a-n. I serve as the director of state governmental relations and testify today on behalf of the organization. Our policy calls for the elimination of the county inheritance taxes. It also states, however, that Farm Bureau supports efforts such as this one which would lessen the burden of the inheritance taxes on Nebraska's farmers and ranchers until a permanent repeal can be achieved. In our members' mind, the county inheritance taxes and other death tax which only adds to the burdensome and costly process faced by farmers and ranchers who hope to pass their family operation on to a younger generation. Some families have been able to avoid the impact of inheritance taxes by using certain estate planning tools. While these are effective at

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reducing the tax burden, estate planning methods are oftentimes expensive and can drain resources that could be better invested by producers to upgrade and expand their operations. For these reasons, we support the bill and encourage the Revenue Committee to advance it. Any questions? [LB1102]

SENATOR CORNETT: Questions from the committee? Seeing none. [LB1102]

JESSICA KOLTERMAN: (Exhibit 17) I also have a letter of support from the Nebraska Soybean Association to enter into the record. [LB1102]

SENATOR CORNETT: That would be wonderful. Thank you very much. [LB1102]

PETE McCLYMONT: Chairman Cornett, members of the Revenue Committee, for the record my name is Pete McClymont, P-e-t-e M-c-C-l-y-m-o-n-t. I'm vice president for legislative affairs for the Nebraska Cattlemen and I would just like to be on record and echo what Ms. Kolterman said. I would like to say this, two weeks ago at our board meeting to fully understand this and the impact on the counties, we asked Mr. Larry Dix to come in. And we actually have policy that says that we recognize the importance of inheritance tax to counties. And so we're very mindful that we need good services in rural counties, but we also have policy for the elimination of taxation on generational transfer of estates. So with that, I'll conclude my testimony. [LB1102]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you, Pete. [LB1102]

PETE McCLYMONT: Thanks. [LB1102]

SENATOR CORNETT: Next proponent. Opponent? [LB1102]

KENNETH RING: (Exhibit 18) Good afternoon, Senator Cornett and the Revenue Committee. My name is Kenneth Ring, K-e-n-n-e-t-h, Ring, R-i-n-g, and I'm a volunteer advocate lobbyist for AARP and I represent them today. This will be very brief but AARP has reservations about LB1102. The first, we're concerned that raising inheritance tax exemptions and lowering rates will adversely affect county budgets. Counties provide important resources to operate community aging services that have helped thousands of older Nebraskans who need long-term care to continue to live in their home and avoid nursing home placement. Business contribute to stabilization and Medicaid spending in this state. As you are probably aware, we spent less on Medicaid services for people over 65 in fiscal year 2011 than we did in fiscal year 2002. Since property taxes are the primary source of revenue for counties, we are also concerned that reducing revenue from inheritance taxes would place upward pressure on property taxes. Property taxes are the tax that we hear the most concern about from our members. Increasing residential property taxes will also have the effect of increasing

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the cost of the Homestead Exemption program. Finally, we believe that there is a merit to having an inheritance tax. AARP supports progressive taxation. An inheritance tax is one of the more progressive elements of the taxation system. It helps reduce concentration of wealth, prevents large amounts of capital from escaping taxation entirely. And we believe that it is important to protect family farms and businesses from excessive burdens, but we don't believe that the current rate, which was established in 2007, of 1 percent of \$40,000 received by children, grandchildren, parents and grandparents is an excessive burden. In conclusion, we don't see a need to change the Nebraska inheritance tax policy and, consequently, we don't see a need to advance LB1102. [LB1102]

SENATOR CORNETT: Questions? Seeing none, thank you. [LB1102]

KENNETH RING: Thank you. [LB1102]

SENATOR CORNETT: Next opponent. Anyone in the neutral capacity? [LB1102]

SENATOR NELSON: Are you on opponents now? [LB1102]

SENATOR CORNETT: We're on neutral now. I will indulge you, Senator Nelson. [LB1102]

SENATOR NELSON: Can I testify as a proponent? [LB1102]

SENATOR CORNETT: That's fine. [LB1102]

