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Revenue Committee
November 30, 2012

[LR644]

The Committee on Revenue met at 10:00 a.m. on Friday, November 30, 2012, in Room 1113 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR644. Senators present: Abbie Cornett, Chairperson; LeRoy Louden, Vice Chairperson; Greg Adams; Lydia Brasch; and Paul Schumacher. Senators absent: Deb Fischer; Galen Hadley; and Pete Pirsch.

SENATOR CORNETT: Good morning. Sorry for the delay in the beginning of the hearing. I'd like to welcome you to the Revenue hearing interim study for LR644. I am Senator Cornett, Chair of the Revenue Committee. To my far left is Senator LeRoy Louden, and next to him is Senator Lydia Brasch. There will be a couple other senators joining us; they are currently in meetings that are running a little over. Before we begin I'd like to please ask everyone to turn their cell phones to either off or vibrate. If you are planning on testifying today, there are testifier sheets that need to be completed prior to coming up to testify. You will find them on the back table. When you come up to testify, please hand them to a page, who will hand them to the committee clerk. With that, we're going to handle things a little more casually. This is an interim study instead of a regular Revenue hearing, so I am not, since there's very few senators here today, I'm not going to come up to the front to open. I'm just going to present from up here. LR644 was introduced by myself to look at inheritance tax. Last year I carried, as part of the Governor's tax package, a bill that included the elimination of county inheritance tax. Part of the reason behind that is national tax rankings. If you look at a number of the tax rankings, under the topic of inheritance tax, Nebraska ranks very low or 50 out of 50. If we wish to improve our rankings, inheritance tax is something we need to look at eliminating. I had an in-depth discussion with one of the people that does the studies in Washington, D.C., for the organizations, and he says it's an all-or-nothing situation. Because I pointed out that we only have a 1 percent tax for direct descendants and then it increases the further out or to people that you are not related to at all. He said, it doesn't matter. For the rankings it's either you have it or you don't have it. The counties

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came in last year very strongly opposed to that, and I understand their position on that. The counties, three years ago, lost what was called "state aid to counties" when the state had to cut its budget, and we passed that burden down to the counties. It is a very delicate balance, and I've had a number of discussions with many of you in this room about that balance. At the end of the day, a finite amount of money is needed to run a state, a city, a county. The question is, how do we finance those? These are policy decisions. If the state determines that they want to get rid of inheritance tax, the purpose of this hearing is to open it up to ideas on how we can hold our counties harmless because, most likely, if not this year, in the future you will see a bill again to eliminate inheritance tax. The purpose of this hearing is not to say we should eliminate inheritance tax. I introduced this legislative resolution, and I had many conversations with Larry Dix on this, to look at alternative funding solutions for the counties. A lot of you here are to testify, we can't lose inheritance tax. I am perfectly aware of your financial situation. What we are here to do is hear ideas on alternatives to how we can fund counties rather than inheritance tax. Over the interim my research analyst, Bill Lock, has looked at a number of different topics and ways of doing that and has had integral discussions with Larry Dix from NACO on some of these. And we have looked at them, and I'm going to go over a couple of them. If we eliminate the inheritance tax, counties will probably, if they're not at their lid levy, have to raise their property tax. Again, we're back to a policy decision. If we raise our property tax, that will adversely affect us in national tax rankings. The question is, what will the policy decisions of the state be? Because again, we need a certain amount of money to run the different entities. So do we...what is the policy decisions? Do we eliminate it and counties raise their property tax? That's possibly a solution. But what about the counties that are up against their lid levies? Do we eliminate the lid levy? Probably not a viable option. The citizens aren't going to...the one tax we hear the most about is property tax. One of the other options that has been discussed is taking the motor vehicle tax that goes to schools currently and applying that to the counties for funding. If we do that, then that removal of funding from the TEEOSA...or from school aid has to be made up in the TEEOSA formula. Again, national tax rankings. If we fund our school...how we fund our

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schools affects how we rank in the tax rankings. Another option: direct replacement of the money lost from the state; direct appropriation; back to a county aid formula like we had before. That's the most direct, simple solution, but again it's a policy decision. Today I would like to hear from everyone not only the situation of your county and what losing the inheritance tax will do, but with the understanding that if you do lose the inheritance tax, what are some of the options we can look at for replacing that? What should the policy decisions be for the state and for the counties on this issue? With that, I am open for questions on the study or from the committee and from the audience. [LR644]

SENATOR SCHUMACHER: What is it...how much money are we talking about, total collected a year in county inheritance tax? [LR644]

SENATOR CORNETT: I have handed out a form, which each of the counties...and it varies from year to year. Douglas County is fairly stable, and so is Sarpy County and Lancaster, because they have a much larger population that they can average. Some counties receive no money a year in inheritance tax, some receive very little, and some can average it. Bill, what is the total dollar amount? [LR644]

BILL LOCK: Forty-eight million is the number that we're using in the report. [LR644]

SENATOR SCHUMACHER: So we're looking, if we eliminate it, we're looking for a pile of \$48 million. [LR644]

BILL LOCK: Yes. [LR644]

SENATOR CORNETT: Um-hum. [LR644]

BILL LOCK: That's what I...that's the assumption I used in the report. [LR644]

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SENATOR CORNETT: And then that is an average. [LR644]

BILL LOCK: Actually, that's the last year's full total. There... [LR644]

SENATOR CORNETT: The last year's, and so there are... [LR644]

BILL LOCK: It's a lower number if you use averages, but I used \$48 million for analysis in the report. [LR644]

SENATOR SCHUMACHER: Did that average figure take in the numbers since we've raised the exemptions from \$10,000 to \$40,000, or would that period still (inaudible)? [LR644]

BILL LOCK: It's the average of what they say they've received that's reported to us... [LR644]

SENATOR CORNETT: It's the average of what they've received. [LR644]

BILL LOCK: ...and verified with the Auditor's office, in the case of the last year's figures. [LR644]

SENATOR SCHUMACHER: Okay, but we don't know...because it was quite a bit of drop when they raised that from \$10,000 to \$40,000 (inaudible). [LR644]

BILL LOCK: Yeah, but it seems to be an increasing number despite the change in the exemption levels, so...in general. [LR644]

SENATOR SCHUMACHER: Okay. All right. [LR644]

SENATOR CORNETT: And understand the averages can be skewed considerably. A

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few years ago there was a death in Douglas County that reaped a large inheritance tax for Douglas County. [LR644]

SENATOR SCHUMACHER: Well, we're just...for rough numbers we're looking at \$50 million. [LR644]

SENATOR CORNETT: Approximately. [LR644]

SENATOR SCHUMACHER: Okay. All right. [LR644]

SENATOR BRASCH: My question is, is there a general average percentage of their revenue that is inheritance tax, or is it 1 percent, 10 percent revenue? Is there...? [LR644]

BILL LOCK: Well, there is an average, but it... [LR644]

SENATOR BRASCH: There is an average? [LR644]

BILL LOCK: ...varies so widely that... [LR644]

SENATOR CORNETT: It varies so widely. [LR644]

BILL LOCK: One of the difficulties in designing any kind of alternative is taking into account the fact that it does vary dramatically from year to year. [LR644]

SENATOR BRASCH: Is it greater than 10 percent, less than 10 percent? [LR644]

BILL LOCK: No, it would generally be less than that, yeah. [LR644]

SENATOR CORNETT: So again... [LR644]

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SENATOR BRASCH: Less than 5 percent? [LR644]

BILL LOCK: Yeah. [LR644]

SENATOR CORNETT: Again, you're back to the issue that some counties receive no inheritance tax sometimes for two or three years in a row, where Douglas County receives an average, I think, of like \$10 million--I'd have to go back and look at my numbers--... [LR644]

BILL LOCK: Yeah. [LR644]

SENATOR CORNETT: ...and that they can pretty much guarantee that much every year, where other counties, they cannot guarantee whether they'll get anything. So it's impossible to do... [LR644]

SENATOR BRASCH: And the counties that do not receive anything? [LR644]

SENATOR CORNETT: That means no one has passed away that meets the income requirements. [LR644]

SENATOR BRASCH: Correct, but what are their revenues then? Do they have no...? [LR644]

SENATOR CORNETT: Property tax, sales tax. [LR644]

SENATOR BRASCH: Okay. Okay. [LR644]

SENATOR CORNETT: They...those counties use that money as an...you'll hear from the counties. [LR644]

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SENATOR BRASCH: Okay. All right. [LR644]

SENATOR CORNETT: But they'll use it for, say for instance, a new road grader, if they have money, or working on a bridge that needed repairs. It's not money they can count on, but it is money they use. [LR644]

SENATOR BRASCH: And my question would be, to individual counties, is generally what percent of revenue is that to them? What will the impact be? [LR644]

SENATOR CORNETT: That would be fair to ask the county officials. [LR644]

SENATOR BRASCH: Okay. All right. [LR644]

SENATOR CORNETT: With that,... [LR644]

SENATOR LOUDEN: Just... [LR644]

SENATOR CORNETT: Oh, I'm sorry, LeRoy. [LR644]

SENATOR LOUDEN: Yeah, I have a question here, or a statement, I guess. I won't be here next year to hassle you folks. But my question is, what are we talking about? This tax ranking, I mean, does it make any difference? Is this something, you know,...as far as the tax ranking, I know what...and I fought this hammer and tong last year, this inheritance tax repeal. But if you're looking at bringing in big corporations into the area, and these guys that make big money die and they have to pay a lot of inheritance tax to the county or something like that...now out in the western end of Nebraska we have very few of those corporations come in. So as far as that tax ranking, for what it does for a good portion of Nebraska, I don't think makes much difference where our tax ranking is because we don't get those large corporations out there. But if we repeal the

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inheritance tax, a lot of those rural counties out there depend on that. And so I'm wondering...we're talking about how you're going to make up the difference for the inheritance tax when, in fact, we're talking about something that really doesn't make that much difference at all by trying to do something to increase our tax appeal to other businesses. I mean, I don't think that has that much to do with it, and so I think, you know, it'll be fine to hear the discussion today. But personally, I think it's an exercise in futility because I don't think it makes any difference for the major area of Nebraska.

[LR644]

SENATOR CORNETT: Senator Louden, I will agree partially. We have, in the past few years, for the first time in the history of Nebraska, outpaced the rest of the nation in growth. That is the first time in the history of the state we have done that, and part of that is by economic growth. Economic growth in any part of the state helps the state as a whole. The conclusion that I've come to, having studied this issue for a couple of years now, is if we do something on inheritance tax we have to find a way to keep our counties whole. The question...the policy decision that has to be made is, do we do that through the removal of inheritance tax and some other type of supplement to the counties, or do we leave inheritance tax in place? And neither you or I will be here to discuss that this year. [LR644]

SENATOR LOUDEN: Right, and I think you're talking about a tax shift. That's what we're talking... [LR644]

SENATOR CORNETT: That's...and that's what a... [LR644]

SENATOR LOUDEN: That's all it is, is a tax shift. [LR644]

SENATOR CORNETT: That is a conversation that I had with someone yesterday. We have to have a set amount of money to run a state, a county, a city. And the question is, where do we get that money from? And whatever we do, there will be a tax shift on a lot

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of these. The question is whether the shift benefits the state in a way or doesn't benefit the state. With that, we will take testimony. If you're...normally we do proponents, opponents, and neutral. Interim studies are a little bit of a free-for-all. Just please state, when you come up, whether you're opposed, neutral, or in favor, and please limit your testimony. We need to be done by 12:00. I did not...we have the light system, and if it looks like we're getting close to 12:00 I will implement that, where you will have five minutes. [LR644]

SENATOR SCHUMACHER: Madam Chairwoman, maybe you covered this before I came in. But just for informational purposes, the tax on the inheritance tax that we're looking to replace I know from...by heart is 1 percent of anything over \$40,000 per heir. [LR644]

SENATOR CORNETT: Correct. [LR644]

SENATOR SCHUMACHER: What...then there's two other categories, and I don't know those by heart. [LR644]

BILL LOCK: Well, one rate as 12 and one is 18. [LR644]

SENATOR CORNETT: Twelve is for... [LR644]

