[LB812 LB960 LB1053]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 20, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB812, LB960, and LB1053. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairperson; Tom Hansen; Burke Harr; Charlie Janssen; Beau McCoy; Pete Pirsch; and Kate Sullivan. Senators absent: None.

SENATOR HADLEY: (Recorder malfunction)...from Broken Bow. We appreciate all the help the pages do. They're a great help to us here. You'll see the microphones when you go up. These are not amplification microphones. They're used for making a taped record that we type the transcript off of. So there's...if you rub your papers up against them or don't speak plainly, it's hard for the transcribers to hear. Turn off your cell phones or put on vibrate while in the hearing room. The sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form prior to coming up to testify. When you come up to testify, hand your testifier sheet to the committee clerk. We will follow the agenda posted on the door. The introducer or representative will be...will present the bill, followed by proponents, opponents, and neutral. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, state your name and spell it for the record. If you forget, I'll tell you. If you have handouts, please bring ten copies for the committee and staff. If you only have the original, we will make copies. Give the handouts to the page to circulate. We've been joined by Senator Pete Pirsch from Omaha. With that, Senator Hansen, we will start with LB812. [LB812]

SENATOR HANSEN: (Exhibit 1) Thank you, Chairman Hadley and members of the Revenue Committee. My name is Tom Hansen, T-o-m H-a-n-s-e-n, and I represent the 42nd Legislative District out of Lincoln County. Today I want to open up on LB812, which is an outright repeal of our state inheritance tax. And this is the...there is...you're going to have a choice today, I guess, either one or the other. Senator Carlson will be opening on a bill in a little while to talk about changing the rates of the inheritance tax but not eliminating it. Mine is an outright repeal. In the 2007 Session, we repealed the state of the...state estate taxes, which was a much larger repeal of this. So this inheritance tax in the counties is the last death tax and I think that the death tax should be repealed. The best way that I can describe the inheritance tax is that it's a fund for county that is not in their budget. There's other ways to say that, but I think that's what this is. For example, Douglas County last year spent...voted to spend $10 million of their...I'm not sure it all came out of the inheritance tax, but it came out of some fund, $2 million for the UNMC Cancer Center. It's certainly a worthy project; but if it came out of the inheritance tax, I'm not sure that that was what that was designed for. Buffalo County last year voted $75,000 a year for three years for the operation of the Arch in Kearney. Lincoln County paid $200,000 last year for the implementation of the juvenile justice bill, LB561. They paid those through the...what...the bills that they incurred through transportation, medical care, and office space for probation. I had the page hand out a plain one-page paper, and if you could refer to that...and we have more for the audience if they would care to look at it. But it is a list of the unfunded mandates that have been passed down from either the federal to the state and the state to the county or bills that have started at the state level and been mandated to the counties over the years and it's been a lot of years. I would like to highlight some of them. One is the prosecution of state crimes. Most crimes in the state, unless you spit on the sidewalk or burn somewhere without a permit, those are all going to be state crimes. Those are...that's a county function that...to prosecute a state crime. Child autopsies, there's some funding from the state, but most of it is through the county. DNA collection from felons, this is a bill that we passed just a few years ago with the intent that, you know, we need to have that DNA sample on record; yet, we passed that down to the counties to do that collection. LB561, which I've already mentioned, they...all the counties...I might be wrong. I'm not sure all the counties, but many of the counties that have a sizeable population, we're spending a lot of money to implement LB561. We've found that the transportation, medical care for juveniles, office space for probation costs the counties a lot of money. Two that I would bring up: One, Lincoln County, is $200,000; Lancaster County was approximately $2 million. The guardian ad litem program, which is very useful, very well used, probably overused in most of the counties...I know our guardian ad litem in Lincoln County is only one person that has many, many, many cases, and it takes a lot for them to keep going with...that's a county expense. Truancy plans from what some of the bills we've passed the last couple of years that involves county attorneys, that comes...that goes through the county budget. County court expenses, these are all run out of the Supreme Court, the budget of the Supreme Court, yet all the employees are county employees. Bridge inspection and repair, bridge inspections all have to be done by the Department of Roads. The counties can't inspect their roads anymore. If a bridge is found to be bad, it has to be built to federal specs is the way I understand. So that's why if you're driving around country roads and you come to a $1 million bridge on a gravel road, that's the reason why. They have to be built to such a high level that a county has no say in it. Public health departments are monitoring meth labs and cleanup. This is not a...shouldn't really be a function of the county, but the public health departments are...get their money from county funds. And in our...in North Platte our big district includes several counties, but the counties do pay for the public health department. And then enhanced wireless service for 911 services, we're losing land lines. People are saying, you know, my home phone is...my home land line is no good anymore, I don't want it anymore, so they just go to cell service. Some communities have said maybe we should do that on cell phones; but it looked like an increase in taxes, so those haven't gone up. The last one on that short list is care of abandoned and pioneer cemeteries. Those, I don't know if you've seen them, but out in the country there may have been a church at one time. The church finally closed due to lack of parishioners. The church may have been sold or may have burned or whatever. It's disposed of, yet there's a small cemetery there. Criteria has come up, said, all these cemeteries need to be fenced out. The county has to do that too. State aid to counties, jail reimbursement over the years, county property tax relief has cost counties $9.6 million in recent years. And then the sales tax collection fee, which used to be half of 1 percent for sales tax collection, has been changed to $90 a month, or ten...or $1,080 a year. And in Sarpy County, Senator Crawford was telling me this morning that it costs their county $100,000 a year to collect that sales tax. This is from motorized vehicles mostly. They were spending $100,000 a year to collect those taxes, yet the state only reimburses them $90 a month now, instead of that half a percent. These are some of the reasons why counties are strapped for funds, because of the unfunded mandates. I think that this, you know, this is part of the reason where we're at, part of the reason why an outright repeal of the inheritance tax in the state of Nebraska is going to be very difficult. And there's going to be a line of testifiers, mostly opponents, that are telling us why this is going to be a bad thing. But I would encourage you, if you have questions about that and that group of unfunded mandates, that you ask Mr. Dix when he comes up with the...with NACO. It seems to me that a Nebraska ranch couple that have paid their real estate taxes for 50-60 years, never missed a payment, if they did they paid the fines that were due, that maybe we ought to change this where the county pays their burial expenses if we could get this...if we could get the inheritance tax changed now. That concludes my opening. [LB812]

SENATOR HADLEY: Are there questions for...Senator Sullivan. [LB812]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Senator Hansen. I'm just curious, do you hear from a lot of your constituents who are concerned about this? [LB812]

SENATOR HANSEN: Not a lot of them, but the ones that have sizeable properties, you know, they know they're going to get "dinged," especially the ones that are grandparents that are giving it...giving...you know, handing the farm down maybe to a niece or nephew,... [LB812]

SENATOR SULLIVAN: And haven't completed that yet... [LB812]

SENATOR HANSEN: ...they get hit pretty hard. [LB812]

SENATOR SULLIVAN: And haven't completed that yet because, I mean, through proper estate planning,... [LB812]

SENATOR HANSEN: Well, no, I hear about it after the fact and they say, you know, we need to repeal that. They paid it. [LB812]

SENATOR SULLIVAN: Uh-huh. Oh, okay. Okay. [LB812]

SENATOR HANSEN: But they think it ought to be repealed. [LB812]

SENATOR SULLIVAN: Um-hum. [LB812]

SENATOR HANSEN: And in the ranching community across the state I hear it a lot. I mean, it's not top of their priority list. [LB812]

SENATOR SULLIVAN: Uh-huh. [LB812]

SENATOR HANSEN: But it's, you know, the reason that they...we can't get rid of it is because of these unfunded mandates. That's what I feel anyway. [LB812]

SENATOR SULLIVAN: Uh-huh. Okay. [LB812]

SENATOR HADLEY: Other questions for Senator Hansen? Thank you, Senator Hansen. [LB812]

SENATOR HANSEN: Thank you. [LB812]

SENATOR HADLEY: I assume you'll stay for closing? [LB812]

SENATOR HANSEN: I will. [LB812]

SENATOR HADLEY: Okay. [LB812]

SENATOR HANSEN: Or I may leave. I don't know. [LB812]

SENATOR HADLEY: Could I see a show of hands of how many people that plan to testify on this bill? Okay. First, we'll start with proponents. [LB812]

DICK CLARK: (Exhibit 2) Chairman Hadley, members of the Revenue Committee, my name is Dick Clark, D-i-c-k C-l-a-r-k. I'm director of research for the Platte Institute. Thank you for this opportunity to testify today in support of Senator Hansen's LB812 which would end Nebraska's inheritance tax. Ben Franklin famously said: In this world nothing can be said to be certain except death and taxes. Now notice he didn't say "taxes and death" because, as Nebraskans know, our inheritance tax ensures that not even death alleviates the burden of taxation. Nebraska was listed last year as one of the "Die Harder" states by The Wall Street Journal; one of the states deemed by the Family Business Coalition as where not to die. Nineteen states and the District of Columbia still levy some kind of death tax, either an estate or inheritance tax. Specifically, Nebraska and 4 other states levy an inheritance tax while 12 others levy an estate tax; New Jersey and Maryland have both. However, the momentum is in the direction of removing these death taxes. Indiana, Ohio, and North Carolina all ended their death taxes in