SENATOR NELSON: All right, thank you. I didn't get the switch to opponent. All right. Thank you very much, Senator Cornett and members, the few members of the Revenue Committee that are here and I appreciate that. I don't usually testify at this but I was watching on TV up in my office and thought that perhaps I should come down. And let me state my name. It's John, spelled J-o-h-n, Nelson, spelled N-e-l-s-o-n. Let me, if I can, just give you the benefit of my experience as an attorney who has practiced in the probate and inheritance tax area for over 40 years now. And I think there's some misstatements that are being made. I do not consider this a death tax. A death tax is an estate tax where you're taxing the estate at pretty large and pretty high rates. We did away with that probably four or five years ago with the understanding that we were going to keep the inheritance tax, and there were some adjustment to the inheritance tax rates at that time. And I think in this sense coming along now as certain people have said, we need to do away with the inheritance tax, I think is a little bit of a breach of faith to the counties where we've already taken income away from them. This is an inheritance tax. It's a tax on the heirs. And I can't think of, with the exception of one recent instance where we were in Class III, where a caretaker received the bulk of the estate and had to pay a tax of 18 percent, there was a complaint on her part, and

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perhaps that was justified. And, therefore, I would support the amendment here that's being presented by Senator Wightman that would reduce that to 15 percent. But by and large, as was testified earlier, probably 90 percent of the cases involve Class I, close heirs, children, grandchildren, perhaps parents. It's a 1 percent tax. It does not impose an undue burden on anyone in 90 percent of the cases and I've never heard any complaints about a 1 percent tax. This is money that these beneficiaries have inherited, they have not earned. I think it's a fair tax. It doesn't impose an undue burden. It does not affect, in my mind, or from my experience, any generational transfers. It doesn't make any impact on that by land values have gone up, but even if they've gone up at the rate of 1 percent, I can't think of any reason why somebody can't pay 1 percent on this type of a tax. So I don't support the elimination of this tax. I do support LB1102 as proposed by Senator Wightman. I think it's a good bill. I think the amendment, which reduces the rate somewhat, is fair-minded, and I would urge the committee to advance this bill out on to the floor. Thank you. [LB1102]

SENATOR CORNETT: Senator Schumacher. [LB1102]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Senator Nelson, in LB1102, and I want to see what your thoughts are, the language, the proposed language is that it will be 1 percent in excess of \$40,000 for any...I just answered my own question. (Laughter) Thank you. I was going to say, if it was a changed rate, then we would have had some retroactive effect but I see that's not (inaudible). [LB1102]

SENATOR NELSON: Right. You answered your own question. All right. [LB1102]

SENATOR CORNETT: Further questions from the committee? Seeing none. [LB1102]

SENATOR NELSON: I appreciate your letting me come forward as the proponent. [LB1102]

SENATOR CORNETT: No problem. [LB1102]

SENATOR NELSON: All right, thank you very much. Thank you. [LB1102]

SENATOR CORNETT: We will move back to neutral testimony. [LB1102]

LARRY DIX: Good afternoon, Senator Cornett, members of the Revenue Committee. For the record, my name is Larry Dix. I'm executive director of the Nebraska Association of County Officials appearing today in a neutral position on LB1102. Certainly, Senator Wightman, we appreciate that working relationship that we have had. We've had numerous conversations about this bill and as he stated, when we went through and had that discussion we agreed that we would come in and testify in a neutral position. Certainly, we're never wild about losing revenue. You know, don't get me wrong. That

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isn't the issue here. But if somebody believes, truly believes that this could provide some...that there is needed reduction, then this bill probably is something that our group at least can plan and can look out into the future. Certainly with inheritance tax I would tell you that, and Senator Wightman made the reference that, you know, once this is enacted then we can take a look at somewhere down the road. It does take a while to allow these estates to be settled before we can actually go in and see what the impact of that is and I think that's indicative of the bill that was passed in 2008, and I think at that point in time when Senator Wightman said we had raised that Class II in order to make it revenue neutral. And we're just now, four years down the road, we're just now at the point where we can start to collect some data to try to analyze the neutrality of that and I believe we were pretty close in what we did in 2008 in making that revenue neutral. So the longer we can, of course, let that move down the road to make an analyses of that, we believe that would be better. But like I said, we want to come in, in neutral. We believe that this is a plan we will never support the elimination, we certainly would look to, if we continue to erode this revenue, we would ask the Revenue Committee then to assist us in finding a replacement revenue for that, because otherwise we are in that...from county perspective, we are in that spiral of a property tax increase. And with that, as I know it's getting late, I will just look to answer any questions anybody may have. [LB1102]