BILL LOCK: Categories are lineal descendants and nonrelated persons. [LR644]

SENATOR SCHUMACHER: Is it... [LR644]

SENATOR CORNETT: ...lineal descendants and then nonrelated. [LR644]

SENATOR SCHUMACHER: So we have nieces and nephews, basically. [LR644]

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BILL LOCK: Um-hum. I'm sorry, 12, 13, I think. [LR644]

SENATOR SCHUMACHER: And they are at 12, or is that a graduated 12? [LR644]

BILL LOCK: I'm sorry, I think the other rate is 13. [LR644]

SENATOR CORNETT: I think it's 13. [LR644]

BILL LOCK: Yeah, 13, and then it moves to 18. [LR644]

SENATOR SCHUMACHER: So is there a lower rate... [LR644]

SENATOR CORNETT: No. [LR644]

SENATOR SCHUMACHER: ...on nieces and nephews, like 6 percent? [LR644]

BILL LOCK: Yeah. The 13 percent rate is the second lineal descendant rate. The 18 percent rate is the nonrelated parties rate. [LR644]

SENATOR SCHUMACHER: Okay, and those are...I mean, if...it isn't like...and I think in the years past, maybe before they amended it, it was if you were a niece and nephew you paid 6 percent on the first so much of inheritance, and then, you know, something else on the other. It's just a flat rate now. [LR644]

BILL LOCK: In my report I described and listed the features of the original 1901 act. And it did have variable rates, based on degree of relationship, and smaller exemptions as the degree of relationship decreased and as the amount increased. So it was a very progressive set of rates in 1901, going from one up to two, three, four, five, six in steps and then, with exemptions, shrinking as it went up those steps. [LR644]

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SENATOR SCHUMACHER: And the exemption for the 13 percent? [LR644]

BILL LOCK: This is the 1901 law. [LR644]

SENATOR SCHUMACHER: No, but I mean for now. [LR644]

BILL LOCK: Yeah. [LR644]

SENATOR SCHUMACHER: The exemption, if I'm a niece or nephew and I get zapped 13 percent,... [LR644]

BILL LOCK: Um-hum. [LR644]

SENATOR SCHUMACHER: ...how much do I get before that kicks in? [LR644]

SENATOR CORNETT: (Inaudible) thousand. [LR644]

BILL LOCK: I think it's 20 percent exempt...or \$20,000 exempt. The first exemption is \$40,000. [LR644]

SENATOR CORNETT: I thought it was \$40,000. It's \$40,000. [LR644]

BILL LOCK: And I think it drops to \$20,000. [LR644]

SENATOR SCHUMACHER: Well, what (inaudible)... [LR644]

BILL LOCK: But I don't have the law in front of me, so. [LR644]

SENATOR CORNETT: Senator Schumacher, why don't we go over the numbers...yeah. The counties know what it is. [LR644]

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RENEE FRY: Can I go head? [LR644]

SENATOR CORNETT: Yes. [LR644]

RENEE FRY: Okay. [LR644]

SENATOR CORNETT: Please state and spell your name for the record. [LR644]

RENEE FRY: (Exhibit 1) Yes. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. Before I go into my testimony, let me just bring your attention to a page on...to page 2 of the report. And it addresses some of the questions that you just raised, and a lot of the information that you're talking about is included in this report. You'll see that actually, the rates, in that second paragraph, so \$40,000...it's the amount over \$40,000, then you have 13 (percent) and \$15,000 and 18 (percent) and \$10,000. So that's in... "The Inheritance Tax in Nebraska" lays out what you were talking about, Senator Schumacher. And then in terms of the counties and the amounts that they receive...and this is a three-year average. So Grant County received \$8,524, and Douglas County received \$8.5 million. And that was the range, and that ranged from less than one percent, 0.88 of a percent, in Keith County to 22 percent in Blaine County. So there is a huge range in terms of the amount that they receive and the percentage that that is to their general operating budget. So there is a lot of information in here that you should find helpful in understanding how it impacts counties differently. So as a follow-up we...I'm here to present some analysis that we conducted regarding the elimination of the inheritance tax and provide you a copy of this report. As a follow-up to our state budget and tax primer, we have been working on a report examining the impact of state policies and state aid on local government. We initiated this work based on our finding that state revenues have been falling, but property tax revenues have been increasing over the last decade or so. In fact, there is a direct correlation, a "mirror effect," if you will, between state aid and local revenues. As you

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can see in this chart that I handed out, when state aid goes up local revenues go down, and when state aid goes down local revenues go up. So for the purposes of...so you have this direct correlation then, a "mirror effect," if you will, between state aid and local revenues. So for the purposes of our local budget and tax report, we're looking at the impact on counties, cities, and school districts. We are far from done, but knowing that the inheritance tax would be discussed this next session, we focused on counties first. So since counties are essentially an extension of state government, with most of what they provide being mandated by the state, such as county road maintenance, so the report before you focuses on the inheritance tax specifically, which I'll walk you through. So we started by looking at county spending. And if you turn to page 5, you'll see that county spending has remained relatively flat and is actually less than it was in 2004 as a share of the economy. So counties have not gone on a spending spree; in fact, many counties have made significant cuts. Lancaster County has cut its budget 15 percent over the last two years and Banner, 13 percent. Hall County has started to turn some paved roads into gravel because it's cheaper to maintain. So we wanted to know how many...how much the counties would have to increase their property tax levy in order to replace lost revenue from the inheritance tax. The answer is 7 percent, or about \$476 per year for the average Nebraska farmer. But we know that counties would only increase property tax as a last resort, if they even have the ability under the property tax levy limit or the spending lid. So we explored what options the counties have. Really, the only legitimate alternatives counties have are to cut services, dip into their reserves, or raise property taxes. We explore more in the report why the occupation tax, local option sales tax, and lodging tax aren't reasonable replacements, at least under current statutory and constitutional authority. So we examine the counties' individual abilities to manage the loss of the inheritance tax. And, I apologize, I have this wrong in my...in the testimony, I think, but pages 5 to...no, I don't. Sorry. Pages 5 to 8 you can find a map of the counties. At the bottom of page 5 you can actually see a color-coded map in terms of how...what ability counties have to manage the loss of inheritance tax. So we basically looked at the counties depending on how large of a percentage the inheritance tax was to the county, what they had in reserves, where they were in terms of their

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property tax levy limits, and where they were in terms of their spending limits. And based on that information we were able to put counties into four buckets, and I'll take you through those categories. And the list of counties is listed in the report, so counties that suffer the most hardship because they have low reserves and they can't raise property taxes to replace the revenue without exceeding property tax limitations, which of course would require a vote, a public vote of the people. So approximately 26 counties are in this most dangerous category. And if these counties first turn to replacing the inheritance tax with reserves, they would have, on average, less than two years and many cases much less, before their reserves are reduced below recommended levels, risking service lapses and credit downgrades as well, because credit agencies do look at the level of reserves counties have. Garfield and Hamilton Counties, for example, already have reserves below recommended levels. And for ten of these counties in the category, their inheritance tax revenues contribute more than 10 percent of the general fund budget. The next category is...are counties that contemporarily manage the loss of revenue by drawing down reserves, but then they lack the flexibility to raise property taxes when those reserves run out. And there are 36 counties in this category, so they could potentially replace the inheritance tax revenues by tapping their reserves for at least three years. But once those reserves have been exhausted, these counties will find themselves in the same pinch as the previous 26...as the 26 counties in the previous category. So if sufficient service reductions can't be achieved while these counties draw down their reserves, then raising property taxes will be the only option. But they would require a public vote to exceed the property tax limitations. And one-third of these counties are already at their maximum \$0.50 levy limit. Moreover, the large reserves in many of these counties may be an illusion if they're saving money for a badly needed infrastructure project. The next group of counties are those with low reserves and room under property tax limitations to replace the revenue through increased property taxes. So these eight counties would have to cut services or raise property taxes as they do not have sufficient reserves to cover the loss of the inheritance tax. However, they would not be constrained by state limitations if they had to make up the lost revenue by raising property taxes. Now half of these

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counties have already made recent budget cuts. Lancaster, as I said earlier, has cut its budget 15 percent over the last two years, and five counties in this category already have dangerously low reserves or would have less than the minimum recommended reserves in less than a year. The final category are those with the most flexibility to manage the loss of revenue. There are 23 counties in this group. They have larger reserves and would not be constrained by state limitations if they have to make up the lost revenue by raising property taxes. Now that's not to minimize how important this income tax is to these counties; it's just that they're in an enviable position because they do have more in reserves and they are not constrained by property tax limitations. So our conclusion is that the elimination of the inheritance tax will leave counties with an impossible choice: to slash services that we rely on, such as roads maintenance; drain reserves that are needed to protect bond ratings, leaving counties vulnerable to unexpected emergencies or needed building renovations; or raising property taxes in those counties that can do so without violating state and constitutional limits. I've been traveling around the state talking about our state's structural deficit and the flaws in our tax code that are contributing to it. OpenSky is proposing comprehensive tax reform to modernize our tax code because when we cut taxes in one area, such as the income tax or the inheritance tax, there are consequences, intended or otherwise, such as increased property taxes, larger class sizes in K-12, or more gravel roads. And you can see that in the mirror graph. So we also believe that we really don't have the information we need to make an informed decision about the inheritance tax. We know counties will lose an important source of revenue on top of loss in state aid and federal funding and probably more cuts in federal funding that are coming. But we don't know, we don't have complete data on who pays the inheritance tax, whether those are Nebraska residents, nonresidents, immediate relatives, nonrelatives. So, therefore, we recommend that the committee ask counties to collect this information and then conduct a comprehensive review of state and local tax policies to modernize our tax code and study the interrelationships between the various taxes. In fact, we are bringing in an expert on local and state tax reform on January 17 and hope you can attend to dialogue with him about these important but very complicated issues. The inheritance tax is protecting

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vital services and keeping property taxes down, so in the meantime I would recommend that you maintain it. Thank you for your time, and I'd be happy to answer any questions. [LR644]

SENATOR CORNETT: Senator Louden. [LR644]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. Thank you for your testimony, and I find this little pamphlet you have quite interesting and informative. I guess when you did your research--and I didn't, just glancing through here, see anything, but--did you find out how many times is somebody paying inheritance tax? [LR644]

RENEE FRY: So that data is not collected and reported statewide. So from what I understand, and I think there are people who are following me that can speak to this better, but there isn't a central repository. And that's the issue that we have. We're a very data-driven organization, and we can't evaluate. We don't have access to the data in terms of who is paying it, and we think that's a real limitation. [LR644]

SENATOR LOUDEN: Can you make a guess, off the top of your head, how many times somebody pays inheritance tax? [LR644]

RENEE FRY: I can't. I don't know. [LR644]

SENATOR LOUDEN: Okay. Well, I certainly could because it's probably once or twice in their life,... [LR644]

RENEE FRY: Probably. [LR644]

SENATOR LOUDEN: ...and maybe three at the most. [LR644]

RENEE FRY: Right, not very often. [LR644]

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SENATOR LOUDEN: But do you know how many times...can you make a guess off the top of your head how many times they pay property taxes? [LR644]

RENEE FRY: Yeah, it's every year. (Laugh) [LR644]

SENATOR LOUDEN: Okay, and that's the reason I'm wondering. When we're talking about this, and I think...and Senator Hadley isn't here, but he was the one that mentioned before when we had this discussion that of all the times he's campaigned he's heard people complain about property tax. But never once has he ever heard anybody complain about inheritance tax because, first of all, if it's close relatives there isn't that much inheritance tax: \$40,000 exemption. That takes in probably, what, 90 percent of the deaths in the state of Nebraska with the \$40,000 exemption. And then after that, why, you get into Senator Schumacher inheriting something from his uncle. You know, you'll have to pay a little bit more. But it looks to me, when we get down to it, I still say we're kind of just chasing a rainbow. I think that for practical purposes and to run our business in the state of Nebraska, take care of our counties and our local people, probably this is the only thing they have left where they have any revenue. And, as I read your system here, that's about what you've come up with in your research. [LR644]