2012, and Tennessee's will wrap up January 1, 2016. Now Nebraska's inheritance tax is a little different from other states' in that the rates and policy are set by the state but the collection is administered at the county level, as you know. And while spouses are exempt, others are subject to three rates based on their familial relationship or other relationship with the deceased. You know all about how immediate relatives, more remote relatives, and ultimately nonrelatives are taxed at the different levels that are really shockingly low when you consider some of the estates that we're talking about. Now the 18 percent rate, the highest rate for nonrelatives, is the second highest in the country, with only Washington state's 19 percent estate tax being higher. Now these taxes are in addition to a federal estate tax of 40 percent which of course went up from 35 percent in 2012. The federal estate tax no longer allows deductions for state death taxes, so some beneficiaries may be hit with the full brunt of both the federal and state taxes, which for unlucky Nebraskans could be as high as 58 percent. Those most impacted by the inheritance tax are farmers, ranchers, and family businesses, as the inheritance tax makes it difficult to pass property from one generation to the next. Many Nebraska farms and ranches are family owned and 98 percent nationally are family owned. The negative effects of the inheritance tax on agriculture to family farms and family traditions cannot be ignored. But this isn't just about sentimentality. Agriculture is key to Nebraska's economy, contributing 27 percent of the gross state product, 41 percent of the total sales volume, 24 percent of the jobs, and 25 percent of total wages and income in 2010. While the U.S. Department of Ag estimates the net income of agricultural households is higher than the average American household, much of that wealth is in farm- or ranch-related assets, making many agricultural households land rich but cash poor. This means that on paper agricultural household income is high, making them very susceptible to inheritance tax liability. For many, the only way to pay for that tax is to sell equipment, land, or even the entire farm or ranch. Small businesses are often in the same situation with wealth tied up in business capital that would have to be liquidated in order to pay the tax. In both situations, if the business, farm, or ranch survives the tax, this tax on productive capital, unsurprisingly, makes it less productive, and it leaves it with fewer resources with which to expand the business and create jobs. These taxes, as the introducer already mentioned, are also an example of double taxation as families and businesses have paid years' and even decades' worth of property taxes on these farms, ranches, and businesses that they intend to pass onto the next generation and the beneficiaries will likely continue to pay taxes on that property for years to come. Similarly, all the income gained from these properties is subject to income tax and sales made by families to pay the inheritance tax bill would likely be subject to tax as well. Clearly, the government is getting plenty of revenue from these families and businesses in other ways. This is an additional layer of taxation to add the inheritance tax on top of everything else and on top of what should just be simple ownership transfer to the next generation. Besides family farms, ranches, and businesses, the inheritance tax also has a generally detrimental effect on our economy because it incentivizes destructive choices. Death taxes discourage savings and investment by sending the signal that it would be better to consume wealth today than to scrimp and save to pass something on to future generations. This downward pressure on the incentive to accumulate productive capital results in a sort of multiplier effect, resulting in reduced job creation, falling wages, and a decline in overall economic productivity. A congressional study by the Joint Economic Committee estimated that the federal estate tax had reduced the amount of capital in the country by $847 billion between 1946 and 2006. The impact is even more pronounced in states like Nebraska that layer state death taxes on top of the federal tax. Families that own farms, ranches, and other vital enterprises in this state should not have to worry about whether they will pass their family business on, whether they'll be able to, and whether they'll be able to pass on the traditions that go with it to that next generation. They'd be able to worry less with the repeal of the inheritance tax, and that's what this bill would do. Thank you again for the opportunity to speak today. [LB812]

SENATOR HADLEY: Questions for Mr. Clark? Mr. Clark, I noticed the...while there's no state fiscal note, they estimate $60 million is now being paid to counties. In our Tax Modernization Committee we consistently heard about property taxes being high. If we eliminate the inheritance tax, do you think counties will just lower their budgets by $60 million, or do you think they will pass it onto everybody in the form of higher property taxes? [LB812]

DICK CLARK: Well, there certainly is a question of how you account for this, whether it's a reduction in spending or some sort of shift. But I think the question that has to precede that is whether or not this is the right thing to do. And if it's the right thing to do, you've got to do it and figure out how it gets paid for. But as for how it gets paid for, I think that the introducer in his opening remarks listed a number of areas where spending could be reduced in a way that would not eliminate the, you know, essential functions of government and that would not cause a catastrophe in Nebraska. We could let these families keep what their forbearers have earned and accumulated. [LB812]

SENATOR HADLEY: Okay. Senator Schumacher. [LB812]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for your testimony, Mr. Clark. [LB812]

DICK CLARK: Yes, sir. [LB812]

SENATOR SCHUMACHER: Bear with me through a hypothetical demonstration: 1970, 640 acres, bought it $300 an acre, probably pretty close to the going rate. Today, same 640 acres, if you figure at $8,000 an acre, is worth about $5 million, basically, $5 million of increase in worth and income. Now if grandpa before he died had sold his 640 acres, he'd have paid a capital gains tax of about $342,000 because he would have capital gains. But because of the step up in basis that we allow at...to heirs, they get to start over under our present laws, they escape that $342,000 in capital gains tax. Why should the heirs get off easier than grandpa? [LB812]

DICK CLARK: Well, you know, I'm not prepared to figure the difference in the real value versus the nominal value from 1970 when on the world exchange standard an ounce of gold was $35 to what those dollars meant in later years. And if you've got a calculator to lend me, I might try it. But I...my answer is this has already been taxed. We're talking about taxing productive capital in many cases. [LB812]

SENATOR SCHUMACHER: But the same... [LB812]

DICK CLARK: So regardless of who you think might get some sort of benefit that maybe wasn't earned, we all get some benefit by that capital being in production. [LB812]

SENATOR SCHUMACHER: So should we eliminate the tax on grandpa if he cashes in before he dies because it's all been taxed? What about... [LB812]

DICK CLARK: Well, I'm always happy to talk about ways to reduce taxes, Senator. I'm not prepared to talk about that particular way to do it today. [LB812]

SENATOR SCHUMACHER: Well, let's just go through it. On that $5 million in wealth accumulation passed onto the heirs, right now there's no income tax because we have the step up in basis; we've eliminated the state estate tax a few years ago, so that big tax burden has been taken away, there's no federal tax because it's below the $5 million thing, and we're down to, out of $5 million in wealth, asking to contribute to county and roads funds and pay some of the expenses to keep down property taxes, a mere $50,000. Isn't that good policy? [LB812]

DICK CLARK: Well, you know, in the world of income tax anyway, we talk about tax being owed when a gain is realized. And when your descendent receives the family farm, to me, that's not the sort of gain that ought to be taxed. Now I understand we're not talking about the income tax, we're talking about the inheritance tax, but again you're talking about siphoning off productive capital from active enterprises. That's going to have an impact that's deleterious on this state's economy. [LB812]

SENATOR SCHUMACHER: So when the heirs receive this, in those cases where the heirs turn around as quick as possible and liquidate the farm, take the cash, half of the heirs live out of state and run off to some other state with the cash, should we tax them? They had a taxable event. Should we get the capital gains from them? [LB812]

DICK CLARK: Well, you know, first off, I think that we're all better off when resources are allocated to better and higher uses. And when a buyer is willing to offer more than the seller is willing to withstand in terms of value on a cash price, then I think that we're all better off with that buyer ending up with the property and putting it to that better and higher use. And so, no, I don't think we should punish people when resources are reallocated that way any more than we should punish folks when they pass down the family tradition to their kids about farming or ranching or running some other kind of business. [LB812]

SENATOR SCHUMACHER: Taxes are punishment in your view? [LB812]

DICK CLARK: Well, certainly, they have effects. They have consequences in terms of the incentives that they set up for behavior in the marketplace and, you know, yeah, I'd say that when you take away something from somebody because of certain behavior they're engaging in, you're...that's a punitive consequence for that behavior whether that's the intent or not. [LB812]

SENATOR SCHUMACHER: So should we just get rid of government and solve the problem? [LB812]

DICK CLARK: I think that we just need to be mindful of the fact that the productive organs in society are entrepreneurs and their enterprises. Government has a role but it is a limited scope in which government is the best actor to be accomplishing things for the betterment of us all. [LB812]

SENATOR SCHUMACHER: Thank you. [LB812]

SENATOR HADLEY: Other questions for Mr. Clark? Seeing none, thank you. [LB812]

DICK CLARK: Thank you. [LB812]

SENATOR HADLEY: Next proponent. First opponent to LB812. Good afternoon. [LB812]

MARY ANN BORGESON: (Exhibit 3) Good afternoon, Senators. I'll wait until they pass around my sheet here. Mary Ann Borgeson, M-a-r-y A-n-n B-o-r-g-e-s-o-n. I am the chair of the Douglas County Board of Commissioners and I'm here today to speak in opposition of the elimination of the inheritance tax. Our annual proceeds average about $10 million. Our average number of estates subject to the inheritance tax is about 986, which equates to about .2 percent of our county population. There is a list there of what we use the inheritance tax for: the health center; general assistance; health department; our debt service; the general fund; and I've written in, because it was my elimination of the CC, means cancer center donation; the Veterans Affairs Department; and state institutions. Above-average inheritance tax collections in the 2011 and '12 of $12.4 million were used to cover about a $2.5 million budget deficit, which allowed us to not have to increase property tax levy. LB...well, that's the next one that I'll talk about, the other bill. But the elimination of it altogether would definitely have an impact on our budget of that 12...average of the $12 million. A decrease in the revenues of that magnitude could only be recovered with increases in property tax of about 6 percent, and the total elimination could result in a 12 percent increase in the property tax. I was appreciative of hearing the senator talk about the unfunded mandates and what could possibly...what we could work with in the Legislature if you were to move forward on eliminating this is that we would definitely like to have discussions about the unfunded mandates that counties are responsible for and the shifts that continually occur at the state level down to the counties and how to figure out how to make up that revenue with those items which the senator mentioned and we would agree with. So low...and the other...lowering or elimination of the inheritance tax rate is unlikely to have any impact on businesses deciding to locate or expand operations in Nebraska. And during the tax modernization forums, I never heard, especially the one in Douglas County, not one mention of the inheritance tax. It was really centered around our property tax that our citizens would like the issue of property taxes to be addressed. And with that I would take any questions. [LB812]

SENATOR HADLEY: Any questions for Ms. Borgeson? Seeing none, thank you. [LB812]

MARY ANN BORGESON: Okay. Thank you. [LB812]

SENATOR HADLEY: Next opponent. [LB812]