SENATOR CORNETT: Senator Pirsch. [LB1102]

SENATOR PIRSCH: Thanks a lot, Larry. And so the total overall amount collected from inheritance taxes by the counties is put at \$42 million. I know that there wasn't, under the original, a concrete number put forward, unless I'm missing something in terms of how much counties with a bottom line hit to...and under the amendment, it would presumably be less, correct? Do you have any kind of ballpark...? [LB1102]

LARRY DIX: Right. As Senator Wightman said, this one is almost impossible to predict because of how fluid it is. I think the original on LB970 it said \$42 million and I think we actually on LB970, we handed out a handout with LB970 when I was here and testified and that did show what we found in all 93 counties, county by county and it did break it down. And I think it actually showed a little bit more than the \$42 million, but you should have a handout on LB970. And if not, I'll be happy to get that to you. But this bill it's...we're just at the cusp of even trying to dig down into each and every case to determine what impact this would have. Obviously, it would reduce it but we don't know how much. [LB1102]

SENATOR PIRSCH: But if it reduced it, say, 90 percent, you'd be okay with that still? [LB1102]

LARRY DIX: Well, this bill isn't reducing it 90 percent. [LB1102]

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SENATOR PIRSCH: Yeah, it's more like, I mean ballparkish... [LB1102]

LARRY DIX: Yeah, we wouldn't be happy with it if it's 90. We believe this is a small incremental reduction. [LB1102]

SENATOR PIRSCH: More like 5 percent, perhaps, along those lines than over... [LB1102]

LARRY DIX: Yes. Yeah. [LB1102]

SENATOR PIRSCH: Okay. That's what I'm trying to get a sense. Thank you. [LB1102]

SENATOR CORNETT: No further questions. [LB1102]

LARRY DIX: Thank you. [LB1102]

SENATOR CORNETT: Thank you, Mr. Dix. Anyone else in a neutral capacity? Seeing none, that closes the hearing on...oh, I'm sorry, Senator Wightman. I apologize. You are recognized to close. [LB1102]

SENATOR WIGHTMAN: No, that's fine. I'm only going to take about a half a minute, but I had in my notes I'd had some question with regard to what the exemption amounts would go up to and I did want...I've reviewed that and in Class II was the only question that we had. And I had 15 to 25 and then it would be 25 on or after 2015. Well, it's 15 to 20 in that first increment that would be increasing the exemption under Class II, and then it would go to \$25,000. So I had 25 both places so I knew that wasn't correct, but I wanted to review my notes a little more carefully. [LB1102]

SENATOR CORNETT: Senator Schumacher. [LB1102]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Couple quick questions. This is distinguishable from an estate tax which was a bigger tax that went bye, bye, a couple of years ago. This is the tax on the heir, is that not correct? [LB1102]

SENATOR WIGHTMAN: Right. On the beneficiary. [LB1102]

SENATOR SCHUMACHER: Okay. So to the extent we're having a fair number of heirs in the baby-boomer generation who live out of state, some of this tax benefit will go completely to people who are not resident of the state. If that a fair statement? [LB1102]

SENATOR WIGHTMAN: That would be correct. [LB1102]

SENATOR SCHUMACHER: Thank you. [LB1102]

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SENATOR CORNETT: Senator Pirsch. [LB1102]

SENATOR PIRSCH: And I'll be quick, but in your...just experience and you said doing this for a number of decades here, how much percentage...I think that Senator Schumacher has identified, perhaps, an area to be explored. But in your practice when there's heirs right outside, living outside the state of Nebraska who are subject to taking, what...how many of these...I guess I'm looking for a percentage live outside the state. Do you have any kind of thought? [LB1102]