RENEE FRY: Yep, absolutely. And in our initial primer that you would have received a copy of, we actually found that state revenues have gone down but local revenues have gone up. So property tax is growing at a rate faster than inflation, and that's a concern. And that's why we started undertaking this work looking at the relationship between state policy, state aid, and those local revenues, to figure out what's driving those increases in the property taxes, because we're seeing it go up at a pretty drastic rate. And so it's absolutely a concern for us that we would be shifting from one tax to another for the counties that even have that ability. And you'll see in the report there are a number of counties that couldn't even raise property taxes. And we know that that's an

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absolute last resort for them because people so dislike property taxes. But unfortunately counties just don't have very many other options or any other options. [LR644]

SENATOR LOUDEN: Now I look here, I think, on your page 6. You listed ten counties that have 10 percent of their general fund comes from inheritance tax. Now if we were going to make... [LR644]

RENEE FRY: No, that's just in that category. [LR644]

SENATOR LOUDEN: Okay, and if we were going to make a...when you make a law it's going to fit everybody, one size fits all, that's the way it works. [LR644]

RENEE FRY: Right. [LR644]

SENATOR LOUDEN: How do you do that when one county is getting 10 percent of their budget from inheritance tax and another county is using that as just a rainy day fund because it doesn't amount to that much and it's a reserve? So how do you pass any legislation to fund all of the counties all over the state of Nebraska equally so that everybody gets the same, but yet you don't take away from something they've already done? [LR644]

RENEE FRY: You raise an excellent point. And that is the challenge, because the percentage of the budget from county to county varies from less than 1 percent to over 20 percent. And as Senator Cornett mentioned earlier, there is a lot of variability from year to year as well. And so even if you put together some sort of formula, that wouldn't take into account the flexibility or the range that counties see from year to year. That would be something to discuss with the counties in terms of whether a formula could be determined that could at least hold them harmless. But again, it's essentially a tax shift, right? [LR644]

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SENATOR LOUDEN: Now here, a couple, three years ago we passed legislation--I don't remember the number. But anyway, we set up a formula for how the counties were going to receive some state aid, and then we shot that down before it ever got implemented. Could we revive that and do away with inheritance tax and still make everybody harmless? [LR644]

RENEE FRY: Yeah, it's an excellent question. And the point you raise, too, would be something that I would be concerned with. I mean, the counties have seen the loss of state aid, so they had received it and lost it. So if you do eliminate the inheritance tax and replace that with some form of state aid, I think from a county perspective there would be a lingering concern that that could be cut off at any point, whereas right now they have control over that inheritance tax. So I think that there would have... [LR644]

SENATOR LOUDEN: In other words, they got their fingers burnt once, so they might be a little bit reluctant to smoke again, I suppose, but thank you. (Laughter) [LR644]

RENEE FRY: You're welcome. [LR644]

SENATOR CORNETT: Senator Brasch. [LR644]

SENATOR BRASCH: Thank you. And thank you, Ms. Fry, for your testimony today. I do have a few questions. [LR644]

RENEE FRY: Sure. [LR644]

SENATOR BRASCH: In your three-year range, can you please clarify if these percentages...do they reflect revenue for the counties and not the percent of the general fund, or is it that... [LR644]

RENEE FRY: Percent of the general fund budget. [LR644]

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SENATOR BRASCH: It is the...but do you know what the range is in the amount of revenue for the county? What is the...and can we get those figures,... [LR644]

RENEE FRY: I can see there were a lot of challenges. Counties budget differently and report differently, so we utilized, just like Bill did, the Auditor's data. I'm not sure if we can do an apples-to-apples comparison, which is why we ended up with... [LR644]

SENATOR BRASCH: ...because I think that would be important to know what percent of revenue and not the general fund that that reflects. [LR644]

RENEE FRY: Yeah, and I don't know if someone following me can address that, but we can look at that and get back to you. [LR644]

SENATOR BRASCH: And then I did have a few more questions as well. [LR644]

RENEE FRY: Sure. [LR644]

SENATOR BRASCH: As far as you said you traveled the state,... [LR644]

RENEE FRY: Yes. [LR644]

SENATOR BRASCH: ...did you talk with farmers? [LR644]

RENEE FRY: Um-hum. [LR644]

SENATOR BRASCH: Okay. And when you...did you mention to them that if they had the choice of not having inheritance tax but just paying, and you don't say it's property tax because it doesn't have to be on their property tax rolls...but I imagine if a farmer was told that on average he'll pay close to \$600 a year and then we don't have to have

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inheritance tax and we don't have to raise your property tax...was that question brought to them? Because I believe if that question came to them, especially in our area where you can save, you know, just pay a little bit now because of the roads and your gravel and all the other, that the ag community would be receptive of not paying in April or when their, you know, their assessments came due on property tax, but paying an annual fee of \$600 on average. And then that way the counties that don't get inheritance tax, it would be equitable. Would you think that would be a fair...? [LR644]

RENEE FRY: So I did not talk specifically on inheritance tax. We literally...I picked this up from the printer this morning, and so I can tell you... [LR644]

SENATOR BRASCH: But you talked property tax. [LR644]

RENEE FRY: I can tell you there is a lot of concern in western Nebraska about the amount of property tax that they're paying. [LR644]

SENATOR BRASCH: Um-hum. Oh, absolutely. Every...but... [LR644]

RENEE FRY: And so this would be an increase of, you know, \$500 a year. [LR644]

SENATOR BRASCH: Right, but it doesn't have to be a property tax. We're talking about a change here, what would be good. So they would know that when they pass the land along to the next generation they would not face a death tax; they would not face double tax, you know, tax when I'm alive. [LR644]

RENEE FRY: Yeah. Yeah, and... [LR644]

SENATOR BRASCH: But instead, while I'm living, I can write a check to my county for \$600 a year, give or take, average, and then our children and our people moving forward not have to write that checks. And then we could better our standing on the

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national tax rankings. As I visit with our counties, three specifically, we would love to attract to our main streets in western Nebraska, or any Nebraska, some of the companies that complement where we could have a phone bank or a marketing business right there on Main Street in Bancroft or in Tekamah or in Decatur that, by lowering those rankings, we could attract more virtual businesses to help. [LR644]

RENEE FRY: Yeah. [LR644]

SENATOR BRASCH: That way if we can bring population in, we can bring our schools back, bring some growth back to the state. Would you say that's fair? [LR644]

RENEE FRY: So again, I didn't speak specifically to the issue, and it honestly did not seem to be something that was on people's minds. [LR644]

SENATOR BRASCH: Okay, but that... [LR644]

RENEE FRY: Property tax clearly was on people's minds, but I didn't have anyone who was concerned... [LR644]

SENATOR BRASCH: But if they knew they didn't have to raise property tax and they didn't have to pay inheritance tax but they needed to write a check once a year for \$600,... [LR644]

RENEE FRY: Yeah, I didn't have that conversation. [LR644]

SENATOR BRASCH: Okay. [LR644]

RENEE FRY: I do have to tell you I am a little bit skeptical about the rankings because we have done some research looking at business climate rankings and find that Nebraska actually ranks really high. I don't see...I mean, I think you can find a ranking

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for whatever point you want to make, and we've seen that. [LR644]

SENATOR BRASCH: Okay, but do you believe...? [LR644]

RENEE FRY: But I also have a page here of rankings where we're in the, you know, in the top that I'd be happy to share with you. [LR644]

SENATOR BRASCH: Okay. But we do compete with Iowa for jobs, correct? We do compete with... [LR644]

RENEE FRY: Sure. [LR644]

SENATOR BRASCH: You know, as I have met with 50 other state representatives during this summer, we all are trying to keep how we attract businesses under the low because they are our competitors. [LR644]

RENEE FRY: Sure. Right, and...right. [LR644]

SENATOR BRASCH: Under a challenging national economy we want to get every possible advantage we can for growing our rural communities, main streets especially. [LR644]

RENEE FRY: Right. Right. No. Yeah, I...absolutely. All I can tell you is that it's...it was not on people's radar when I went out and spoke with them. [LR644]

SENATOR BRASCH: Right, and the other question. We talk about the infrastructure and the roads and everything,... [LR644]

RENEE FRY: Right. [LR644]

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SENATOR BRASCH: ...and the costs. You know, I'm curious, do you believe...you know, we bring up gravel, and I live on a gravel road. [LR644]

RENEE FRY: Um-hum. [LR644]

SENATOR BRASCH: But perhaps a statewide consortia where every county could go in, and they know that they have to pay \$0.02 a bucket for gravel. And because we've already set the, you know...we buy our fuel for winter and we get it when it's a good price, then you, you know, perhaps the state could look at cost savings to the counties or the counties through NACO, some sort of a gravel consortia. [LR644]

RENEE FRY: Yeah, I...yeah, I think that would be a great question to follow. [LR644]

SENATOR BRASCH: Yes. Possibly. Okay. I...yes. Let me think. One more. And then how many people did you visit with? I'm curious. What was your... [LR644]

RENEE FRY: Oh, my gosh. So... [LR644]

SENATOR BRASCH: Do you have a, like a... [LR644]

RENEE FRY: Probably about 400 people from...I was in Grand...well, no, it would have been more than that. Probably about 600--Grand Island, Kearney, Scottsbluff, Chadron, North Platte, Omaha, Lincoln. Actually, if you include Omaha/Lincoln, it's well over that number. I'm going back to Kearney in December, South Sioux City. I know I'm missing... [LR644]

SENATOR BRASCH: Okay, and these are town halls or door-to-door, or how do you...? [LR644]

RENEE FRY: Rotaries--... [LR644]

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SENATOR BRASCH: Okay. [LR644]

RENEE FRY: ...oh, actually I've been to Seward as well--rotaries, chambers. [LR644]

SENATOR BRASCH: Right. Very good. Now I thank you for your work. It's very interesting. We've heard a lot from across the state as well in our office. Thank you. [LR644]

RENEE FRY: Thanks. [LR644]

SENATOR BRASCH: I have no other questions. [LR644]

SENATOR CORNETT: I was going to ask a few questions, but again, in interest of time, more people are here from the western part of the state and have driven in quite a while. I want them to have a chance to testify. I'm going to limit times for questions also afterwards, just to make sure everybody gets through. I will also extend the time of the hearing to 12:15 to make up for our late start. With that, next testifier. When the light goes from green to yellow, you have one minute left. [LR644]

DOUG TEAFORD: (Exhibit 2) My name is Doug Teaford, T-e-a-f-o-r-d. I am one of the county commissioners from Keith County. And I did have the privilege of testifying, I think, at the last hearing regarding inheritance tax, and I appreciate the opportunity for more input and realize that your committee is in a review status. So on the handout, the first page is sort of some background on some of our prior uses of inheritance tax and why the county considers it a valuable resource. On the second page, a couple of items that I would like to mention, especially economic development. And within the last 6, 8 months there is the REDI fund, which is the Regional Economic Development Investment Program, which has come under a thorough review with Cathy Lang, I think, is in the office. And the way that will affect Keith County, that fund is a revolving, for

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investment with entrepreneurial efforts. And as those monies are repaid, then they are loaned out again. It's a revolving pool, and that has amounted to about \$600,000. In Keith County that has been a very valuable resource. We have been audited any number of times, and Keith County has been sort of held up as a model of how this program has been utilized. And another item, I guess. Just on education, you know, I think it was pointed out in the North Platte paper not too long ago that the Governor and Cathy Lang were both quoted that they were, see, placing special emphasis on education, especially for community colleges, which they see as a key part of attracting employers to the state. With that would be the effort to place a greater focus on job creation and worker training and retraining. And the Mid-Plains Community College has recently expanded their campus in Ogallala, which we serve through that college. Probably five additional neighboring counties have students that do come. And the county, through inheritance tax, we invested \$200,000 into this expansion project, which I feel was a very key part of helping that even be accomplished. And as far as, you know, if inheritance tax goes away, on page 3 are my suggestions that the committee might consider. Again, I start off by quoting. You know, Governor Heineman has a straightforward reply when his office is presented with funding requests. And his reply basically is, where do you suggest that these funds come from, if he's going to, through the state, give monies to a county for whatever would be an important program. So he says, well, if we're going to do this, where do you suspect or where would you suggest that we cut? And I guess I sort of see this as sort of a flip because, with the repeal of inheritance tax, we're...if that would be accomplished, it would seem now that the counties are being asked, well, you figure out where you're going to cut or how you're going to maintain programs. Are you going to increase taxes, or are you going to reduce services? And I guess the three suggestions I have for consideration...and the first one would be to enact legislation making it a county option to have a "county manager" form of government. You know, I think right now, you know, counties, we have county assessors, clerks, treasurers, county attorneys, county sheriffs, and they're accountable to a county board at budget time. Otherwise, they're accountable to the voters every four years. I think...I know the senator from Scottsbluff, in this last year there was some