JANE RAYBOULD: (Exhibit 4) Good afternoon, Senator Hadley and members of the Revenue Committee. My name is Jane Raybould, spelled J-a-n-e R-a-y-b-o-u-l-d. I'm appearing before the committee on behalf of the Lancaster County Board of Commissioners. I'm here to express the county's strong opposition to the elimination of the inheritance tax under LB812. I also wanted to address the remarks of Mr. Clark. I know he specifically said that Nebraska is one of the "Die Harder" states, but I think we can't lose sight that Nebraska is a great place to live, raise a family, and start a small business, so I really want to keep that in mind. And I know Lancaster County is very proud, certainly Lincoln has reduced their crime rate by 49, almost, 49.8 percent, and the national average is 45 percent. So I'd like to also say that we're always above average in everything that we do. So I want to deal specifically with the elimination of...the opposition to the elimination of the inheritance tax. The basis for Lancaster County's opposition to eliminating the inheritance tax is set forth in detail in a letter from the county board previously submitted to this committee in 2012. It seems like we fight this issue every year. A copy of that letter is being distributed to you, along with my testimony. In addition to our letter, please consider the following important points: Over the last three budget years, Lancaster County has averaged inheritance tax collections of $7,792,134. Loss of this income would potentially require a reduction of 156 jobs, representing nearly 19 percent of our entire work force. While the Legislature has created numerous mandated responsibilities for our counties, our revenue tools are very limited. It makes no sense to take away one of the few revenue sources available to counties which has not been negatively impacted by our slow economy. If the inheritance tax is eliminated, there is no guarantee the additional money received from the...be the beneficiaries who may reside in another state will stay in our community or, for that matter, in the state of Nebraska. On the other hand, every cent of inheritance tax collected will be invested in our community. Make no mistake, eliminating the inheritance tax will result in a tax shift to the average property taxpayer. And you have certainly heard an earful on the Tax Modernization Committee from many of the residents and hardworking taxpayers of Nebraska that their property taxes are a considerable burden. Of the 761 probate actions processed by the Lancaster County Court in 2011, only 563 cases resulted in an inheritance transaction with the county. In comparison, replacing these funds with a property tax increase will come right out of the pocket of every hardworking real property owner in the county. Finally, a $7.3 million funding reduction will severely undermine the county's ability to provide public safety services. Whether it's through the dismantling of our community social safety net or through cuts to the agencies which provide direct services to the public, at the end of the day, the safety of our community will be negatively impacted. Thank you for the opportunity testify and I would be certainly happy to answer any questions. [LB812]

SENATOR HADLEY: Are there questions for Ms. Raybould? Seeing none, thank you, Commissioner. [LB812]

JANE RAYBOULD: I just have one other thing to add. As a businessperson in the state of Nebraska, really, the tax that gives most people fear as they try to pass down their business to the next generation--we're an employee-owned company, family-operated company in the state of Nebraska--and it's certainly the federal inheritance tax. I know that Senator Sullivan asked the question about estate planning, and I can assure you that any family, rancher, or farmer or small business owner in the state of Nebraska is actively engaged in estate planning because it is the federal tax that really creates the burden of passing on your legacy to your...the next generation and to your employees. So I think when it comes to the inheritance tax in the state of Nebraska, it's really of virtually no consequence in terms of the whole scope of passing down that legacy to the next generation. So thank you. [LB812]

SENATOR HADLEY: Next opponent. [LB812]

RENEE FRY: (Exhibits 5 and 6) Good afternoon, Chairman Hadley and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I'm here today to testify in opposition to LB812. Eliminating the inheritance tax would deprive counties of one of their very few revenue sources and this would essentially force many Nebraska counties to cut vital services that residents rely on or to raise property taxes. And as you know and have heard, Nebraskans want lower, not higher, property taxes. In 2012, we wrote a report regarding the elimination of the inheritance tax, and I'm going to discuss some of that information with you today. The amount of the inheritance tax collected varies significantly from county to county. At the time of our reports--so our numbers are a couple of years old--the three-year average ranged from $8,524 to $8.5 million--and you heard from Douglas County that their numbers have been high the last few years--and the percent ranged from less than 1 percent to 22 percent of the general fund budget. If you turn to page 3 of the report, you'll see that county spending has remained relatively flat as a share of the economy; in fact, many counties have made significant cuts. Lancaster County cut its budget 15 percent in the two years before our report. Banner County had cut its budget 13 percent; Hall County has turned some paved roads into gravel because they are cheaper to maintain. Counties would have to increase their property tax levies 7 percent average across the state to replace lost revenue from the inheritance tax. But we also know that counties would only increase property taxes as a last resort, if they even have room, under their property tax levy limits or spending lids. We explored what options the counties would have to raise revenue and found the only legitimate alternatives here are to cut services, dip into their reserves, or raise property taxes. At the bottom of page 5 is a color-coded map that shows what ability counties have to manage the loss of inheritance tax. We created four groups of counties based on inheritance tax as a percentage of revenue, their level of cash reserve, how close they were to their property tax levy limit, and how close they were to their spending lid. The green counties on the map would suffer the most hardship if the inheritance tax was eliminated because they have low reserves and can't raise property taxes to replace the revenue without exceeding property tax limitations, which would require public votes. Approximately 26 counties are in this category that would be hardest hit. If these counties first turn to replacing the inheritance tax with reserves, they would have, on average, less than two years before their reserves are reduced below recommended levels. Not only will this put counties at risk of service lapses, but reserves of less than 15 percent are considered a red flag by credit agencies so that insufficient revenues may cause credit downgrades, leading to higher interest rates on borrowing, bringing even more trouble for county budgets. In the next category are counties that can temporarily manage the loss of revenue by drawing down reserves but they lack the flexibility to raise property taxes when those reserves run out. There are 36 counties in this category and they are designated by the darker shade of blue on our map. These counties 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 26 counties in the previous category. Furthermore, one-third of these counties are already at their maximum 50 cent levy limit; moreover, the larger reserves in many of these counties may be an illusion if they're saving money for badly needed infrastructure projects. The next group of counties are replaced...are those with low reserves and room under the property tax limitations to replace the revenue through increased property taxes. These eight counties, which are shaded in light blue on the map, would have to cut services or raise property taxes as they do not have sufficient revenue 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. Half of these counties, however, have already made recent budget cuts and five counties in this category already have very low reserves or would have less than the minimum recommended reserves in less than a year. The final category are those counties with the most flexibility to manage the loss of revenue. There are 23 counties in this group and they are marked in white on our map. These counties have larger reserves and would not be constrained by state limitations if they have to make up the lost revenue by raising property taxes. But that's not to minimize how important the inheritance tax is to these counties; it's just that they are in an enviable position because they do not have more in reserve...because they do have more in reserves and they are not constrained by property tax limitations. Losing the inheritance tax would come on top of counties seeing declines in various forms of state and federal financial support and elimination will leave counties with an impossible task: Slash services that we rely on, such as road maintenance; strain reserves that are needed to protect bond ratings; and will leave the counties vulnerable to unexpected emergencies or raise property taxes if they can do so. Therefore, we recommend that at this time the state maintain its inheritance tax to help keep our counties out of this no-win situation. Thank you for your time, and I would be happy to answer any questions. [LB812]

SENATOR HADLEY: Are there any questions for Ms. Fry? Seeing none, thank you. [LB812]

RENEE FRY: Thank you. [LB812]

SENATOR HADLEY: Any other opponents? [LB812]

LARRY DIX: (Exhibits 7-12) Good afternoon, Senator Hadley and members of the Revenue Committee. My name is Larry Dix, spelled L-a-r-r-y D-i-x. I am the executive director of the Nebraska Association of County Officials, appearing today in opposition to LB812. First, I certainly want to thank Senator Hansen. You know, sometimes it's odd when you're up here opposing a bill and you start out thanking a senator that you're opposing his bill. But yesterday Senator Hansen and I spent a significant amount of time talking about unfunded mandates, and that is part of the problem I think that we're running into here is the amount of...the ability for counties raise revenue is very limited. It is primarily property tax. There's some inheritance tax money. There are some minor fees. But as all of you know on the Revenue Committee, the burden has been placed so significantly on property tax that we hear it loud and long. And when we look at inheritance tax, typically, we'll have some of the same folks come and testify year after year saying we need to get rid of the inheritance tax. And one of the things that I want to point out...let me first describe what's being handed around. There's a letter there from Phelps County Board of Supervisors, and I know many of you have received other letters electronically. But I want to point out one that I know that was sent each and every one of you, and it was a letter from Hitchcock County. And one of the things that each and every year when we hear people come up and continually say counties have to cut services, have to cut services, that's the only way to solve this problem, a letter that came from Hitchcock County to all of you electronically, in their budget message they state: The use of inheritance tax fund is crucial to the implementation of the budget and allows for the reduction of property taxes and other expenses not allowed under a general tax levy. Hitchcock County was able to reduce property taxes by $290,000, which is .05119 on their tax rate. This is something we don't hear often enough. But a number of counties are now using inheritance tax for property tax relief. I mean, that's what it's going to. Lancaster County has bought down, Douglas County has bought down the tax rate, and yet we continually hear from people saying, well, you're just going to have to do without it. Well, what happens if we do without it in Hitchcock County is we do without a 5 cent reduction in the tax rate in that county. And so that is...that becomes a significant number. I would tell you, these county board members wrestle each and every year with that tax rate trying to do whatever they can so it doesn't go up any at all. And if you'll remember, in earlier testimony this year we had 84 counties out of the 93 that actually reduced their tax rates. So that was one of the things I wanted to call to mind, and I know you've got that one electronically. The other document that I handed out was a list of all the counties, and it shows where their inheritance tax...the amount that they received over the past three years. And one of the things that you will note, and it doesn't take long, you can look at Adams County, a lot of people will say, well, this inheritance tax is just going up, up, up all the way. What you will find is it's very volatile. Adams County, pretty good-sized county, Hastings, in '10 and '11, you can see what it was. It went up in '11 and '12, but then there was a significant drop in '12 and '13. So for some folks to say, well, it just continually goes up in these counties is certainly not the case. It's very, very volatile. I will say that when you look at these over the years, it's a study. It's something that you really have to study to try to figure this out, and when we look at...each and every year we collect this information from our county treasurers. And I believe in the fiscal note, if I remember right, I think the fiscal note that came with the bill said $56 million, and Senator Hansen introduced the bill early in the session, and so we were only able to give him the numbers of the fiscal note at that time for '11 and '12. But you'll see the '12 and '13 columns, so you'll see that it did go up across the state by another couple of million dollars. So I've been here year after year. And one of the testifiers said it seems like we talk about this every year. I think we do just talk about it almost every year. So it's one of those things that's important to county government. We would urge you, certainly, we would stress that we do not advance LB812. With that, I'll try to answer any questions anybody may have. [LB812]

