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Tax Modernization Committee
September 24, 2013

[LR155]

The Committee on Tax Modernization met at 1:30 p.m. on Tuesday, September 24, 2013, in North Platte, Nebraska, for the purpose of conducting a public hearing on LR155. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairman; Kate Bolz; Kathy Campbell; Tom Hansen; John Harms; Burke Harr; Charlie Janssen; Beau McCoy; Heath Mello; Jeremy Nordquist; Pete Pirsch; Ken Schilz; and Kate Sullivan. Senators absent. None.

SENATOR HANSEN: We want to welcome all of you to the 42nd District at Mid-Plains. And I'll turn it back to the Chair and he'll give you a few announcements and rules. But I just wanted him to feel at home even though he's from Kearney. (Laughter) [LR155]

SENATOR HADLEY: Thank you. Tom always kids me that he goes through Kearney at 80 miles an hour and never stops to spend any money. So I...you know, and I do thank Mid-Plains. This is a beautiful place. We appreciate the water and the use of the facilities. We appreciate your turning out. We're going to have a hearing on our tax system. And this is the result of LR155. And to start out, I'm going to have the committee introduce themselves so you'll know who they are and where they come from. I'll start with myself. My name is Galen Hadley and I'm Chair of the Revenue Committee and Chair of this Tax Modernization Committee and I represent the 37th District. And we'll start down with Senator Janssen. [LR155]

SENATOR JANSSEN: Hi, I'm Charlie Janssen. I'm from Fremont which is District 15, and it's all of Dodge County. [LR155]

SENATOR MELLO: Heath Mello from District 5 in south Omaha and midtown. [LR155]

SENATOR NORDQUIST: Jeremy Nordquist from District 7, downtown and south Omaha, and glad to be in North Platte. [LR155]

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SENATOR CAMPBELL: I'm Kathy Campbell, and I represent District 25, which is east Lincoln and eastern Lancaster County. [LR155]

SENATOR BOLZ: Kate Bolz, I represent District 29 in south-central Lincoln. [LR155]

SENATOR HARMS: John Harms, I represent the 48th District, Scotts Bluff County. [LR155]

SENATOR SCHUMACHER: Paul Schumacher, District 22, basically from Columbus to Stanton. [LR155]

SENATOR HADLEY: Do you want to...? You don't want to introduce...? [LR155]

MARY JANE EGR EDSON: I'm not a member of the committee. [LR155]

SENATOR HADLEY: I know. Mary Jane Egr, our legal counsel for the Revenue Committee. [LR155]

SENATOR HANSEN: I'm Tom Hansen representing District 42. [LR155]

SENATOR McCOY: Beau McCoy, District 39. [LR155]

SENATOR PIRSCH: State Senator Pete Pirsch, District 4...wow, that's a lot louder. I'm from Douglas County. [LR155]

SENATOR SULLIVAN: Kate Sullivan of Cedar Rapids. I represent District 41, a 9-county area in central Nebraska. [LR155]

SENATOR SCHILZ: Ken Schilz from Ogallala. I represent the 47th District. [LR155]

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SENATOR HADLEY: Thank you. I'd like to go over a few of the details today. First of all, you'd notice there are green sheets. If you testify, we'd appreciate if you would fill out a green sheet and drop it in the box. And if you have any handouts you want the committee to have, drop those in the box also. We also need you to state your first and last name and spell them for us. We need to have an official record and spelling the names helps us very much. We'd like you to turn off your cell phones. That makes it a little less distracting for us. To give you a little background, we had LB405 and LB406 this past legislative session. They dealt with the idea of modernizing our tax system. And it's important to know that those two bills were revenue neutral meaning that they did not increase the total revenues of the state nor did they decrease the total revenues of the state. They were to look at our tax system and where the revenues are coming from. Out of that grew LR155. LR155 basically has the same concept. The principles in LR155 that we already use to look at our tax system are fairness, competitiveness, simplicity in compliance, stability, adequacy, and complementary tax systems. And that's what the committee is doing. The purpose of LR155 is not to lower overall taxes or to increase overall taxes, nor is it to determine that certain areas of government need more money or need less money. That is the function of other committees of the Legislature. Ours is dealing basically with the equity of our tax system. We're going to start out today talking with property taxes. We're going to spend an hour on property taxes. We're going to spend an hour on sales taxes. Then we're going to spend an hour on income taxes. We're going to limit the testifiers to five minutes. When you're getting close to a minute left, I'll hold up one finger. That does not mean UNK is number one. It means that you have one minute left. We're not going to cut you off in midsentence, but that's about the time you need to start wrapping it up. I would suggest that if you want to testify, I would hope you would come down and sit in one of the first couple rows so we can keep the flow going for the people testifying. With that, I think that covers kind of the ground rules that we'll have. We're open to suggestions. The primary purpose of this hearing is to hear from you, your thoughts on the equity of our tax system: property tax, sales tax, and income tax. With that, I would ask the first testifier to come forward and

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get started. Don't be shy. [LR155]

DAVE BURKHOLDER: I didn't used to have to do this when I testified. [LR155]

SENATOR HADLEY: No problem. Take your time, sir. [LR155]