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consideration about making this an option that would be available for county voters. And so if a county would say, well, you know, we...this is how much money it's costing to maintain each of these individual offices, and if it was brought under a county manager, who would be hired by and reporting to the county board, you know, the services and these offices would still be functioning, but they would be...I think that you would find that there could be some economies of scale, personnel-wise, you know. And right now there is not, you know, cross-training between, say, the treasurer's office and the clerk's office that...or at least in Keith County that is not ever done, you know, and it...so I think that if that was a county option, at least then, as some of those figures would become available and known, that the voters would say, maybe this is something that we can take another look at. On the second item for consideration, the map of Nebraska is comprised of 93 counties, and this...that came about some years ago, you know, when roads were not that great, vehicles were not that great, technological communication skills were, you know, pretty ancient. And that has changed so much, but we are still locked into maintaining 93 counties. And I'm not suggesting that we do away with, you know, a third of the counties on the eastern end of the state and let them become larger. But I think if there could be ways that we could encourage more interlocal agreements and if the state is able to do some work on this and maybe comes up with, you know, some incentives to help this happen. We tried it with the assessors and...does the red mean I have one minute? [LR644]

SENATOR CORNETT: The red means you're done, but I'm going to let you finish. I mean, I know a lot of you have driven very far. [LR644]

DOUG TEAFORD: Okay. [LR644]

SENATOR CORNETT: So if we go over our allotted time today, I'm okay with that. [LR644]

DOUG TEAFORD: Well, my only third point was, you know, the retirement right now,

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we're mandated to pay 1.5 percent, or 1.5 times whatever an employee puts in, and that is better than most industries. If it was a 1-1 match, that would cut that cost by one third. [LR644]

SENATOR CORNETT: Thank you. [LR644]

DOUG TEAFORD: Thank you. [LR644]

SENATOR CORNETT: Questions from the committee? Senator Schumacher. [LR644]

SENATOR SCHUMACHER: One brief question. The committee's question today that we're supposed to try to answer or at least get information on is let's pretend that we got rid of the inheritance tax and we were up against the wall and we had to figure out where to get some money from to make up the...assuming we couldn't cut more services. Along those lines, the counties in the eastern part of the state, the agricultural areas, recently have experienced dramatic ballooning in land prices. Is that also going on in Keith County? [LR644]

DOUG TEAFORD: Yes. Yeah, it's a tremendous increase, you know, so that lets us keep our mill levy down pretty low. [LR644]

SENATOR SCHUMACHER: And would you also say then that when these charts show that the property tax receipts are going up, a lot of that is due to increase in valuation? [LR644]

DOUG TEAFORD: No. I don't think the valuation drives the property tax receipts. I mean, you know, whatever the mill levy is, whatever the budget requirements to operate their county government, they're going to be increasing slightly, but... [LR644]

SENATOR SCHUMACHER: But the mill levy is multiplied times the valuation, so if your

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valuation is going way up you can sit on a constant mill levy and get more money.
[LR644]

DOUG TEAFORD: That's right. Right. [LR644]

SENATOR SCHUMACHER: Thank you. [LR644]

SENATOR CORNETT: Further questions? Seeing none, thank you very much. [LR644]

DOUG TEAFORD: Thank you. [LR644]

SENATOR CORNETT: Next testifier. [LR644]

LARRY DIX: (Exhibit 3) Good morning, Senator Cornett and members of the Revenue Committee. For the record, my name is Larry Dix. I'm the executive director of the Nebraska Association of County Officials, and I guess not appearing today in any position, just appearing today. (Laugh) I do have some handouts that I want to hand out to everybody. Most of these are letters from counties that ask me to enter them on the record. And so we have Boone; Phelps, who was the first one; Nuckolls; Harlan; and Richardson County so if we'll enter those in. And then the other handout shows you the inheritance tax that was collected, county by county, over the last three years. And I think once you hand those out I'll ask the page to bring me back one, just in case there's questions of that. What you'll see...and I've handed that out previously last year at the hearing, just so you have a number, so you can see sort of where your counties are. And you'll see...when you get it I would ask you to look at Banner County. Banner is one of those that I think in one year they collected \$220,000, and then in another year they collected \$296. And so that shows you that disparity. But the reason for the hearing today, of course, is for revenue replacement. I want to touch on that. Certainly I want to thank the research analysis and the research that Bill Lock did in the Revenue Committee. I think we looked at a number of options. And I think when you look at and

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dig into those options, you'll find they are just that. They are options. There is no magic bullet that we have been able to identify. There are pros and cons when you find each of those. When you look at the motor vehicle tax, when we start talking about that, Senator Fulton had introduced a bill a number of years ago that said when you pay a motor vehicle tax, you know, there's a certain amount that goes to cities, a certain amount that goes to counties, a certain amount that goes to schools. I see Senator Adams already smiling on this one. And one of the things to look at is to take some of the--and I say it honestly--take some of that money that goes to the schools and move it to the counties. It would be a revenue replacement. But what you have to understand is while it's a revenue replacement for the counties, then it dips into the schools, and so then you've got to find a revenue replacement for the schools, which would be TEEOSA, which would be some state funding. So then it sort of, you know, flows around and moves that. So again, it's an option; it's something to look at. It does not make the counties whole; it does not fill the \$48 million bucket that we have. But it's an option, and it would move some of that money. We talked about a countywide sales tax. And, of course, counties can have a county sales tax, but it's only outside of incorporated areas that currently have a sales tax. So the amount of revenue that could be raised under current standard is very minimal. If we had a countywide that would blanket all of the city, then we could have some significant tax increase. But if you look at Banner County, which virtually has no businesses in it, a sales tax is not a good option for some of those small, small counties. And we're looking at 93 counties, and how do we solve this for 93? We can look at a county aid program. Senator Loudon brought up the idea of saying, well, couldn't we take the old county aid program that we had developed and roll it in? That was based on replacing about \$11 million, and so we would have to take those numbers. And I think even back then, when the senators looked at \$11 million, everybody got a little bit skittish and said, oh, my gosh, we can't do that. It would have to be four times that, four to five times that now. So you can see what that would do with that replacement, but it's an option. Senator Cornett, you...

[LR644]

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SENATOR CORNETT: I was just going to point out, though, that that county aid formula that we put in place was originally to replace for jail reimbursement. [LR644]

LARRY DIX: Right. [LR644]

SENATOR CORNETT: It's not the same as the state aid the counties were receiving, correct? [LR644]

LARRY DIX: That is correct; that is exactly right. That... [LR644]

SENATOR CORNETT: Okay, there is two different fundings there. [LR644]

LARRY DIX: That's right. And Senator Cornett worked on that with us, so that...because at that point in time that was really just for the jail reimbursement component of that. And so...but again, that was shot down and, of course, jail reimbursement was that. You also can look at shifting, and when you start to look at shifting you start talking about how do you increase a property tax base. What are options out there to increase a property tax base? That can get very divisive very, very fast when you start going down that path. The other one is when counties look at their pot of revenue, property tax certainly is the major component. But you also have fees, so you could look at giving ordinance authority to counties to set their own fees. Now I would tell you we could double, triple, quadruple, ten times, a hundred times the fees that we have, and it would not replace the \$48 million hole that would be created by this. So while those are options--and I think that's what the hearing today is for is to say, what are the options, where can you go--those are some things I think that you can look at. Now I would tell you, of those options, many, many folks...I don't know that you could gather 25 votes for almost any of those options. And maybe it is a combination of each and every one. But when we do this, I think we've got to study it and not just sort of jump in and say, well, this magazine article ranks us here, this one ranks us here. And I think we have to study it and actually have a good discussion on tax policy in the state of Nebraska. I would tell

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you, you know, we're going to see rankings all the time. I know we've seen those that say, well, Nebraska is in the bottom ten for people who retire. Okay, so be it. We're 38 in property tax. Okay, that's our number. Well, we're 31st in business climate. Okay. We're 34th in corporate tax. These are all just surveys. They're all rankings. And I know the question comes up when the large companies come to Nebraska. What are they looking at? Okay, that's a component. They look at that. Do you ever think they look at property tax? Do you ever think they look at infrastructure? Do you ever think they look at work force? Do you ever think they look at the quality of schools? Do you ever think they look at is it a secure area that I'm moving into with my kids? Absolutely. I seriously doubt anybody, with a straight face, can tell me that a major corporation comes to the state of Nebraska and leads with the statement, tell me where your inheritance tax is. It doesn't happen. It's not going to happen. We all know that. They do look at the rankings. We understand that. If we start to move the inheritance tax we've all, I think, come to the conclusion we need to replace that revenue. If that revenue comes from property tax, we're going to go from 38th...it's going to move us somewhere. It's probably not going to move us in the direction that we want to move in. We've got to be understanding of that. So when we look at this, I think it's something that is going to take a significant amount of study. It isn't just something that in one year all of a sudden somebody rolls over and says, wow, we replace that, we're going to have all the major corporations moving to Nebraska, moving from Iowa or South Dakota. We know that's not going to happen, but it is something that we have to take into consideration. The thing that I think we want to do, no matter what, is we want to understand the impact that it's going to have. And when I say the impact, it's the impact on the taxpayers in the state of Nebraska. That's what we're all here for; that's what we're talking about. We have to understand, you know, where that goes, and we have to have a policy discussion based on the facts, not on simply some rankings that we see here or there. So I know I'm about out of time, and there may be a few questions. Certainly I want to get to those. But when we talk about revenue replacement, even...Senator Brasch, I'm looking forward to the legislation that you're going to introduce that says we have to collect \$600 from every ag parcel, I would assume. I'm anxious to see what that would

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look like, you know, in the form of legislation. But at the end of the day, somebody is going to say, well, that's a tax. And that's what we're looking at. No matter what we do, when we talk about revenue replacement, it's probably some kind of a tax or it's a shift. And unfortunately that's where we're at. We have to have a certain dollar amount to run our counties, to make sure we have the things that we need, the things that we're mandated to provide. It's a pot of money that we have to have, and no matter what we do it's going to shift one way or another. So with that, I'm happy to answer any questions anybody may have. [LR644]

SENATOR CORNETT: Larry, you and I have had numerous conversations for eight years on county funding, and very in-depth discussions over the last three years since we removed state aid to counties. And now we're talking about removing inheritance tax. And you are completely right that, I believe, that a percentage of this, if not all of it, will end up being a tax shift. But do you agree that there are other ways to shift that away from property tax, some of the ideas we have looked at? And we've talked about numerous ones that aren't even discussed in the study that we did. [LR644]

LARRY DIX: Yeah, that's right. Do you want me...? [LR644]

SENATOR CORNETT: Yes. [LR644]

LARRY DIX: Okay. When we talk about that and we talk about the shifting and what do we do...and the hearing today was really designed, you know, for revenue replacement. But if we're going to really look at it and study it, I think we have to look at shifting some on the expenditure side. We have to look at things. We have to take a good look at our court system. Court systems are starting to provide a significant chunk of any county's budget. We have to look at things that maybe it makes more sense to have a--and people are going to say, I can't believe I'm hearing Larry Dix say this--a state-run...something that is more managed by the state as opposed to the counties, because we've had examples of that, and they haven't been all that successful, but the