SENATOR HADLEY: Are there any questions for Larry? Could you just take a couple of minutes...there is a constitutional mandate that basically counties cannot levy above 50 cents. Is that a correct statement? [LB812]

LARRY DIX: That's a very accurate statement. [LB812]

SENATOR HADLEY: Very accurate statement. Just a little background on that. [LB812]

LARRY DIX: Sure. [LB812]

SENATOR HADLEY: I guess probably a lot of us weren't involved in politics when that came around. [LB812]

LARRY DIX: Yeah. [LB812]

SENATOR HADLEY: What was the reasoning behind that? [LB812]

LARRY DIX: Constitutionally, that has been in our constitution for as long as I've been involved in county government. That dates back to the '70s. It has been there, like I said, for as long as I can remember. It's one of the things that I think causes the counties to be, you know, quite honestly, very, very concerned about our options because we only have property tax. And once a county hits 50 cents, they can't exceed it, but it would take a vote of the people; or, of course, you could try to remove the 50 cent limit from the constitution, which takes a constitutional amendment. Now all of us have been around politics long enough to know that is...probably is pretty close to an impossible task when you would take that to a vote of the people. So counties, you know, unlike some of the other political subdivisions, some of the other political subdivisions can come to the Legislature and ask to have their levy cap raised and it can be adjusted through a vote of the Legislature. Unfortunately for counties, it is constitutional. So we at any point in time, once you have a county that's getting somewhere in the close of...in the area of .42, .43, they are dangerously close to that levy limit because once you get that close, in some of the small counties a cent is going to increase maybe $40,000; and in some of those small counties, if you throw in a murder trial or a natural disaster, $40,000 is not going to go very far and so they're immediately at their levy limit. [LB812]

SENATOR HADLEY: Thank you, Mr. Dix. Any other questions? Seeing none, thank you. [LB812]

LARRY DIX: Thank you. [LB812]

SENATOR HADLEY: Any other opponents? [LB812]

TIM GAY: Hello, Senator Hadley and members of the Revenue Committee. My name is Tim Gay, T-i-m G-a-y, registered lobbyist for the Sarpy County Board of Commissioners. I just wanted to briefly, I won't go over anything that's been said, but briefly echo Larry's comments to Senator Hansen and looking into the unfunded mandates. You know it was...you know we've brought some different ideas to you. We continue to monitor, and I know all the counties do, and monitoring what happens in LB561 has been a big concern and we've been working all year to alleviate some of those concerns. We do bring ideas to you. It's an important issue. But like I said, I just wanted to get on record, in current form we do oppose this. However, I look forward to any opportunity to talk about unfunded mandates, and I think anybody would, to see what we could do to maybe alleviate some of those. We did bring some ideas and we'd hope you would look at those. So thank you, Senator. [LB812]

SENATOR HADLEY: Are there questions for Mr. Gay? Senator Schumacher. [LB812]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for your testimony, Mr. Gay. [LB812]

TIM GAY: Yes, Senator. [LB812]

SENATOR SCHUMACHER: Sarpy County is one of the faster growing counties in the state. [LB812]

TIM GAY: Um-hum. [LB812]

SENATOR SCHUMACHER: And they have quite a bit of new business moving in from out of state. Now in having that new business nibble and explore relocating in Sarpy County, has there ever been an issue raised that the business, that you know of at least, that the business says, you know, you've got an inheritance tax, you know, that's just weighing heavily on our mind? [LB812]

TIM GAY: Not that I know of, no, not specific on that. [LB812]

SENATOR SCHUMACHER: Thank you. [LB812]

TIM GAY: Thank you. [LB812]

SENATOR HADLEY: Other questions? Thank you, Mr. Gay. [LB812]

TIM GAY: Thank you. [LB812]

SENATOR HADLEY: (Exhibits 13-18) Any other opponents? Anyone in the neutral? Senator Hansen, while you're coming up, we did receive a letter from...in support of LB812 from Robert Hallstrom from the NFIB; in opposition from Cathy Pavel, Holt County Clerk; Charles Neumann from Adams County Board of Supervisors; Jack Andersen, Sheridan County Commissioner; Julie Reiter, Butler County Attorney; and Knox County Board of Supervisors. There were none in the neutral. Senator Hansen. [LB812]

SENATOR HANSEN: Thank you, Mr. Chairman. Just very briefly, it was apparent when we started looking at this issue and, I mean, I've looked at it for the last few years, that it was Lancaster County, Douglas County has enough revenue there--$10 million and $12 million, whatever about--they can put that in their budget. These small counties can't so it becomes a slush fund whether they...you know, it depends on who dies, how much money they're going to have in their inheritance tax. And then we have unfunded mandates come down the pike and it clears them out again. So I know we can't do anything with just Douglas and Sarpy and Lancaster County, but the rest of the counties...I don't think getting rid of the inheritance tax is never going to take away 19 percent of the work force. And a lot of the counties are closer to the 50 cent maximum that you brought up. Douglas and Lancaster County aren't two of them. They're about half of that. So it's a bill that...and Senator Schumacher brought up the point, you know, has anybody talked to you about that, about moving into Sarpy County? No, they don't, but they talk to...they may mention it after they go through this process. I went through the process in 2002. That was before that step-up basis amounted to very much on the federal level and it was significant. Took from 2002 to 2010 for us to get out of the red. And it hurts me as a leader of our family operation to go borrow money to pay taxes. I mean, it's not a good situation. So it's been heavy on my mind. This is my last bill. I wanted to go out with a bang. (Laughter) [LB812]

SENATOR HADLEY: We will probably pass this out (laughter) before you reach your seat here. [LB812]

SENATOR HANSEN: Yeah, where is that grinder? Thank you. [LB812]

SENATOR HADLEY: Yeah, yeah. We were going to put a grinder up here and ask him to put his bill in it before he left. Any other questions for Senator Hansen? Thank you. [LB812]

SENATOR HANSEN: Thank you, Chairman. [LB812]

SENATOR HADLEY: With that, we will close LB812, and I believe Senator Carlson is here for LB960. [LB812]

SENATOR CARLSON: Thank you, Senator Hadley and members of the Revenue Committee. My name is Tom Carlson, T-o-m C-a-r-l-s-o-n, state senator from District 38, here to introduce LB960. Now this bill would not do away with the county inheritance tax, but it would reduce the rates for lineal descendents or relatives from 13 percent to 7 percent; and in the case of all others, those unrelated, from 18 percent to 9 percent. I think the present rates are too high to be justifiable. Our citizens work hard to leave an estate and perhaps the government should not be taking such a huge part of the proceeds. And we are all aware, I believe, on this committee and in the Legislature that the chart came out that said Nebraska is one of the worst places in which to die. That was based on the 18 percent, as I saw that table, and certainly reducing that from 18 to 9 percent would have an effect, wouldn't put us in that position, a position we don't want to be in as a state. And I've heard objections to this bill from many counties, including my own, and...but I think it's a fair compromise on both sides of the question and so I ask you to seriously consider the bill and to advance it for debate. And I'll try to answer any questions you might have. [LB960]

SENATOR HADLEY: Are there questions for Senator Carlson? [LB960]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Senator Carlson. In the business you're in, in working with clients and customers, do you think that a fair number of people do estate planning so that it really minimizes the impact of this inheritance tax? [LB960]

SENATOR CARLSON: Well, I've said all along, Senator Sullivan, if somebody can't plan for a 1 percent inheritance tax, they haven't done any planning. I'm not touching the 1 percent. But I think 18 is too high and I think 13 is too high, and it's an arbitrary decision on my part. In fact, I thought at the level to relatives our rate was 7 percent. And when I found out it was 13, I was surprised. So... [LB960]

SENATOR SULLIVAN: And again, in your work with your clients, speaking of those relatives that are farther out, most of them...do most of them live in the area? Or are they outside the area of where the estate would... [LB960]

SENATOR CARLSON: Most of them that I've dealt with over the years have lived within the area, within the state. [LB960]

SENATOR SULLIVAN: Okay. [LB960]

SENATOR CARLSON: But certainly we have relatives and we have relationships with people that do live outside of the state. Now quite honestly, if it's somebody that lives outside of the state and is not a Nebraska resident, I don't really care if they pay 18 percent. But I think in the case of those people that are farming the land and perhaps have for 20 or 30 years and have that land left to them, even though it's a valuable piece of property, all of a sudden on a million-dollar quarter of irrigated land there's $180,000 cash that's due, I think that's a high price. [LB960]

SENATOR SULLIVAN: Thank you. [LB960]

SENATOR HADLEY: Senator Schumacher. [LB960]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for introducing this, Senator Carlson. The...explain kind of how I see the situation and get your reaction to it. Right now the 13 percent would apply to nieces and nephews in a typical situation and the 18 percent would apply to somebody who is not a relative who gets the property left to them. For the most part, nieces and nephews are getting the windfall, but that's not always the case. It may be somebody who has a nephew who's worked the land or a niece that's helped build the business and that's the person that the things are being left to; likewise, it might be a...in the 18 percent category someone that someone has lived with all their life or perhaps...and for some reason hasn't married. What would your reaction be to allowing the decedent, leaving the rates alone, but allowing the decedent to name in their will one person to take...to be treated as a child at 1 percent? That would cover that nephew; that would cover that significant other. And yet the nephews and nieces that are just cashing in on a windfall, many of whom may live out of state, would still contribute to the roads and things that lead to that land. [LB960]