SENATOR WIGHTMAN: I think, Senator Pirsch, that would be almost impossible, you know, because you could figure it one year and it would be totally different than another year. One estate...you may do ten estates, that everyone of them live in the state. You may do two in a row or more in which they pass to a child outside the state. I would say probably more than, almost half of them have at least one beneficiary at whatever classification that would live outside the state. And you can tell that by just looking at the families you know around you and whether one child lives out of state. But, obviously, a lot of them would. [LB1102]

SENATOR PIRSCH: Wonderful. Thank you for that. [LB1102]

SENATOR CORNETT: Further questions? Seeing none, thank you. And I apologize for skipping your closing. [LB1102]

SENATOR WIGHTMAN: That's fine. [LB1102]

SENATOR CORNETT: I will keep this exceptionally brief. To give you a little background before I go into what the bill does. The AMT...I have a bill. One more bill.

SENATOR ADAMS: Welcome, Senator Cornett. Could you introduce for us LB1117? [LB1117]

SENATOR CORNETT: I would be happy to. Okay. First of all, I'll tell you why. I knew when we...I knew that there was going to be push back on the inheritance tax. One of the goals of LB970 is to improve our rankings in the tax foundation. This is an alternative that we might want to look at because this will improve our rankings. And I'll explain a little bit. I should probably should introduce myself for the record. I'm Senator Cornett, C-o-r-n-e-t-t. I represent District 45. I'm appearing here today as introducer of LB1117, which would repeal the Nebraska's alternative minimum tax, AMT. That tax is imposed on residents, partially residents, and nonresident individual income taxpayers and residents and nonresident estates and trusts that must pay Nebraska income tax. LB1117 would repeal related prior year AMT credit for individual income taxpayers and estates and trusts that must pay Nebraska income tax. Under the current law, the AMT

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is imposed at a rate of 29.6 percent of the taxpayer's federal AMT liability. The AMT is required by statute to equal eight times Nebraska's primary rate, which is 3.7 percent under current law. Nebraska's AMT and its prior year AMT credit would be repealed operative for tax years beginning or deemed to begin on or after January, 2013. It is...it took me a little bit to wrap my mind around this and Steve and I walked through it on one of the tax returns. You go through, you have your adjusted income after your deductions, and so if you have a lot of deductions, then you may be subject to the AMT. Nebraska besides being one of the only, I believe, eight states that has an AMT still in effect is also exceptionally high at the 29-plus percent rate. This...I'm offering this as an alternative for the Revenue Committee to look at. I know the hour is late and I can provide all the further information on this to the committee members and show how it works. Steve has shown it on a tax form for me where the lines are and how it breaks down. But it's something we can discuss further. It's just as an alternative and/or to include as part of the package if we are looking at improving our rates in the foundation. [LB1117]

SENATOR ADAMS: Thank you, Senator Cornett. Senator Schumacher has got a question. [LB1117]

SENATOR CORNETT: And I hope I can answer it. [LB1117]

SENATOR SCHUMACHER: Well, I'll try it because I think I understand this one all too well. At what level does the federal AMT kick in? Like a quarter of a million in income? [LB1117]

SENATOR CORNETT: Actually, no, I believe it has to do with the amount of deductions. I would have to look at that but I believe it also has to do with the amount of deductions you have because some states don't even have an AM...I mean, they aren't subject to it because there are no income tax. [LB1117]

SENATOR SCHUMACHER: Well, I guess we can get into the details later, but I think you've got to be up there a quarter of million for it to kick in. [LB1117]

SENATOR CORNETT: Right. And that again is why we're offering it as part of another area we might look at on the tax package. And it's simply a less, maybe, painful way of improving our ratings of the inheritance tax. [LB1117]

SENATOR SCHUMACHER: Thank you, Senator. [LB1117]

SENATOR ADAMS: Any other questions from committee members. Seeing none, we would begin with proponent testimony. Are there any proponents? Opponents? Neutral? Senator Cornett, I'll bet you waive. [LB1117]

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SENATOR CORNETT: I waive. [LB1117]

SENATOR ADAMS: And that concludes the hearings for today. [LB1117]