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county assessor being one of those examples. But when we look at that and we've had discussions, one of the examples...today we have a situation in the court system where we have bailiffs who the counties pay. But the bailiffs, they don't report to anybody in the county; they report to state employees. And so that becomes sort of part of this shift, and I think it's going to be a grouping of a lot of things. Maybe it's a little bit of shift of revenue; maybe it's a shift, a little bit of increase in property tax; maybe it's a shift to try to help counties within their levy limits; maybe, Senator Cornett, it's a shift that says the budgeting authority, we get into the 2.5 percent or 3.5 percent increase; we get into a discussion much deeper than what we've had now; restricted funds versus nonrestricted funds; maybe we need to move some of the things that we do to nonrestricted funds to increase our budget. So I think those are some of a myriad of ideas that, what I alluded to before, is it has to be a comprehensive study. [LR644]

SENATOR CORNETT: And we have done quite a bit of that studying over the last couple of years. But if the state takes the policy...makes the policy decision to eliminate inheritance tax, do you feel that the state then needs to be a partner with the counties in restoring that funding or take responsibility for that policy shift, whether it be funding through TEEOSA or taking back the county assessor position, as an example? [LR644]

LARRY DIX: Right. [LR644]

SENATOR CORNETT: I'm not advocating any one particular idea. But it's going to cost the state if we do this. [LR644]

LARRY DIX: I think when you look at it, it almost has to. If we're going to go down that path, it almost has to. And what that fundamentally does, you know, when you really dig into the tax policy discussion, is if you...right now the inheritance tax pot, for the most part, is used to adjust property tax, because if I take some money out of the inheritance tax and I replace a bridge, at some point in time that would end up being on the property tax side of it. So if we look at that shift, fundamentally we're moving from the pot of

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money that predominantly goes for property tax to where some of the burden is paid by folks who pay sales and income tax. It's a shift. It's still Nebraska taxpayers, but it is...fundamentally, that's a policy that the state has to make saying, how much more burden do we want to put on our agricultural people in the property tax arena and shift it to a sales and income tax base? That...and sales and income tax, of course, are state pots of revenue. [LR644]

SENATOR CORNETT: Senator Schumacher, and then Senator Brasch. [LR644]

SENATOR SCHUMACHER: Two quick questions. Do you know of any study by any business school that when a corporate board sits down and evaluates whether it's going to deploy capital and hire people in the state it has kind of a checklist--income tax, most onerous, and this tax, oh, that's an easy one or inheritance tax lies in that? Are you aware of any study like that? [LR644]

LARRY DIX: I'm not aware of any study like that. I think it'd be an interesting question to ask some of the large businesses in our state to say, you know, when you come here, what do you consider? [LR644]

SENATOR SCHUMACHER: Now most of the inheritance tax is taxable on the recipient of an inheritance. Do you know of any statistics that show what percentage of those heirs are out-of-state people who are paying their last tax to Nebraska and we wouldn't...and it's not a Nebraskan paying the tax, or somebody who has a farm in Nebraska, who lives in another state, who has been taxed on...their heirs are taxed on inheritance for that farm? [LR644]

LARRY DIX: Yeah. Senator Schumacher, you bring up an excellent point, and I've had that question before. Unfortunately, when you look at the reports, the forms that you fill out when somebody pays inheritance tax, what...when you get to that worksheet it says, okay, tell me who you're going to give it to. And I'm going to use examples: It says, well,

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I'm going to give it to my cousin, Senator Brasch; I'm going to give it to my uncle, Senator Louden; I'm going to give it to my other uncle, Senator Adams; or I'm giving it to my son or daughter, Senator Cornett. But it never asks where they live. It simply says, this is who I'm going to give it to. So for us to be able to pinpoint how much of that money leaves the state, at least I'm not aware of...that you can. That's the information I see on the worksheet. Now at some point in there, there obviously has to be an address because somebody has to cut a check and mail it to somebody. But that information isn't readily available, and so you would have to go in and really start to make that part of the tracking to do that analysis. [LR644]

SENATOR SCHUMACHER: If we just do it in simpler terms, do we have any awareness of the numbers as to what percentage of heirs in Nebraska are out of state? [LR644]

LARRY DIX: No. [LR644]

SENATOR SCHUMACHER: We're kind of just in the dark on that. [LR644]

LARRY DIX: No, we don't. And unfortunately we do not. We do not, and that would probably be a change in the reporting requirement. And something like that could simply be a check box. Either you're in the state or out of the state, and then somehow devise...and I think in...when OpenSky made their presentation, there was talk about we have to find out a way to get more statistical data on this because it's one that is very hard to get your hands around. [LR644]

SENATOR SCHUMACHER: Thank you. [LR644]

SENATOR CORNETT: Senator Brasch. [LR644]

SENATOR BRASCH: Thank you. And, Larry, thank you so much. And I do thank our counties tremendously. They face a lot of challenges every day, and I believe those

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challenges, and they believe also, is the tax base. Back again, the towns are shrinking. We need mechanics. We need some CNAs. We're having hiring bonuses for CNAs, you know. We are desperate for population to repopulate our rural communities. And be it a tax shift in legislation for \$600, I don't know. You know, it's a citizens' Legislature. You know, that...it can happen. However, if every...you know, if we can shift that, that we can provide...and it's not just the big businesses. I had an interesting one-hour flight with a 25-year, young Navy commander who was coming to visit his mother. This is yesterday. I have his name. He's going to go talk to Avery. He's a resident of Austin. He'd love to come back to Nebraska. He's still in the Navy. But one inheritance tax was his; the other, income tax. Austin, Texas, has no income tax. He went through the list of our tax issues, and so people are choosing to live elsewhere. I was trying to recruit him back to...I'll even take him in Lancaster County, I told him. (Laugh) But he will sit and visit with us more. But we do need to grow that tax base. And if it's a matter of...have you looked through this book? Is this something that you think it's \$600 that...per...that would do it, that would take away the financial woes of the counties? [LR644]

LARRY DIX: Well, and I haven't studied this in detail. But I think when you look at it--and I would want to read this--I think the \$600 is on sort of an average--I can't remember what that said--a certain average farm, valued 972 acres at an average value of \$2,425 per acre. When I look at Senator Adams I don't know if that average quite holds up in Senator Adams' area. It wouldn't be \$2,425 so, therefore, \$600 would not touch it, so. [LR644]

SENATOR BRASCH: So do you believe that inheritance tax is our only option to keep counties financially... [LR644]

LARRY DIX: Senator Brasch, I've been here long enough to know that I would never say "only." I think county officials are interested in the exact same things you're talking about--growing their tax base, growing their communities, getting young folks to come back. Anecdotally, I think it's interesting when you talk to folks because no matter if you

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get 100 people in the room, there's going to be some of them interested in income tax, some of them interested in sales, some of them in property, some of them in inheritance. And so when we look at our tax policy we have to look at a composite, a large pool of where our resources come from. And so if we have to shift it somehow, then maybe we have to figure out a way to make that shift so that we can keep our counties viable, so that the folks from Austin are going to come back and say, I still have a main street to come back to, I still have a county that I can come back to that has good roads and bridges and is secure, that has good schools. So we've got to be very cautious. We're getting close to the point where we're starting to do irreparable harm when we start to look, long range, at our tax policies in the state of Nebraska. We have to, as a state, take a good, comprehensive look at it and not just pick on one thing here or there. It's got to be a comprehensive study, no question in my mind. [LR644]

SENATOR BRASCH: Thank you. [LR644]

SENATOR CORNETT: Senator Adams. [LR644]

SENATOR ADAMS: Thank you, Senator. Larry, as I look at this list that you put together of inheritance tax collected and you talked about impact, here's what I'm wondering, and you may not even be able to answer it because you're responsible to 93 counties. Given that this inheritance tax fluctuates, and certainly I can understand that, on any given year, can you give me a feel for how many of these counties depend on inheritance tax for regular operating revenue versus I'm putting it over here for the bridge project or to fill the gap when...before FEMA comes through with snow money, those kinds of things and those one-time expenditures versus ongoing regular, general fund expenditures? [LR644]

LARRY DIX: Right. I would believe, in the years that I've been here, I see more and more counties relying on it on a regular basis because what they have looked at and what they have seen is that there's a certain threshold that some of our counties will

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say, well, no matter what, every year, just by the numbers in my county I'm going to receive this much. I mean, Douglas County, you look at it and you can go back quite a period of time. Douglas County can probably take about \$6 million or \$7 million and say every year it's going to be there. When you look at a Banner County, they obviously can't say that. So they have to look at it...but they probably can say, over a three-year period, here's our average. And so they can start to bank on it in that fashion, and I think that completely has to do with the size and the amount of population in the county. But a Buffalo County, I would think they are looking year after year to take some of that money to buy the levy down. [LR644]

SENATOR ADAMS: Do you know, Larry, how many of our 93 counties are up against the levy lid? [LR644]

LARRY DIX: You know, I always say, and it always varies, but there's probably 15 that are pretty close. And when I say "pretty close," you know, I'm always saying within that 5 percent of...\$0.05 range because in some of the small counties, a penny of taxing authority doesn't give them very much tax into their county general. So they're all within striking distance if they would have a major court case, if they'd have a disaster that...while we know that FEMA and NEMA certainly are good partners and pay a lot of that money, it's never 100 percent. And then the other thing when you talk about FEMA and NEMA money, while it's there, it may be two years down the road and, you know, counties, they have situations that come up that they've got to react and spend that money faster than they receive it two years into the future. [LR644]

SENATOR ADAMS: Can you give me a feel as to the cash reserve situations of...in any of these counties? [LR644]

LARRY DIX: I think we have some counties that are dangerously low on cash reserves simply because they've had some situations where they've had to dip into those cash reserves to keep the counties running. Counties budget on a one-year cycle. We have

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talked to counties about we probably need to start looking at more of a multiple year type expenditure, especially for large expenditures. But we have some counties that I think are dangerously low and are in a very, very scary situation. Then, contrast that, we have some counties that I think their reserves are pretty good. They are very significant, and that does not follow size. We have some, I would tell you...and I'm not picking on any county, but I think Cedar County has a healthy reserve. I think Hall County does not have a very good reserve, and so...variable. [LR644]

SENATOR CORNETT: Just a quick point. [LR644]

LARRY DIX: I know. [LR644]

SENATOR CORNETT: No, no, very quickly. I have last year's numbers. I refer to the OpenSky report. Now there's a difference between lid levies and spending levies. Now some may be up against their lid levy but...or not up against their lid levy, but they're up against their spending levies. And the number that OpenSky is giving me on the combination of the two is over 60 counties are either at their spending limit or their lid levy. [LR644]

LARRY DIX: Yeah, so it's...that's a significant figure. [LR644]

SENATOR CORNETT: I was going to say we have a lower number for last year, and I knew it wasn't the same this year. [LR644]

SENATOR ADAMS: May I ask one more question, Madam Chair? [LR644]

SENATOR CORNETT: Yes, and then we're going to limit. [LR644]

SENATOR ADAMS: And maybe again, Larry, you may not have the answer to this; maybe I should be asking the attorneys. In the collection of inheritance tax is there, for

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lack of a better word, an inherent unfairness, in that if I own land and my family is going to inherit it, it's there, title is going to pass, everybody's going to know it, the tax will get set? But I've often wondered, as a layperson, what about cash? Does that get dodged around? [LR644]

LARRY DIX: I don't know if it does. I would tell you, if you have a 160-acre farm, it's very visible and everybody knows it. If you have \$160,000 in a CD, there may be a few people in the banking industry that knows it, but that's about it. And so it isn't as visible; it doesn't call it to the attention. But when you go through the worksheets and everything, of course, that is something that has to be disclosed. And so I think it's there. But, inherently, do we miss some inheritance? Maybe. I think Senator Wightman and I have had those philosophical discussions, and he thinks we do. He thinks we miss...we're not collecting all the inheritance tax that we probably should be. But I don't know that for a fact. [LR644]

SENATOR ADAMS: Okay, thank you. [LR644]

SENATOR CORNETT: Thank you, Larry. [LR644]

LARRY DIX: Thanks. [LR644]

SENATOR CORNETT: May I see a show of hands of the number of people that wish to testify today? Only four? Okay, then we'll leave it at five minutes for testifying. [LR644]