SENATOR CARLSON: My reaction to that I think would be that maybe going to 1 percent is too big a drop. And that's part of the reason, when I realized the middle bracket to the nieces and nephews was 13 percent, I lowered that to 7. And I guess I don't have a strong feeling about that, if there was one person that could be named, that that would probably take care of the individual who has somebody farming the land and has farmed it for 20 or 25 years. And I'm not sure then what is really fair. Is it fair to go from 18 to 1 or 18 to 7? [LB960]

SENATOR SCHUMACHER: Okay. Thank you, Senator. [LB960]

SENATOR HADLEY: Any other questions for Senator Carlson? Senator Harr. [LB960]

SENATOR HARR: Thank you. I guess my first inclination is if you could get your farm, a farm, for 18 cents on the dollar, would you consider that a good deal? [LB960]

SENATOR CARLSON: Yes, I would. [LB960]

SENATOR HARR: Okay. And there is nothing that would prevent that farmer from selling the property ahead of time to the nephew at a discount, is there? [LB960]

SENATOR CARLSON: No. [LB960]

SENATOR HARR: Okay. And then the rest of the proceeds could go as however you want and then you avoid the inheritance tax, except then you have to pay the capital gains tax, right? [LB960]

SENATOR CARLSON: That would be true. [LB960]

SENATOR HARR: And how much is the capital gains tax? [LB960]

SENATOR CARLSON: Well, it's at 15 percent. [LB960]

SENATOR HARR: Okay. So would you be in favor of lowering it to 15 percent or making it all 15 percent? [LB960]

SENATOR CARLSON: I guess 15 is better than 18. I'm going to go back to reaction to one of the other comments. [LB960]

SENATOR HARR: And that's on the federal; you still have the state tax too. [LB960]

SENATOR CARLSON: When we talk about planning, the problem with that is we don't know when we're going to die, and that's what can throw a wrench into perhaps what you suggested. You've got to really plan to take care of that and... [LB960]

SENATOR HARR: Well, you're a financial advisor. Can you buy life insurance to plan for that? [LB960]

SENATOR CARLSON: Yes, you can. [LB960]

SENATOR HARR: And you can buy life insurance plan to pay for the inheritance tax. [LB960]

SENATOR CARLSON: You can. [LB960]

SENATOR HARR: Okay. [LB960]

SENATOR CARLSON: It...is... [LB960]

SENATOR HARR: So there's a way around this and it doesn't...if I can figure this out...I'm not the brightest bulb in here. [LB960]

SENATOR CARLSON: And there's a way around this. It's just a matter of what you call fair, and we probably don't agree on that. But certainly everybody can have their view on what's fair and what's...what isn't, what would tend to serve the people of the state best. [LB960]

SENATOR HARR: Well, even if you get those last...you know, let's say someone dies unexpectedly and no life insurance. That nephew or unrelated family member, whether that's a significant other or, you know, whatever it is, is still getting the property at 18 cents on the dollar. Where I come from, that's still a good deal though, isn't it? [LB960]

SENATOR CARLSON: Depends on how you look at it. It's...on a million-dollar quarter of land, all of sudden, a $180,000 cash requirement that's not there, I don't know what kind of situation the nephew or niece might be in and whether they could even entertain borrowing money to cover that. So it's an argument either way, I think. [LB960]

SENATOR HARR: Okay. [LB960]

SENATOR CARLSON: And what puts Nebraska in a better position and better place that people want to come here and live here? I think we're all trying to be fair and that's... [LB960]

SENATOR HARR: Yeah. [LB960]

SENATOR CARLSON: ...that's probably why you have a decision to make whether it goes to zero or not... [LB960]

SENATOR HARR: Yeah. [LB960]

SENATOR CARLSON: ...or whether it's left as is or whether we're something in the middle. [LB960]

SENATOR HARR: And I appreciate that and, you know...but there is a survey that just came out today on farmers that shows, you know, the average age is quite a bit older than it was ten years ago. It also showed that there are more people who want to buy land than there is land available. And so it's not as though someone is getting an entity that no one wants to buy, otherwise would want to buy. That's my only...I understand where you're coming from. It's, as you said, you and I kind of disagree on this. I'll take 18 cents on the dollar any day. [LB960]

SENATOR CARLSON: Okay. [LB960]

SENATOR HARR: So thank you. [LB960]

SENATOR CARLSON: May I respond to what you just said that...? [LB960]

SENATOR HARR: Of course. [LB960]

SENATOR CARLSON: We are going through a time when land is really high priced. Land value goes in cycles, and so it'll go the other way as well. And then your response to that would be, well, when it goes the other way, 18 percent doesn't amount to as much as it does today. [LB960]

SENATOR HARR: Um-hum. [LB960]

SENATOR CARLSON: It's still a matter of fair tax policy and a tax policy I believe should be fair and it should be competitive. I don't think at 18 percent we're competitive. And who are we competing with? I don't even know the answer to that. But I just don't think 18 percent is fair. [LB960]

SENATOR HARR: Okay. When would this...if we made it down to whatever you...to your bill, when would the state then capture the capital gains? It wouldn't be until that nephew sold then, right? [LB960]

SENATOR CARLSON: Yes. [LB960]

SENATOR HARR: Okay. Thank you. [LB960]

SENATOR HADLEY: Any other questions for Senator Carlson? Seeing none, thank you, Senator Carlson. [LB960]

SENATOR CARLSON: Okay. [LB960]

SENATOR HADLEY: Are you going to stay for closing? [LB960]

SENATOR CARLSON: I'm supposed to be chairing another... [LB960]

SENATOR HADLEY: We understand. [LB960]

SENATOR CARLSON: ...hearing and I think I will. [LB960]

SENATOR HADLEY: Okay. [LB960]

SENATOR CARLSON: Okay. Thank you. [LB960]

SENATOR HADLEY: Thank you. Thank you, Senator Carlson. Just so...if you gave testimony on the previous bill, if you're going to give the same testimony, you can come up and say, same testimony as last bill. First proponent. [LB960]

DICK CLARK: (Exhibit 19) Chairman Hadley, members of the Revenue Committee, again, my name is Dick Clark, D-i-c-k C-l-a-r-k, director of research for the Platte Institute. Thanks for this second opportunity to testify today, this time in support of Senator Carlson's LB960 which would reduce inheritance tax rates for remote relatives and unrelated legatees. This does represent an incremental improvement over the status quo, and so I support it for the same reasons I spoke about in my previous testimony. I'll take the Chairman's invitation to keep my testimony brief and, with that, leave it for any questions. [LB960]

SENATOR HADLEY: Are there any questions for Mr. Clark? Senator Janssen. [LB960]

SENATOR JANSSEN: Thank you, Chairman Hadley. Thank you, Mr. Clark. Thank you. [LB960]

DICK CLARK: Thank you, sir. [LB960]

SENATOR HADLEY: Senator Harr. [LB960]

SENATOR HARR: Thank you. If someone is in a long-term relationship, same sex, should they be exempt? Do you think there should be an exemption for them? [LB960]

DICK CLARK: Are you talking about, like, equivalent to the spousal exemption, Senator? [LB960]

SENATOR HARR: Yes. [LB960]

DICK CLARK: You know, I'm not prepared to talk about that and I don't think that my employer takes a position on that one way or the other. We try to stay more towards the economic side of things and not the social issues or the cultural war-type topics. [LB960]

SENATOR HARR: Well, I don't think that's a cultural war issue, do you? [LB960]

DICK CLARK: Oh, I sure do. [LB960]

SENATOR HARR: I think it's a fairness issue, don't you? [LB960]

DICK CLARK: I read the newspaper. [LB960]

SENATOR HARR: What's that? [LB960]

DICK CLARK: I sure do think that that's a cultural war sort of topic and I'm going to steer clear of it. I read the newspapers, sir. [LB960]

SENATOR HARR: Well, if I have in a long-term relationship...we have an exemption for married couples. Why don't we have one... [LB960]

DICK CLARK: Well, I...as I advocated in my previous testimony, I do advocate ending the inheritance tax. And so you wouldn't need an exemption if you don't have the tax, Senator. [LB960]

SENATOR HARR: But you're in favor of this one which would keep it. [LB960]

DICK CLARK: Yeah, I do favor the incremental change that this bill offers over the status quo. [LB960]

SENATOR HARR: So you're not going to answer I guess is the answer. [LB960]

DICK CLARK: I think I've answered it, Senator. Thank you. [LB960]

SENATOR HARR: What's that? [LB960]

DICK CLARK: I think I have answered it, Senator. Thank you. [LB960]

SENATOR HARR: And what was that answer? I guess I didn't... [LB960]

DICK CLARK: My answer is that I think that goes beyond the scope of what we're talking about with this bill. [LB960]

SENATOR HADLEY: Okay. Any other questions? Thank you, Mr. Clark. [LB960]

DICK CLARK: Thank you, sir. [LB960]

SENATOR HADLEY: Further proponents. Opponents to LB960. [LB960]

MARY ANN BORGESON: Good afternoon. Mary Ann Borgeson, M-a-r-y A-n-n B-o-r-g-e-s-o-n. I'm the chair of the Douglas County Board of Commissioners, and my testimony is pretty much the same. I'm sitting here on behalf of the Douglas County Board of Commissioners opposing LB960. I do want to clarify. One of my comments I made was the opposition to this is about a $5 million reduction in the revenue of inheritance tax, which Douglas County collects right now, and it could potentially decrease the...the decrease in that magnitude would possibly be a 6 percent increase in our property tax levy. And so we would oppose LB960. [LB960]

SENATOR HADLEY: Thank you, Commissioner Borgeson. Any questions? Seeing none, thank you. [LB960]

MARY ANN BORGESON: Thank you. [LB960]

SENATOR HADLEY: We have been joined by Senator Pirsch and Senator Janssen. Any other opponents? [LB960]

JANE RAYBOULD: (Exhibit 20) Good afternoon again, Senator Hadley and members of the Revenue Committee. My name is Jane Raybould, spelled J-a-n-e R-a-y-b-o-u-l-d. I'm appearing before the committee on behalf of the Lancaster County Board of

Commissioners and I'm here to express the county's strong opposition to LB960. Again, my testimony is similar to what I had earlier given. I just want you to consider these points. In Lancaster County, the inheritance tax plays a key role in balancing our budget and keeping property taxes as low as possible. For Lancaster County, all of the inheritance tax revenue is deposited in the county's general fund to help cover operating expenses, thereby providing direct property tax relief. And I can give you a couple of examples. This is my fourth year as a county commissioner. My first year, Lancaster County had a budget deficit of about $4.2 million. The second year, it had a budget deficit of $6.7 million. And the third year, last year, it had a budget deficit of $9.2 million. And we were able to bridge those deficits by using, of course, keno funds, making budget cuts. The postemployment health plan was postponed. We were very fortunate in those years, as well, to have evaluation increases above what we've budgeted. So typically an evaluation increase can be about 2 percent, and two years ago it came in at 5.5 percent. So we've been very fortunate in that instance and also every year we budget about $5 million of inheritance tax revenue and, fortunately, in all those years it has exceeded the budgeted amount that goes right into our general funds. The other concern is that we don't have a slush fund. It doesn't go into a slush fund. Absent these additional revenues generated from the inheritance tax, we would have had to reach out for property tax increases. The other thing I know Senator Hansen had mentioned that the county engineer, the counties aren't responsible for bridge maintenance. But the fact is we are. We just authorized on Tuesday a bridge repair for one of the bridges out in the county of $106,000. That's just bridge repair, and that was actually about $40,000 above the earlier estimated cost. So I just want to assure you that we do take this seriously and we do need the funds for our current operating expenses. While the Legislature has created numerous mandated responsibilities for counties, our revenue tools are very limited, so it makes no sense to reduce one of the few revenue sources available to the county. Finally, I guess, a major criticism of the inheritance tax is that it creates a financial barrier to parents who wish to pass along the family farm, ranch, or business to their children. This problem is simply not involved with inheritance tax paid by distant relatives and nonrelatives. Thank you again for the opportunity to testify and I'm happy to answer any questions. [LB960]

SENATOR HADLEY: Senator Harr. [LB960]

JANE RAYBOULD: Yeah. [LB960]

SENATOR HARR: Thank you. How long have you been in your current position? [LB960]

JANE RAYBOULD: This is my fourth year of my first term. [LB960]

SENATOR HARR: Okay, thank you. And maybe you're not the right person to ask this, but let me ask you anyway. [LB960]

JANE RAYBOULD: Sure. [LB960]

SENATOR HARR: Have you ever heard of a family farm having to be sold to pay inheritance taxes? [LB960]

JANE RAYBOULD: I have not heard that. [LB960]

SENATOR HARR: Okay. Thank you. [LB960]

JANE RAYBOULD: You bet. [LB960]

SENATOR HADLEY: Any other questions for Ms. Raybould? Seeing none, thank you. [LB960]

JANE RAYBOULD: You bet. [LB960]

LARRY DIX: (Exhibit 21) Good afternoon, Senator Hadley. My name is Larry Dix, L-a-r-r-y D-i-x. I'm here today representing the Nebraska Association of County Officials in opposition to LB960. As you're getting a document handed out, it's one...you know, our testimony is going to be the same for our opposition. But I want to spend a little bit of time on this document that we're handing out because it does start to break down some of the Class 1s, Class 2s, and Class 3s, so I wanted to take a little bit of time of explaining that and then just a statement that I'll make before I go into that. You know, I...we've heard a couple of times before people coming in and testifying, saying, this is the worst state to die in, and, you know, I think we've got to end making tax policy based on magazine articles. And we've heard that and I've heard that for years, but these are magazine articles that come out and we want to make our tax policy based on factual information. And what you'll see on this page is what we...this summer we went to visit the 12 counties that you see on this list and we pulled all of the inheritance tax filings in those counties and that's a rather arduous task because you've got to pull every document. And then we went through and analyzed each document and we separated out the Class 1s, Class 2s, Class 3s. Okay. We did that so we would start to be able to determine how much of the inheritance tax is falling in each of the three classes. I would tell you, statistically, when you have this small of a sample, based on the whole state of Nebraska, this is not something I would want to bet the farm on because it, obviously, you can see, it is going to change. And this is one year and one year only. So if we look at, like, Blaine County, a small county, the inheritance tax there, no one paid any taxes in the Class 2s or Class 3s. There was no money that came in. And then if you contrast that to...if you go down to look at, like, Gage County, there was actually more revenue that came in, in the Class 2s, than there were the Class 1s. Okay. So this thing, it varies, and in my belief the only way to truly be able to determine...and in Senator Carlson's bill we know that he's reducing Class 2s and Class 3s. We agree with the fiscal note pretty close to what we think will happen. But in order to really pinpoint this down, you would probably have to go back almost through an economic cycle and maybe analyze this over an eight-year period if time, go through and pull all the filings and go through and pull it for 93 counties. Then I think you would know if someone would go through that process. You would probably then know how much money on average is coming in on your Class 1s, Class 2s, and Class 3s. What this indicates here is, of these 12 counties, in one year 43 percent of the money was paid into Class 1s, 36 into the Class 2s, and 20 percent into the Class 3s. So this is probably the first time this committee has seen really any analysis like this. It's one of the things that we did this summer. I would tell you, given the staff time it takes to do this, we're probably not going to go around and do it every year. I'm just telling you, it takes a significant amount of time and it's...when you go to a county and pull that, somebody is probably going to say, well, when I add these up from left to right they don't total. Well, more than likely, what happened when we were at the county that day somebody had checked out a couple of cases. Those cases happen to be checked out from time to time and there's also a provision where some folks can sometimes prepay inheritance tax so the money would have come in, in another year. And so that's the reason why it takes a fairly in-depth statistical analysis. This is maybe the first blush at it, gives us an idea, but statistically I would not want to walk out of here saying, oh, Larry Dix said 36 percent of the taxes always come in, in tier two. So with that I'll be happy to try to answer any questions anybody may have. [LB960]

SENATOR HADLEY: Questions? Yes, Senator Sullivan. [LB960]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Larry. Did you say that people can actually prepay their inheritance tax? How do you...I mean... [LB960]

LARRY DIX: Well, it sounds... [LB960]

SENATOR SULLIVAN: ...don't know when they're... [LB960]

LARRY DIX: I know it sounds sort of odd. If you know that you're going to have... [LB960]

SENATOR SULLIVAN: Die. [LB960]

LARRY DIX: No, not if you're going to die. (Laughter) Once the death has occurred and you know that you're actually going to have to pay some inheritance tax, you can make a deposit. Some of that money comes in... [LB960]

SENATOR SULLIVAN: Some of that, but the true value... [LB960]

LARRY DIX: Some of that money would come in prior to the actual document being filed. [LB960]

SENATOR SULLIVAN: Okay. [LB960]

LARRY DIX: That's what that is. [LB960]

SENATOR SULLIVAN: Okay. All right. Thank you. [LB960]

SENATOR HADLEY: Senator Schumacher. [LB960]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just a point of clarification: Isn't that due to the fact that a year after death the inheritance tax begins to draw 14 percent interest? [LB960]

LARRY DIX: That is correct. [LB960]

SENATOR SCHUMACHER: And so if your estate is not going to be wound up by a year, you take a guesstimate and throw it into the pot... [LB960]

LARRY DIX: Yep. [LB960]

SENATOR SCHUMACHER: ...and hope that you avoid the 14 percent. You can always get a refund if you throw in so much. [LB960]

LARRY DIX: That is...my belief, that would be why someone would...were to do that. [LB960]

SENATOR SCHUMACHER: Thank you. [LB960]

LARRY DIX: Yep. [LB960]

SENATOR HADLEY: Senator Harr. [LB960]

SENATOR HARR: Thank you. Thank you, Mr. Dix, for being here today. I don't know if you heard what I asked Commissioner Raybould. Have you ever heard of a farm having to be sold to pay inheritance tax? [LB960]

LARRY DIX: No. [LB960]

SENATOR HARR: Okay. And how long have you been... [LB960]

LARRY DIX: I've been involved with county government since 1977. [LB960]

SENATOR HARR: Okay. Thank you. [LB960]

SENATOR HADLEY: Any other questions? Seeing none, thank you, Mr. Dix. [LB960]

LARRY DIX: Thank you. [LB960]

SENATOR HADLEY: (Exhibits 22-24) Are there any others in the opposition? Neutral? I'd like to read into the record that we have letters of support from John Girard from himself; Robert Hallstrom from NFIB; opposition from Cathy Pavel from Holt County Clerk; Charles Neumann, Adams County Board of Supervisors; Julie Reiter from Butler County Attorney; Knox County Board of Supervisors. With that, we will close LB960 and open LB1053. (See also Exhibit 25.) [LB960]

SENATOR KARPISEK: Hello, Senator Hadley. [LB1053]

SENATOR HADLEY: Welcome, Senator Karpisek. You're here to make our day, huh? [LB1053]

SENATOR KARPISEK: Thank you. Thank you for your compliments on my new goatee. It was passed on to me what you thought about it. I appreciate that. [LB1053]

SENATOR HADLEY: With a...passed on? Okay. I...okay. [LB1053]

SENATOR KARPISEK: LB1053 is intended to do nothing more or less than to reinstitute the state aid to cities, counties and natural resources districts. We have a lot of money, we hear, in the treasury, in the rainy-day fund. The Governor says there is even more and everybody wants to, of course, do something with it. We talk about property tax reform, those sort of things. My idea is that it isn't that long ago that we were in special session because we didn't have enough money. We cut a lot of things. I don't know why we don't pay...go back and reinstitute some of those things rather than give money back in property tax relief. I think that's a nice idea, but the property taxes isn't what made us this windfall of money. As we all know, we don't get any of those property taxes. I think it would do just as good to give back cities and counties and NRDs the state aid so they wouldn't have to have so high of property taxes. Again, we took a lot of money from a lot of places to right our ship, and I think this is just one place that we should go back and start it again. I don't understand why we didn't...well, why we wouldn't. And that's the gist of it and I'd be glad to try to answer any questions. [LB1053]

SENATOR HADLEY: Questions for Senator Karpisek? Senator Hansen. [LB1053]