DENNIS MEYER: (Exhibit 4) All right. Good morning. My name is Dennis Meyer, D-e-n-n-i-s M-e-y-e-r, and I am the budget fiscal director for Lancaster County. What is being handed out to you is a letter that the Lancaster County Board of Commissioners sent to the Governor back in the first part of October. And I believe all senators were cc'ed, so you might have seen this once. You know, it's one of those items that, whenever we talk about inheritance tax, a lot of the information that Lancaster County

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talks about is included in this letter. A couple of the highlights in the letter is just kind of addressing, you know, a couple things that you've talked about this morning. Number one, Lancaster County, Senator Adams, we dump the inheritance tax into our general fund, and we use it to cover operating. That's been going on for years. It's kind of the way that, you know, we kind of tried to give some type of property tax relief through that. You know, the last couple years, when we talk about fluctuation in property tax, you know, in fiscal year 2011 we collected \$6.6 million. In 2012 we collected about \$8.2 million. You know, it fluctuates throughout. Sometimes we talk about some of the changes that have been made throughout the years. With some of those changes that have been made, we're actually collecting more. So it's just kind of one of those things it can be very tough to budget for. You know, Senator, you talked about percentages of revenues and stuff. The letter here talks about if we had to make up the \$6.6 (million) or the \$8.2 (million) it would be about a 14 to 17 percent of our property taxes in our general fund. So that's kind of where we're at there. So anyway, I just kind of wanted to highlight a few of those items. You know, when we talk about additional revenues that are out there, I look at our general fund over the last six years, from about fiscal year '07 to fiscal year '12. And I pull out the property tax, I pull out the motor vehicle tax, and I pull out the inheritance tax. And so we're talking fees and other types of revenues there, state aid, whatever. And our revenues in our general fund back in '07 was \$20.2 million. In fiscal year 2012 our revenues were \$17 million. So in our general fund our revenues have dropped by over \$3 million. What has happened there is, you know, the revenue sources that we have out there--interest income--used to be a huge amount. Well, you know, the way the economy has gone, you know, I think every year that we budget for that thing, I cut that thing in half. Well, we're about to the point cutting in half doesn't really mean anything anymore, because there's not hardly anything there. Jail reimbursement, state aid, those types of monies have left us, so my general fund revenues decrease. Larry touched a little bit on the fees. You know, fees have not increased for years. Again, it's not a big portion of that. But my general fund revenues, you know, we don't have anywhere to go with them. But right now they're going down. So what happens in Lancaster County is I look at the property tax, motor vehicle tax,

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and inheritance tax. Those are the other three revenue sources. Motor vehicle tax since '07 has been at about \$6.5 million. That has not really fluctuated at all, so that's pretty stagnant. So what happens is my property tax has to be driven up a little bit, or my inheritance tax comes in at a little bit better. So that's kind of the way that we kind of work our general fund. But as we talk about seeing revenues or the property taxes going up, that's one of the reasons, because all of our other general fund revenues are going down. So we don't have a whole lot of other sources that are out there. Another thing that I want to touch base just a little bit about is we've talked a little bit about the lid on restricted funds. And, you know, a couple things I want to throw out on that is when I talk about the lid on restricted funds I really think about it tells me how much property tax or state aid can I receive in a given year. You know, it really doesn't say I can only spend so much; it really says I can only receive so much. Well, a couple of the options that we've talked about today--the motor vehicle tax or maybe a sales tax type of thing--the one thing that we've got to remember is if it's not included on this lid and then the revenue source...for example, you know, if we receive more motor vehicle tax, that's going to drive my restricted funds up, which is going to possibly cause me more lid problems, which would then force me to drop property taxes to stay within that lid. So I think when we start talking about some of that stuff we've got to make sure we understand it very well could affect the lid, and it could affect it in not a positive way for the counties. A couple other things. Additional revenue sources: We've talked motor vehicle tax; we've talked sales tax. A couple things that I want to throw out that I've noticed as I've been looking at Lancaster County is Lancaster County Treasurer collected sales tax of about \$29 million last year for the state of Nebraska through our motor vehicle division. Lancaster County got to keep \$1,800 of that, I guess, as a collection fee. You know, when you look at the property tax side of things, you know, our fees there are anywhere from 1 to 2 percent. I mean, collecting \$29 million and getting \$1,800 for that seems like a pretty good deal for the state. Another item that I look at for an additional revenue source, our register of deeds office collects doc stamp tax. We get to keep about 22.22 percent of that. The remaining 78 percent gets to come to the state and gets to run programs from the state side. So we are collecting revenue

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out there for others and, you know, it just kind of seems like maybe some of those percentages maybe could be looked at also. Again, when you think about those, those are not going to make up for my \$8 million in inheritance tax. So, you know, talking other options, you know, we're more than willing to talk options. We're, you know, we're not here to say inheritance tax is the greatest thing out there; we're here to say we need that \$8 million. I don't care where we get it from. We need it to fit into our lid, and we need it to cover our operating expenditures. So I'll address maybe a couple things. Senator Adams, you were talking, I think, about some of the levy limits and stuff like that. One of the things Lancaster County...you know, our levy limit...our levy is only about 28.43 cents. But we almost give out all 15 cents of it to other political subdivisions. So that gets us pretty close to the levy limit. I've just got maybe just a couple more. [LR644]

SENATOR CORNETT: That's fine. [LR644]

DENNIS MEYER: So this year we actually even...the county board did take from the RTSD part of their levy and moved it into the county budget to still stay within that 15- and 50-cent limit. So, you know, we are doing things out there. We talk about cash reserves a little bit. In Lancaster County, you know, when I establish our budget, our cash reserve is at about a \$6 million number in my general fund. I actually need to have a fund balance of almost \$11 million to operate on every year. So what I like to tell people is, if we receive everything that we budget and spend everything that we budget, I'm going to have a fund balance of \$6 million. I need \$11 million, so I would start in a \$5 million shortfall if that happens. Some of the lids and limits out there have forced me to put my cash reserve at that amount. But in all reality, if that's the number you're comparing, it's a really low number to where I actually need to be. With that, I'd be happy to try to answer any questions you might have. [LR644]

SENATOR CORNETT: Questions from the...Senator Adams. [LR644]

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SENATOR ADAMS: Tell me again what your property tax levy is. [LR644]

DENNIS MEYER: This year in Lancaster County, for the county itself it's 28.43 cents, but in certain parts of Lancaster County we divvy out almost the whole 15 cents to fire districts, ag society, RTSD, things like that. [LR644]

SENATOR ADAMS: All right. And also remind me, under your spending lid, are the inheritance taxes... [LR644]

DENNIS MEYER: They're not... [LR644]

SENATOR ADAMS: ...they're not your only nonrestricted fund, are they? [LR644]

DENNIS MEYER: Well, inheritance tax is not part of that lid. So if... [LR644]

SENATOR ADAMS: Right, but that's what I'm asking you. [LR644]

DENNIS MEYER: Right. [LR644]

SENATOR ADAMS: What else is not under your spending lid? This is probably one of the most significant ones. [LR644]

DENNIS MEYER: Yes. I mean, no doubt about it, because my big ones are going to be my property tax and my motor vehicle tax. [LR644]

SENATOR ADAMS: You're under the lid. I'm talking about outside of the lid now. [LR644]

DENNIS MEYER: You know, outside of it, you know, inheritance tax is, no doubt, you know, my big one. [LR644]

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SENATOR ADAMS: Okay. [LR644]

DENNIS MEYER: And fees. But my fees are very minimal. [LR644]

SENATOR ADAMS: Okay. Fair enough. Thank you. [LR644]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LR644]

DENNIS MEYER: Okay. You bet. [LR644]

SENATOR CORNETT: Next testifier. [LR644]

JOE LORENZ: (Exhibit 5) Hi, my name is Joe Lorenz, and I'm the finance director for Douglas County. [LR644]

SENATOR CORNETT: Can you spell your name for the record. [LR644]

JOE LORENZ: Last name is spelled L-o-r-e-n-z; first name is Joe. So I want to talk to you a little bit about Douglas County's perspective on this inheritance tax issue. Douglas County is the largest county in Nebraska, has annual average proceeds from the inheritance tax of about \$10 million a year. That \$10 million is raised from...the average number of estates that are subject to inheritance tax in Douglas County is 986, which in a population of 517,000 people means that it's affecting 0.2 percent of county residents. The inheritance tax in Douglas County is...falls kind of in the law of large numbers. So every year we're pretty assured that we're going to collect between \$8 million and \$12 million. So we usually, in our operating budget, figure around \$9 million. And because that is a dependable source of revenue for us, I've listed here where we put, when we put together our annual budget, where it's going. In the fiscal 2011-12 year, we put \$4

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million of that towards the county health center, \$3 million of that towards general assistance, \$1.5 million towards our health department, \$400,000 towards debt service, and \$100,000 towards veterans. So that is a core part of our operating budget that does put into these core services that the county is providing. If this \$10 million were eliminated, an offset in property taxes would be an 11 percent increase. And I think one interesting thing to keep in mind about Douglas County is that over the past three years the amount of property tax revenues in Douglas County have averaged an increase of .5 percent per year. Douglas County is unique in that we are probably the only true urban county in Nebraska. We have over 90 percent of our property taxes coming from residential and commercial and very little from agricultural uses. So that means, if you looked, and you've been talking about this before, the real increase in values has been in agricultural land; commercial and residential is flat. So we're really stuck with this issue that our main source of revenue is flat. Well, we're continuing to see increases of 2 percent to 3 percent in our expenses. So we're looking at a structural deficit that we are foreseeing for the near future of \$5 million to \$7 million a year just status quo. That's without taking any impact of what removing the property tax would do to the county. So in terms of what this committee is looking at, we feel that other sources of county revenue would require new enabling legislation, which would probably be...we really couldn't count on. So, alternatively, what we would consider is that the state could become responsible for some services that are currently performed by the county which are currently mandated but not funded by the state. I put out some examples here of the courts: if you would take the juvenile court, the district court, the county court, the clerk of the district court, and the courthouse security fees paid to the sheriff, that is \$11.7 million in county funding to run our court system. We provide services to our marginalized population in Douglas County: general assistance is \$7.1 million of county funding; veterans gets \$500,000. Detention: Our youth center gets \$2.9 million in county funding; this amount has gone up since state HHS fees were eliminated. Our county jail, corrections, requires \$16.8 million of county funding, which has increased as state prisoner fees were eliminated. So we really think, you know, we really believe the inheritance tax is important to us. We don't think there's a good revenue offset. And the

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only thing that would really potentially work then is for the state to take over the financial responsibility of some of these other services. So that finishes my point on the county. And there's just one other point that I'd like to talk to you about. You were talking about how the different companies might view where inheritance tax ranks. [LR644]

SENATOR CORNETT: One minute. [LR644]

JOE LORENZ: Okay. One minute, okay. And I'd just like to tell you that, you know, I have only been in government for about 2 years, but I spent 25 years working for corporations. And one of those assignments was with the Quaker Oats Company; I was director of corporate planning and analysis. So I sat on the other side and really looked at how decisions were made about where to build a plant and where to make an investment. And I can tell you that inheritance tax would have never hit our radar screen. The key factors we looked at were environmental, what's your EPA; you know, how easy is it to do business in the state; your labor environment, how unionized is it; the logistics, how good are the roads; the education of the work force; the transparency of state and local governments. And then when it came down to that, we always looked at specific incentives and tax abatements, and it was basically a negotiated transaction. And I can tell you that Nebraska was always pretty favorably looked on by the Quaker Oats Company. Things like LB775 were important and viewed very favorably. But I guess the bad news was this whole part of the country is pretty well looked at, in that Iowa, Kansas, they were all pretty similar to us compared to an environment like California, New Jersey, or things like that, which were horrible environments to do business in. So, you know, it really came down to what specific package we could get. And inheritance tax would never have hit up on our radar screen as an important factor in where...making a business investment decision. Thank you. [LR644]

SENATOR CORNETT: Thank you. Questions from the committee? Senator Schumacher. [LR644]

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SENATOR SCHUMACHER: How many deaths, if you know, are there in Douglas County in a year? [LR644]

JOE LORENZ: Hmm. I don't know how many...you know, I really don't know that statistic. [LR644]

SENATOR SCHUMACHER: I mean, your handout shows that there are 986 estates, or people who die... [LR644]

JOE LORENZ: That are subject to the inheritance tax, yes. [LR644]

SENATOR SCHUMACHER: ...that are...so it's a very tiny percentage. [LR644]

JOE LORENZ: Right. [LR644]

SENATOR SCHUMACHER: And you collected \$10 million, roughly, average, off the 986 people. So those estates would have each kicked in \$10,000 roughly. [LR644]

JOE LORENZ: Yeah, that's how inheritance tax works. It really is only getting people with significant assets, for the most part. [LR644]

SENATOR SCHUMACHER: And so if we say, in that age category that might be paying these taxes, each of them had six kids, the kids are kicking in about \$1,500. Thank you. [LR644]

SENATOR CORNETT: Further questions from the committee? Senator Louden. [LR644]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. Well, as following up on Senator Schumacher's...those 986 estates, that's just the ones that were over the \$40,000.