SENATOR HANSEN: I have one. Thank you, Senator Karpisek. Do you have those listed out? [LB1053]

SENATOR KARPISEK: I do... [LB1053]

SENATOR HANSEN: How much to cities? How much counties? How much NRDs? [LB1053]

SENATOR KARPISEK: I do not. It's just...my intent was just to go back to the way that we had it prior. And I'd...you know what, I don't know if... [LB1053]

SENATOR HANSEN: The counties were broke then too. [LB1053]

SENATOR KARPISEK: (Laugh) Well, they're "broker" now. You know, a lot of them are up against the...their lid limits and they either have to cut services or raise property taxes if they can. So again, it's just my way of thinking, if we have this money and we want to give it back to the people, why not start giving it back to the people that we took it away from? [LB1053]

SENATOR HADLEY: Senator Karpisek, it's anecdotal, but I...a couple...three or four weeks ago I attended a conference in Chicago that had fiscal leaders from 14 states in the Midwest and we were talking about aid to cities and counties and...because a lot of states have cities that are near bankrupt. And I made the comment that we cut out all aid to cities and counties and people were just amazed because that is a very common use of state aid is to cities and counties to help them. So people were kind of amazed at that point in time that we'd cut it out and not reinstated it. Senator Schumacher. [LB1053]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you, Senator Karpisek. If we gave $14 million a year back to the local governments, how can we possibly afford to continue to send $100 million over to Iowa just to help out over there? [LB1053]

SENATOR KARPISEK: (Laughter) It's probably more than that, Senator Schumacher, but I guess that doesn't come right out of our budget, does it? [LB1053]

SENATOR SCHUMACHER: (Laugh) Thank you, Senator Karpisek. [LB1053]

SENATOR KARPISEK: ...just our personal ones. [LB1053]

SENATOR HADLEY: Any other questions for Senator Karpisek? Thank you, Senator. Are you going to stay for closing? [LB1053]

SENATOR KARPISEK: Oh, I might as well stay and watch how a good committee runs. [LB1053]

SENATOR HADLEY: Well, you could take some lessons back to your committee. I realize the... [LB1053]

SENATOR KARPISEK: That's what I mean, yeah. [LB1053]

SENATOR HADLEY: That's what I kind of thought. Would the first proponent for LB1053... [LB1053]

LYNN REX: (Exhibit 26) Senator Hadley, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. We really appreciate the opportunity to be here today. We appreciate Senator Karpisek introducing this measure. We also appreciate all the things that this Revenue Committee has done for us for the last several years under your leadership, Senator Hadley. One of the things I'd like to underscore is just the issues that municipalities across the state of Nebraska are facing. And as, I think, Senator Karpisek alluded to, of the 530 municipalities in the state of Nebraska, well over half of them are already at their maximum levy limit, and that maximum levy limit was set in 1996 of 45 cents plus an additional 5 cents for local agreements. Second-class cities and villages at that time...that took effect in 1998; it was passed by the Legislature with LB1114 in 1996, but those levy limits took effect in 1998. Second-class cities and villages, of which there are hundreds of them, reduced and had to reduce theirs from $1.05 per $100 of valuation down to 45 (cents) plus 5 (cents). And that...they just took a severe hit with second-class cities and villages, especially most of our first-class cities at that time, and those are cities with a population in excess of 5,000, already had local-option sales tax, so at least they had something to help them and they were not close to, frankly, the 45 cents, although some municipalities at that time were. So we come to you to indicate that state aid to municipalities is an important thing that we would hope this Legislature would look at reinstating in some way, shape, or form. And we're using this forum to try to underscore the importance of this bill and what has happened over a period of years to municipalities and other local governments as well. You may remember that back in 1967 the Legislature passed legislation to exempt households and intangibles. That resulted in what was then the development and the creation of the Governmental Subdivision Fund. The Legislature at that time appropriated $12.6 million into that fund and then in 1972 the Legislature started what was a long-term effort to reduce personal property taxes on livestock, farm equipment, and business inventory. The first five-eighths were removed with passage of LB1241, starting in 1972. By 1977, the Legislature then passed LB518, which exempted the remaining three-eighths of the livestock, farm equipment, and business inventory. At that time the league hired the Bureau of Business Research at UNL to look at what those numbers really meant for municipalities across the state and other political subdivisions. And at that time, the actual loss of revenue, not the loss of valuation, the actual loss of revenue exceeded $250 million for local governments. That's schools, counties, NRDs, municipalities. So it was a huge amount and millions and millions of dollars, obviously, of valuation that had been exempted. And not that those exemptions, by the way, were not legitimate. That is not our point. Our point is that the Legislature at that time told local governments, we will not create a shift over to residential property owners, we won't do that because we're going to give you a dollar-for-dollar reimbursement, and in fact that never happened. Back at that time when LB518 passed, the Legislature created what was then called the Personal Property Tax Relief Fund. The Legislature at that time with...under the leadership of Senator DeCamp, Senator Lewis, Senator Schmit, and others said, you know, we're going to reimburse local governments, there will not be a shift of property taxes to residential homeowners. But that, indeed, is what happened and also to others too. But that shift occurred and it occurred with a huge clunk, if you will, because it had a dramatic impact in the state of Nebraska. Governor Exon said, we can't afford to reimburse this dollar for dollar, so that $250-some million, that was great, but, sorry, we're not doing it, we can only do it at $70 million, so we're going to put a cap of $70 million. Out of that $70 million, municipalities, our share of that at that time was $17.9 million. What you have in your handout is basically the cuts that occurred to that $17.9 million, along with other "aid programs" at the time that are now, except for the Municipal Equalization Fund, were all eliminated. And just the first page, I'm not going to go through all of it, but just to highlight some of this, the aid to municipalities, if you look at the total cuts for our three programs of aid to municipalities which, again, was intended...was basically just a reimbursement for property tax base lost, that cut at that time was pretty significant. I mean, in 2002-2003, the cut for aid to municipalities was 25 percent for the MIRF program, did not take a cut at that year. But Municipal Equalization Fund rollover took a 57 percent cut for a total of all programs of 25 percent. In 2003-2004, those three programs, again, 34 percent cut; 2004-2005, a 32.5 percent cut. In 2005 through 2006 and ongoing, 100 percent cut in MIRF, the Municipal Infrastructure Redevelopment Fund, a total cut in that. Lincoln that year did not take the cut because they took it in state aid. So you'll go to the very last page because I'm not going to go through all the rest of it. It gives you every bill number, every cut, as painful as it was for municipalities and also other political subdivisions. And you'll note that in 2010-2011, with passage of LB383, the remaining $11-some million in aid to local governments and municipalities in particular was totally eliminated. And one of the things that happened when the Legislature passed LB518 and at that point repeatedly in the press made comments to residential homeowners: We're not going to transfer this and shift this over to you, that's not going to happen. But indeed, as I said, it did happen. The Nebraska Supreme Court looked at that $70 million fund and in a period of three different Nebraska Supreme Court decisions, the Nebraska Supreme Court said: It's an unconstitutional fund because it has a fixed, a frozen class. And the Legislature at that...even though Senator Cal Carsten who chaired this committee at the time was asking that the Legislature put some kind of a token amount on livestock, farm equipment, and business inventory so you could track it, so it would not be a frozen class, the Legislature refused to do that, and so basically it was a frozen class. They had to do something. So back in 1980 the Legislature then passed LB816, and John DeCamp, I remember, sitting in his office as a very junior associate at the League of

Nebraska Municipalities, and I was just there to take notes and do some other things, and he and others said, you know, here's what we're going to call it, let's...the Nebraska Supreme Court says we can't call it Personal Property Tax Relief Fund so we're going to call it state aid. That's how the nomenclature of "state aid" began for local governments as a replacement for personal property tax relief of $70 million, plus the additional $12.6 million of the Governmental Subdivision Fund. And that $82.6 million then is what was cut, cut, and cut down to essentially nothing for municipalities. So what I can share with you is that we have cities across the state, and villages, that are struggling. We have some, obviously, that are doing better than others. There's no question about that. We have about ten cities that are deemed to be growth cities. Some of you are from those municipalities and so for the Kearneys and the Columbuses and Omaha, Lincolns, and North Plattes, I'm not saying their life and being in municipal government is a walk in the park, but certainly it is not as severe as it is in some other municipalities. And I will share with you though that even those municipalities have issues and challenges before them, and certainly Omaha, we know what Omaha is facing with a number of issues on...from their pension side to their stormwater separation, everything. I mean there are a lot...there are huge issues and mandates, federal and state, that local governments are facing. So with that, we just want to offer support for this measure. Anything that this committee can do to assist local governments and in particular municipal governments I just want you to know how much we do appreciate that. And I'd be happy to answer any questions that you might have. [LB1053]

SENATOR HADLEY: Questions for Ms. Rex? Senator Schumacher. [LB1053]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Ms. Rex, thank you for your testimony. I perused through here quickly and maybe I'm missing it. But didn't we also clip the cities on some kind of an administrative fee for sales taxes? [LB1053]

LYNN REX: Absolutely. From the very... [LB1053]

SENATOR SCHUMACHER: Could you refresh our memory on that? [LB1053]

LYNN REX: Yes. From...okay, thank you for that. And we also appreciate you introducing LB414 so the municipalities could in fact keep their 3 percent collection fee. From the very inception, the state of Nebraska put on a 3 percent collection fee to collect for local-option sales tax, and I want to underscore that when a city or a village passes a local option sales tax, and we have now well over 220 municipalities that have done so, it takes a local vote, not a vote of the city council, not a vote of the village board, a vote of the people to enact that. And so they fully expect that that money is going to go back to whatever project or program or property tax relief, and most of them put in a component for property tax relief as part of that. Three percent collection fee from the very beginning we thought was extraordinarily high. We did hire, again, the

Bureau of Business Research back about some 20-some years ago to look at what it actually cost the state of Nebraska at that time when we had approximately 150-some cities that might have local-option sales tax, and it was seven-tenths of 1 percent is what it cost the state of Nebraska to collect that. But the state was collecting 3 percent. Year after year after year, the league put in bills to say the cities ought to get the 3 percent collection fee back. One year, we had 2.7 percent; if you need the 3 percent, then at .3 percent of 1...seven-tenths of 1 percent, then take that, but give the rest of it back of 2.3 percent. So we've had any combination of that. And back in 1996, when the Legislature put in effect the levy limits and also put into effect the lid on restricted funds, which took effect immediately in 1996 with the levy limits then taking effect in 1998, at that time Senator Warner said, okay, the cities have been asking for this so we're going to give them the 3 percent collection fee but we're going to transfer it and shift it over from the state's General Fund to the Municipal Equalization Fund, which is called MEF, M-E-F. So the Municipal Equalization Fund has been the recipient of those funds. And quite frankly, LB414 is an extremely important bill for us and a high priority measure because it would allow municipalities that passed the local option sales tax with a vote of the people to keep the 3 percent collection fee. Since the state of Nebraska is now in a position where you have significant reserves, those funds that are now going in to fund the Municipal Equalization Fund would then be coming from the state's General Fund. So those cities that are a recipient of the Municipal Equalization Fund, which is a needs-based formula, frankly, not unlike TEEOSA, Senator Sullivan, so that would come from the state's General Fund, not from other municipalities, subsidizing other municipalities. So I appreciate the question and really appreciate you putting in LB414. That's an important measure for municipalities across the state. [LB1053]

SENATOR SCHUMACHER: Thank you. [LB1053]

SENATOR HADLEY: Other questions? Thank you, Ms. Rex. [LB1053]

LYNN REX: Thank you. [LB1053]

SENATOR HADLEY: Next proponent for LB1053. [LB1053]

RENEE FRY: (Exhibit 27) Good afternoon. Hello again. Chairman Hadley and members of the Revenue Committee, my name is Renee Fry, R-e-n-e-e F-r-y. I'm executive director of the OpenSky Policy Institute. We support restoring aid to Nebraska's local governments. Local service responsibilities have increased while state support for local governments has declined significantly. This puts greater pressure on property taxes and other local taxes and could lead to cuts to important local services, like road maintenance and police protection. Compared to other states in the national average, Nebraska is low in aid to local governments and high in local taxes. On average, local governments around the country received 33 percent of their revenue from their state governments in FY '11, the most recent year for which nationally comparable data are available. In Nebraska that share was 27 percent, putting us 43rd in the country, and that was before the Legislature eliminated about $22 million of aid to municipalities, counties, and NRDs in the 2011 Session. We likely rank even lower in state aid and even higher in local taxes now. Our research has shown a clear relationship between state aid and local taxes, such as property taxes. Restoration of aid to these local governments is highly likely to bring property taxes down. I'm going to skip part of my testimony that Lynn Rex touched on, but I want to also reiterate that since a lot of those exemptions were put into place, there have been further exemptions, such as those under the Nebraska Advantage Act, but state aid has been greatly reduced and that intended reimbursement was never fully funded and much of what did remain of it was eliminated in 2011. However, while we support restoring aid, we do recommend the committee consider whether there may be more effective and efficient mechanisms for distributing that aid than those that are in LB1053 as it's currently written. For example, the bill calls for distributing aid to municipalities based on population, but the Syracuse study in 1987 found a negative correlation between population and fiscal need. It was generally municipalities with smaller populations that had the largest gaps between their ability to raise local revenues and their funding needs to provide adequate services while the state's larger cities tended to fare much better. A more nuanced way of distributing aid based on measurable needs and local funding capacity may, therefore, be more effective at delivering the aid to where it's needed the most at the lowest possible cost to the state. Similarly, LB1053 would distribute aid to counties based simply on the total amount of property value in the county. A 2008 memo authored by Bill Lock drawing partly on recommendations from NCSL outlined a potential method for distributing aid to counties that would be based on each county's capacity to raise local revenue and the level of its needs. Factors determining needs could include how many road miles must be maintained, factors affecting public safety, spending, and the influence of poverty. Thank you for your time and I'd be happy to answer any questions. [LB1053]

SENATOR HADLEY: Questions for Ms. Fry? Seeing none, thank you. [LB1053]

RENEE FRY: Thank you. [LB1053]

SENATOR HADLEY: Next proponent, please. This is LB1053. [LB1053]

STEVE HUBKA: Senator Hadley and members of the Revenue Committee, my name is Steve Hubka, S-t-e-v-e H-u-b-k-a. I'm the finance director for the city of Lincoln. I'm here in support of LB1053, and the city of Lincoln would like to thank Senator Karpisek for introducing this bill. Without being repetitive, I'd like to echo the comments of Lynn Rex regarding the history of this revenue source to the cities and the merits of this bill. What is commonly referred to as state aid was eliminated when state government had severe budget issues to face in 2011. This reduction was passed on to municipalities to deal with at the local level in the 2011-2012 budget. I'd be the first to admit that not all of

Lincoln's budget difficulties that year were due to the loss of this state funding of $1.8 million, but we were forced to raise the property tax levy for operations for the first time in 17 years and make further budget cuts beyond even deeper budget cuts that we'd been making during the height of the recession. Any amount of state funding that could be restored would be very welcome and would ease the pressure on the need for property tax revenues from the citizens. Lincoln has first looked for efficiencies in the way we do business before asking citizens for more revenue. During the Beutler administration, which has been in office less than seven years, 140 full-time-equivalent positions have been eliminated, or 6.3 percent of the city work force. As you all know, Lincoln is growing both in population and in geographic area. We will continue to look for efficiencies first in the upcoming biennial city budget. Once again, we'd like to thank Senator Karpisek and urge the committee's support of LB1053. [LB1053]

SENATOR HADLEY: Questions for Mr. Hubka? Seeing none, thank you very much. [LB1053]

STEVE HUBKA: Thank you. [LB1053]

SENATOR HADLEY: Next proponent. [LB1053]

LARRY DIX: Senator Hadley, members of the committee, my name is Larry Dix, spelled L-a-r-r-y D-i-x. I'm here today in support of LB1053. As I sit here and listen, I think someday I'm going to make a copy of the transcript of Lynn Rex's testimony, and that way...she covers that history so well that once we get that transcript we can just enter it year after year after year after year. She does such a great job of remembering all those years. When our board saw this bill...and I've got to be completely honest with you. I talked to Senator Karpisek about it. One of the things that when we start talking about state aid, you know, if we have it, great, but if we put together a program that isn't sustainable then, okay, we really are looking for predictability. And I would tell you, if we're serious about state aid to cities and counties and NRDs and local political subdivisions, we're more than happy to be at the table to design something like that. We think it should be there. And I know and I've talked to many of you and I've heard the comments saying, well, if we just give some money to the cities and the counties, then how do we know that they're really going to use it for property tax relief and not just spend it? And I would tell you, if you're serious about it, I'm serious about sitting down and saying, I can prove to you how and ways in which we can utilize it and lower property taxes and guarantee that that money is utilized through what we want to utilize it for. We can have a serious talk about when Senator Hansen talked about the unfunded mandates. If we're really serious about it and we're serious about saying, we're going to take from this pot, this state income tax and sales tax pot, and pay for some local government entity items so that we reduce property tax, we're more than willing to be at that table and have that discussion. Until that point in time, we would ask that, whatever you put out there, make sure it's sustainable. [LB1053]

SENATOR HADLEY: Questions for Mr. Dix? Seeing none, thank you. [LB1053]

LARRY DIX: Thanks. [LB1053]

SENATOR HADLEY: Next proponent. [LB1053]

JACK CHELOHA: (Exhibit 28) Good afternoon, Chairman Hadley, members of the Revenue Committee. My name is Jack Cheloha, that's J-a-c-k, and then the last name is spelled C-h-e-l-o-h-a. I'm the lobbyist for the city of Omaha and I want to testify in support of LB1053 and I want to thank Senator Karpisek for introducing this bill this year. Representing the largest municipality in the state, we have many needs, many services we provide, from police and fire protection to sewers, pools, recreation, community centers, libraries, all the various services that our citizens demand. Through the years, state aid to cities was something that we could count on; it was something that was sustainable and that we did utilize to go towards these valuable services and in exchange they did help us keep our property tax levy down or they helped us fund things that were absolutely necessary, whether we added more police patrols or more officers, etcetera. As our population grew, the need for the services grew as well. I want to let you know that I've been lobbying for Omaha for 20 years already now and in 2011, when the bill passed to eliminate state aid to cities, I consider that one of my darkest days as a lobbyist for the city. Granted, I've had many dark days as lobbyist for Omaha, but that really was painful, if you will, because as we've talked with senators, as we went through the recessions that started in, you know, 2008 and on, senators would tell us, oh, cities, counties, the state senators would say, we're in this together, we're partners here, you know, we're going to have to weather this together, we're going to cut your expenses but, please, you know, go with us, take the 10 percent, take the 2 percent in special sessions, whatever it took. But then ultimately in 2011 this bill came in and, you know, no longer were we in this together. You know, the bill came in. It was supported from the top executive of the state, carried by the Speaker of the Legislature and, you know, when they looked behind to say, cities and counties, are we still in it together, it was too late. We were gone. We were, you know, put by the wayside. So I just want to make this appeal to you that, you know, now that times are better, the rainy-day fund has been replenished, we think it would be helpful with...we think it would be fair. We think anything you could do to help us would be greatly appreciated because we would like to rebuild that partnership, if you would, between local governments and state. And for those reasons I just wanted to be supportive of the bill and tell you we would appreciate your help. Thank you. [LB1053]

SENATOR HADLEY: Questions for Mr. Cheloha? Seeing none, thank you. [LB1053]

JACK CHELOHA: Thank you. [LB1053]

SENATOR HADLEY: Any other proponents? Opponents? Those in the neutral? Senator Karpisek waives closing. One additional comment I'll make before we close the hearings. We are going to have an Executive Session tomorrow. It starts at 1:30. I'd appreciate trying to get it started right at 1:30 because we're going to go two hours and quit at 3:30. So with that, I will close the hearings for today and thank the people who came to testify. Thank you. (See also Exhibit 29-31.) [LB1053]