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[LR644]

JOE LORENZ: That's correct, that paid the inheritance tax. [LR644]

SENATOR LOUDEN: In other words, a lot of people had estates in Douglas County, probably, that... [LR644]

JOE LORENZ: Oh, the great majority. [LR644]

SENATOR LOUDEN: ...were never... [LR644]

JOE LORENZ: Absolutely. [LR644]

SENATOR LOUDEN: ...were never on this system. [LR644]

JOE LORENZ: Yeah, it's a progressive tax. [LR644]

SENATOR LOUDEN: Yeah. When you mentioned you've been on the other side...and that's what I've talked about, is this inheritance tax really isn't that big of a deal. And then that's the reason I say I think we're out here chasing rainbows and I think this is an exercise in futility, because I don't think anybody cares, when they actually come to looking for a place to set up business...and it's usually large corporations or something like that. If it's a smaller mom-and-pop outfit or some smaller ones, they're looking to see how well the infrastructure is and how they can get their product moved... [LR644]

JOE LORENZ: Absolutely. [LR644]

SENATOR LOUDEN: ...more than they ever are with this inheritance tax. [LR644]

JOE LORENZ: Absolutely. [LR644]

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SENATOR LOUDEN: And I think this is their...somebody came up with the idea that our ranking is in terrible shape because of inheritance tax. And I think it's, you know, just blowing in the wind, truth of the matter. [LR644]

JOE LORENZ: I don't think it would...you know, when PayPal came and located in Sarpy County or Google went to Council Bluffs, I don't think they ever considered inheritance tax. There were a lot of other things that they thought about. But inheritance tax wasn't one of them. [LR644]

SENATOR LOUDEN: Because the only ones that would be eligible for that inheritance tax would probably be the management people, because the average worker that's working there probably doesn't have more than a \$40,000 estate. And if he did, if it was divided up between his wife or something like that, it still isn't an issue for the work force that come to these... [LR644]

JOE LORENZ: I don't think so. [LR644]

SENATOR LOUDEN: Okay, thank you for your testimony. [LR644]

SENATOR CORNETT: Senator Brasch. [LR644]

SENATOR BRASCH: Just very quick. Did you say that property tax was a factor in businesses looking here? [LR644]

JOE LORENZ: Only...not personal property tax. Property tax in negotiating an incentive package, where you could get tax abatements for personal and property taxes. You know, like I say, LB775 did a lot of things in that that really made it...gave benefits to business. And, you know, it's...if you compare Nebraska with, like I say, other populated states, like Illinois and California, this is seen as a very probusiness environment.

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[LR644]

SENATOR BRASCH: Okay, very good. Thank you. [LR644]

JOE LORENZ: Thank you. [LR644]

SENATOR CORNETT: Next testifier. [LR644]

ROBERT POST: Thank you, Senators. My name is Robert Post. I'm from Banner County. You've heard about us today. I'm a better storyteller than I am a testifier, I guess. I had prepared a list of things here to talk about, but most of it's been covered. So I guess I'll tell you a couple stories. The first thing I'd like to say is my dad passed away about ten years ago, and I was not aware of the estate tax...inheritance tax. We had done a lot of planning to avoid as much as we could on the federal level, but there wasn't anything in the state level because we weren't aware of it. Accountant missed that. Probably couldn't have done anything anyway. But the bottom line of that is, is when we found out, we paid it. And I will tell you that my dad did everything he could to avoid paying taxes. But he would have approved of this tax because it went to the county where he lived and he loved. He knew it would do some good to the county. We're a very small county. I can answer some of the questions that you've had about these finances, but we have about 500 miles of county road; we have 5 employees, 5 road graders; well, we have 7, but we only use 5. We're pretty much strapped. We're at the top of our levy; we maxed it out this year. And the reason that we did that was we could see that if we lost this inheritance tax, we didn't have enough reserves to get us through much of anything, a snowstorm, a lawsuit, a murder trial. We would be in serious trouble; we might be faced with bankruptcy. So we bit the bullet and went...put our levy to the maximum. I can give you some statistics or some of the figures here you've been wanting to know about. And in...from the budget year of 2003-2004 to the budget year of 2010-2011, the average of that that we used in general and road, the average of those eight years was \$25,376. The last year...and I don't know how most of

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these county guys work, but we work on the "let's keep the lynch mob away from us." We were doing everything we could to keep the taxes as low as we could. And last year we asked for \$179,000 out of our inheritance tax. That went from the highest of 2010-11 of \$51,000 to \$179,000. And if you look back at the years 2010-11 and 2011-2012, the state used to give us some money. They gave us state aid. And with the state aid that we lost, of about \$80,000-\$90,000, and with the increase in our health insurance, thanks to whatever increased our health insurance the last couple years, that added up to \$176,000. So if you look at \$176,000 against \$179,000, what we increased in inheritance tax, that's about where we're at. We're just trying to cover our expenses. We don't know where else we can cut any expenses. We run the courthouse as cheaply as we can. We purchased a used copier from the school, which had 10,000-20,000, 100...I don't know how many copies, but we bought the school's used copier to keep us going. We don't spend a lot of money. Our road system...we really...we have a countywide consolidated school system; we run buses everywhere. So how do you pick which roads you're going to turn into minimum-maintenance? I can give you an example that last year we had to open up a minimum-maintenance road because the school bus route changed. They don't always...the kids don't always stay in the same house; they graduate, they leave, another family has kids. So in that instance we were forced to reopen that road. And in that respect, we try not to let our roads, even the minimum-maintenance, we try to keep them at a good level because we know this is probably going to happen. That was in 1957 when the schools were consolidated, that was a promise that was made between the board and the school, was to keep all these roads up so we had to-the-door bus service. And we intend to preserve that as much as we can. The other thing is the mail routes; you have to have a decent road for a mail route, you can't have them on a minimum-maintenance. As far as alternative sources, I don't know. We don't have any business; sales tax won't do us any good. Tax on vehicles that people buy is probably not going to get us that much; people don't buy that many vehicles. There is...we do have some minerals; there's a pretty substantial amount of severance tax that comes off those oil wells. We could use it. Lancaster County, Douglas County, they can use their sales tax; they probably don't have much

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minerals. But we could use the severance tax. I have no idea where that goes, but that would be a source that we could certainly use. That's the only source that I can think of that we can tax. We tax the pipelines as much as we can, we tax some power lines, and that's about it. This is going to be a shift to ag; this is going to be a shift to property tax. Right now, estate tax is broader than that. Granted, there are some estates that probably get missed. But a good share of them, like mine, for example, there were investments, and there was other money involved besides just real estate. And that was taxed; that was thrown in the estate tax. If you cut it down and you take it down to just shifting it back to property tax, you lost that chance to recoup that from the...from inheritance tax. My time is up. I'll answer any questions. [LR644]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you very much. [LR644]

ROBERT POST: Um-hum, thank you. [LR644]

SENATOR CORNETT: Next testifier. [LR644]

MICHAEL KELSEY: Good morning, Chairwoman Cornett, members of the Revenue Committee. My name is Michael Kelsey, M-i-c-h-a-e-l K-e-l-s-e-y. I'm executive vice president of the Nebraska Cattlemen, here providing testimony on behalf of our membership. I want to point out a fundamental difference between my fellow testifiers. With all due respect, I represent an organization that's paying the taxes we're talking about. So far you've heard representatives from entities that collect those taxes. And so it's...perhaps my comments today will render me no friends as I leave, and so, maybe, let the bullets fly. The foundation philosophy of every cattle producer in Nebraska is to pass our ranch or our feedlot on to the next generation. There's many differences between our members. There's an old adage: You can put four cattlemen in a room and ask them all a question, and you'll get five different answers. I mean that by saying that we have differences of opinion on what kind of cattle we should raise and how big our

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operations are, or small, or what types of feed we should use, or whatever the case may be. But I will tell you one fundamental principle that all cattlemen share, is how do we pass our operation on to the next generation. And that is of utmost importance to all of us. No matter what our differences of opinion are on other issues, nothing brings more satisfaction than that. Now, to that end, the taxing of generational transfer of assets is anathema to us. Probably there is no greater issue on the federal level for us right now than modifying the federal estate tax. Now, all that being said, as vehemently as we oppose the taxing of generational asset transfers, increases in property tax produce just as much disdain within us. And so if we want to talk about rankings, if we compare ourselves to other states right now, we easily, easily are last place in the amount of property tax we pay per cow, compared to South Dakota, compared to Wyoming, Kansas, Iowa, our neighbors. We pay far more property tax on a cow basis...and that's how we achieve our income, is on a per-head basis. So we are very much want to be a part of this discussion. And next week is our annual convention, and I can tell you our members are coming to Kearney with this issue as one of the key talking points, to try to figure out how we would achieve some balance, some solutions to try to figure out how we might offset the inheritance tax, and perhaps we may...at the end of the week, we may not be in favor of offsetting the inheritance tax. Our members will decide that next week. Rural counties, the tax base is much less diversified than the urban base. You've heard that so far. Cattlemen easily make up the largest group of landowners across the state, and so we're heavily burdened with all of these types of taxes. I think an important thing to remember as well is, timing is critical. And what I mean by that is right now we're in the midst of one of the most devastating droughts that many of us can remember. And many of our members are having to downsize their herds, which means that we have less income-producing units than we did last year. And if forecasts are any indicator of the future, we'll have to do more of that this next year because the drought is not predicted to ease. That hinders our ability to pay revenue. And so timing is critical. Also, if you look at how many acres were affected by fire this past year...and who was burdened with the costs of that fire management were the counties. And so many of our home counties are dealing with offsets of revenue because of the fires. Almost 350,000

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acres in this state were devastated by fire. So it's very important that we remember timing also. We all may want to move beyond this or change the tax code, but crucial will be to take a breath and do this in a way that may require some patience. We look forward to participating in the discussion. We, as I mentioned, our members will assemble next week, and this is one of the topics that we will be talking about. So perhaps this coming legislative session, when we have the bill, you'll see us again--I know you will if this bill comes up--and we'll share with you what our members so desire at that time. I'd be happy to answer any questions. [LR644]

SENATOR CORNETT: Senator Schumacher. [LR644]

SENATOR SCHUMACHER: Thank you for your testimony today. In these intergenerational transfers, what percentage--maybe you don't have this information, it would be interesting to get it, maybe at your meeting--goes down the family tree to children or grandchildren, what they call Class I relatives? [LR644]

MICHAEL KELSEY: For our members, the majority--that's a great question, Senator Schumacher--the majority of our generational transfers would be direct heirs, children, grandchildren. We do have some nondirect family, nieces and nephews. By far and away the smallest piece of the pie would be totally unrelated. Now, let me caution that...or maybe not caution but just supplement that by saying...the other side of my mouth would say we are heavy supporters of programs like the 100 cow program at NCTA, the college in Curtis, which is a program that links nonrelated folks to try to get young farmers and ranchers into an agricultural operation. If they were to create a relationship with an existing rancher and that rancher passes that asset on to them, because of that relationship that they've created, it would be at the highest tax rate. Again, those are the smallest number. [LR644]

SENATOR SCHUMACHER: But the vast, vast majority, we're talking about the 1 percent in excess of \$40,000. [LR644]

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MICHAEL KELSEY: Correct. [LR644]

SENATOR SCHUMACHER: Thank you. [LR644]

MICHAEL KELSEY: Correct. [LR644]

SENATOR CORNETT: Further questions from the committee? Senator Louden.
[LR644]

SENATOR LOUDEN: Yeah, thank you, Senator Cornett. Well, thank you for your testimony, Michael. And I'll probably be at your convention here... [LR644]

MICHAEL KELSEY: Good. [LR644]

SENATOR LOUDEN: ...in a few days since I've been a member of that thing for about 45 years. When you bring this up at your convention, I hope you will designate the difference between the federal inheritance tax that's about to go over the cliff and the state inheritance tax, because right now anybody I talk to, that's the one that's got the shivers, is the federal one, because that one will eat your lunch. Years ago there was all kinds. Now the other thing when you talk about this inheritance tax, if you have an irrevocable trust, can you pass that real estate on to your heirs or whoever you are, without any tax issues, inheritance tax issues? [LR644]

MICHAEL KELSEY: That's a good question, Senator Louden, and I'm not qualified to answer that right now. I will research that, though, and get that to you. [LR644]

SENATOR LOUDEN: Well, yeah, I would, because I've been involved in some of that stuff. And, yes, you can, because several years ago when we had the high inheritance tax, as I worked with estates, well, yeah, you gave part of it away through the

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inheritance tax and paid the inheritance tax because it was a cheaper rate than the income tax and the whole rigmarole. Some of that has changed over the years, now that land has gotten so high priced and the fact that this...we may be back in this inheritance tax again. And that was some of the questions. When you talk about passing it on to your next generation, and I think the question was asked, you know, where does that money go when they pay that inheritance tax? And with the estates I've been involved in, one of them was with some of my kids, and I think there was 22 people that inherited significant sums out of this estate. And I suppose three-fourths of that money was paid...went to people outside the state. I mean, they were scattered all over the United States. One that I personally worked on in my own family, half of it went out of state, because half of the siblings lived out of state. And when they asked for research to find out how much that is, it's nearly impossible, because the personal representative writes out the checks and the lawyer that settled it mailed these checks all over the world or wherever they have to go. So I don't know if there's any way of ever finding out where that money went. But as we work through this thing, and I know stockgrowers, or cattlemen, as they're called now, have been...the inheritance tax has been a concern. But as we've overhauled that thing a few years ago and put up this \$40,000 part, which doesn't mean whiff in ranch country nowadays with the valuations...I just went through that; your biggest problem is with your county attorney, because he's the one that decides whether or not you're valuing that land where it should be, and so I've been down that road. Anyway, when we come through all of these things, if we don't have inheritance tax, then we have our property tax. And as Senator Brasch has mentioned, should everybody pay \$600 a year, you know, for...and then we wouldn't have any inheritance tax? Well, on the other hand, I've ranched for 50 years, if I paid \$600 a year, it's a hell of a lot more than what I paid in inheritance tax when I inherited some land from my mom. In other words, I pay inheritance tax once, but if I'm going to pay this issue every year forever or for as long as I'm operating or running that property, it's going to cost us more. So I'm wondering if the stockgrowers are taking all of this into consideration when they come up with their...at their convention here next week.

[LR644]

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MICHAEL KELSEY: Well, since you told me you were going to be there, yes, we will. (Laughter) So, yeah. And I mean that, because you're going to bring it up. No, I'm...absolutely. Absolutely. You've listed quite a bit. There is a key difference between the federal estate tax and the state inheritance tax. They are two different animals completely. They're similar only in their nature of how they raise the revenue, on the transfer of the asset; and that's it. Who they go to, etcetera, etcetera, is a key difference, absolutely. As well as...you've asked a good question on the trust; you've also brought up some good statements on some of the other issues. It's not a simple issue. This is not simple for us. We'd love to just say, you bet, just write off the inheritance tax, eliminate it, and we can move on. But it doesn't work that way because of how it's structured; it goes to our counties. You know, another thing for us to remember, too, and, Senators, we would offer this to you. As far as cattlemen are concerned, when we pay that inheritance tax, I've had quite a few of our members tell us this: I didn't like paying it, but I know that the money went to something that I can see directly; that new motor grader, that new ambulance, that new bridge was paid for by me. When the federal estate tax kicks in and we send a check to Washington, D.C., you know, it's a hole, and we don't see anything, if you will. So that may not mean much in terms of policy, but it does mean something to the landowner out there in the county. And so it's just a different issue for us than the federal estate tax. And we want to handle it very appropriately; we want to handle it very...we want to exhaust the discussion. So next week you'll be a part of a very exhaustive discussion. And I look forward to that. [LR644]

SENATOR LOUDEN: Thank you for your testimony. [LR644]

SENATOR CORNETT: Senator Schumacher. [LR644]

SENATOR SCHUMACHER: I have a follow-up question that...this talk with the federal estate tax issue. At least this morning's radio said that they were talking--if they know what they're talking about--going to \$3.5 million, and then actually I think it was either 45

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percent or 55 percent tax. Now, when that tax, the federal estate tax, was in force, it used to have provisions that said that if a state put an estate tax on, that would get docked off the federal. So the states all rushed to get their estate tax in position so that they could save some money from going to Washington and keep it locally. Then the federal lifted its up, and the state was sitting there saying, oh, we've got this tax and now we're looking really bad. So we eliminated ours. And this may be an interesting part of your discussion with your group, and I'd certainly be interested in the feedback from it: assuming the federal estate tax does come back at a \$3.5 million exemption and some big rate, assuming that the state credit is there, to find out what the thought would be on the state reimposing an estate tax, because almost all states will be doing that, and then if this inheritance tax is a big deal or goes away, kicking back to the counties out of that state estate tax, none of which we want to see... [LR644]

MICHAEL KELSEY: Um-hum. [LR644]

SENATOR SCHUMACHER: ...but if we're in a bad world of hurts, what that option looks like. [LR644]

MICHAEL KELSEY: I'll, obviously, allow our members to make the decision on whether...but I can tell you that we considered it an extremely significant legislative win when the state estate tax was eliminated five years ago now I believe. That was a huge win for us. So that would tell me that we might not like that idea too well. [LR644]

SENATOR SCHUMACHER: But if it was to...if the money... [LR644]

MICHAEL KELSEY: Understood. [LR644]

SENATOR SCHUMACHER: ...if they are going to spend the money anyway...I mean, let's just go back to where we were... [LR644]

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MICHAEL KELSEY: Um-hum. Um-hum. [LR644]

SENATOR SCHUMACHER: ...back to where we were, and it's either going to go to... [LR644]

MICHAEL KELSEY: Right. [LR644]

SENATOR SCHUMACHER: ...Washington or Nebraska, and Washington gives Nebraska a credit... [LR644]

MICHAEL KELSEY: Um-hum. [LR644]

SENATOR SCHUMACHER: ...for estate tax paid to Nebraska... [LR644]

MICHAEL KELSEY: Um-hum. [LR644]

SENATOR SCHUMACHER: ...then, you know... [LR644]

MICHAEL KELSEY: It would cause us to pause, I can tell you that, and say, okay, let's think about this for a minute. But you bring up a great question that...but just based on past history, I would tell you we'd be a little bit resistant to that, but... [LR644]

SENATOR SCHUMACHER: (Laugh) Resistance to what's going on in Washington. [LR644]

MICHAEL KELSEY: Yeah, exactly. [LR644]

SENATOR CORNETT: Thank you very much. [LR644]

MICHAEL KELSEY: Thank you. [LR644]

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SENATOR CORNETT: Are there any further testifiers? Are there any further testifiers after this gentleman? Okay, thank you. [LR644]

JACK ANDERSEN: Thank you for taking the time. And I'm going to be real quick because I know you're against the wall. Just a few of the things that came up during the other testimony that I'd like to touch base on. One of the things is that I keep hearing this... [LR644]

SENATOR CORNETT: You need to state your name for the record. [LR644]

JACK ANDERSEN: I'm sorry. [LR644]

SENATOR CORNETT: That's quite all right. [LR644]

JACK ANDERSEN: Jack Andersen, A-n-d-e-r-s-e-n. I am a Sheridan County commissioner, though I'm testifying today as a person rather than as a commissioner, as I didn't have time to run it by the committee in an open meeting. Now you lost me completely. (Laughter) One of the things that we seem to be hearing is that inheritance tax is a ag tax. You can kind of see that from what Douglas County takes in that they don't have that much ag land. So it's not an ag tax, not totally an ag tax. However, when you get out into the western counties, your property tax is very much, predominantly, an ag tax. The property values in our towns have went way down, and the ag land values have come way up. If we were to remove that amount that we're taking in--last year Sheridan County, I believe, spent a little over \$300,000 on gravel crushing, we pay for all of our gravel crushing with inheritance tax--that would need to shift to property tax, and that is predominantly an ag tax. I don't know what percentage of the inheritance tax that comes into Sheridan County is from other than ag producers; I know the majority of it is ag producers. But the majority of the people in Sheridan County are ag producers, so that stands to reason. We keep...I ask citizens quite often, what is it that the county

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does that you benefit that we can cut? And you know, I haven't found one of them that could come up with an answer. You ask them what can the county cut, and everybody has got an answer: You can cut that Handi-Bus system; my grandmother is dead, she don't ride that thing. I had one a while back that said: You can get rid of the county fairs, we don't need county fairs; and the museums, you're putting money into museums, we don't need those. But when you ask them, what do you get that we can eliminate, they get a deer-in-the-headlights look and...well, nothing; we need more money put into my road; you know, we need to spend more on things I get, not less. And I am real concerned that the only way that I can see to possibly replace this inheritance tax is through a state sales tax increase, because we can't do it with a county sales tax. Banner County, Sheridan County would be a couple of them that...some of our neighboring counties would benefit greatly because our citizens shop there. But I'm concerned that the state sales tax formula that divides it out to counties, if it doesn't start out tainted towards the majority of the population, it won't be many years down the road till a majority of the vote decides that that should shift more towards us, we're the ones that are paying it, we should get more. And we cannot afford to put a heavier burden on agriculture, and that's where it...I don't see any way that this is going to benefit agriculture, by removing the inheritance tax; it's going to be a heavier burden on that. And with that, I'd be glad to try to answer any questions. [LR644]

SENATOR CORNETT: I just...I want to apologize for smiling. Your story there on the, you know, we need to cut, but, oh, I need a better road. It took me back to a conversation I had a couple years ago with a citizen when I'd introduced the blank-rate bills, in case we didn't have enough money to meet the deficit shortfall. And someone called me up screaming bloody murder that I'd introduced blank rate bills. And then in the last sentence they said, in the conversation, was: And you need to do something about the potholes. (Laughter) And it was like...it was just... [LR644]

JACK ANDERSEN: Yeah. [LR644]

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SENATOR CORNETT: It was one of those really humorous remarks. But anyway, thank you so much. [LR644]

JACK ANDERSEN: In ten years, I've run across quite a few of those people. Thank you. [LR644]

SENATOR CORNETT: You're welcome. Any further testifiers? Okay. I'm going to make a few closing remarks, and that will wrap up the hearing for today. And then we reconvene at 1:30 for the land bank. I want to thank everyone for coming today for this legislative resolution. I know that when I introduced the removal of the inheritance tax, the elimination, last year, it caused the counties quite a bit of stress. At the same time, I've always been a big supporter of counties and, with Larry, had worked on the funding issues for counties previous to that. This hearing today is, as Larry summed up, what do we...just let's assume that inheritance tax goes away. And we have heard options today that, if inheritance tax goes away, some of the other things that we can fall to rather than property tax. With that, we will have a report that we will release...Bill, what was the date? [LR644]

BILL LOCK: In about a week to ten days, I think. [LR644]

SENATOR CORNETT: In about a week to ten days... [LR644]

BILL LOCK: After we... [LR644]

SENATOR CORNETT: ...on our findings from the interim study and today's hearing. I thank everyone for coming and appreciate the time and effort you've put into driving here. Thank you. [LR644]