DAVE BURKHOLDER: (Exhibit 1) Chairman Hadley, members of the committee, my name is Dave Burkholder; that's B-u-r-k-h-o-l-d-e-r. I'm from Cozad. I'm here today just representing myself; a few comments I'd like to make. Taxes are too high in Nebraska. Taxes are too high everywhere. Taxes are maybe too high in Nebraska we sometimes think, and I think it's because we've got some champagne tastes in Nebraska and kind of a beer pocketbook. And the best example I always like to point out is we have three state universities. And I don't think you want to give yours up, Senator. But we have less than 2 million people in this state. Kansas has three state universities. Iowa has three state universities. They both have almost 4 million people. But we expect a lot of services in this state and we just don't have a very big population to pay for all those. But that's not what we're here to talk about today. We want to talk about what's a fairer, more modern tax policy than the one we've got now? What's our goal or how do we get there? And you know, the only kind of rule that we've got right around this state is the old, what I call, the Nobby rule: a third, a third, and a third between property and income and sales taxes. And there's no really intellectually consistent reason why we should have a third, a third, and a third except that was kind of proposed when we put in state income and sales taxes. And it's kind of widely known and it's kind of understood. And it's kind of being supported in the sense that nobody has got a better idea that they've been able to push out there and sell to very many people. In my opinion, my property taxes are much above one-third of total revenues collected in this state. And within the category of property taxes, property taxes on ag land have been growing at a considerable rate the last several years. It has to do with increased land prices, pretty good times in agriculture compared to some other areas of our economy. But what I want to point out today is that the potential for ag land taxes to increase is kind of

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staggering in my opinion. The Fed has created what I call a land bubble, a farmland bubble. They've done it with real cheap money at a time when ag economy was probably the best bright spot in our whole economy. And the Fed is pretty much aware that they've done this. If you talk to members of the Fed--I've never talked to Bernanke; don't get me wrong, other members of the Fed--they'll kind of just shake their head and agree with you. But they don't really care. They've got bigger problems than if ag land prices are a little too high. And they particularly feel that way when it's not going to be a banking problem because the increase in farmland values has not really been dependent on big bank loans. People are using cash for 40, 50, 60 percent of the ag land payments. And so it's just really not a problem for the Fed. But my question is kind of, why should ag be penalized for the purpose of rebalancing the U.S. economy? And that's what's going to happen in this state if we leave our current tax system on autopilot because, you know, ag land values have gone up. Our taxes on ag land have gone up. But you haven't seen nothing yet. My values in Dawson County last year were probably somewhere around half of current market. And now they're supposed to be 75 percent. They've got the potential to go up substantially more. Changing the subject just slightly, but I think the way that we would finance some kind of a property tax relief for all Nebraska property taxpayers, including the people that own ag land, would be by broadening the sales tax. I certainly don't see any reason why we do not have a sales tax on consumer services. I don't know why when I go to get my hair cut I don't pay a sales tax. That doesn't make good sense to me. That's the growing part of our economy is the service sector, not the goods sector. And so that's where I would suggest that we find some money that we'd use for property tax relief. I do want to say this. I'm not just in favor of putting sales tax on services for the purposes of increasing General Fund revenues. If that sales tax increase is not tied to some kind of direct property tax relief, then I couldn't even...I'm just not in favor of a tax increase for a tax increase. And we in agriculture particularly have been...feel like we have kind of been left out on property tax relief by the use of state aid to local subdivisions. The local subdivisions just find additional uses for that money and property taxes don't really go down. And so I'm testifying we need to increase sales tax for property tax relief if it's refunded directly to

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the property taxpayer, not directed through the local units of government. [LR155]

SENATOR HADLEY: Thank you. [LR155]

DAVE BURKHOLDER: Okay. [LR155]

SENATOR HADLEY: A question...I'm sorry. We... [LR155]

MARY JANE EGR EDSON: Mr. Burkholder. [LR155]

SENATOR NORDQUIST: Real quick, on the idea of refunding, if we have a...raise sales tax revenue, additional sales tax revenue, if we're going to send it back to property taxpayers, would you be inclined to do just an across the board to all property taxpayers or if we did something on the income tax side which would ensure that the money goes back to people who have Nebraska tax liability, therefore, more money going back to actually Nebraska residents? Which way would you favor? [LR155]

DAVE BURKHOLDER: I probably haven't thought that through very well, Senator. A matter of fact, I had a discussion earlier this morning with some other people. I'm looking for a mechanism on how you do this. That would certainly be one way. I think it needs to be funneled back broadly to property taxpayers and not used as a special legislation to redistribute income around the state. [LR155]

SENATOR NORDQUIST: Thank you. [LR155]

SENATOR HADLEY: Okay. Thank you, sir. [LR155]

DAVE BURKHOLDER: Thank you. [LR155]

SENATOR HADLEY: We've been joined by Senator Harr from Omaha. Okay, next.

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Thank you. [LR155]

MIKE GROENE: Mike Groene. I represent the Western Nebraska Taxpayers Association and myself. I've got some general comments about the whole tax system. [LR155]

MARY JANE EGR EDSON: Can you spell your last name, please? [LR155]

MIKE GROENE: G-r-o-e-n-e. [LR155]

MARY JANE EGR EDSON: Thank you. [LR155]

MIKE GROENE: (Exhibit 2) I'm assuming you don't want us coming back up over each time you have a different subject so I'll just...I put it in writing, and I left the comments there. First, I'll hit income taxes. The present 6.84 percent tax rate punishes responsible citizens for their work ethic. It drives out the high earners. And it keeps high earners from migrating to the state for work or retirement. I heard you didn't have a lot of comments up in Scottsbluff on income tax. They don't live here anymore. I'm involved in some organizations. We try to recruit. We think these people are local. We find out their residency is Nevada, Texas. But you would think they would be Nebraskans, but they pay taxes somewhere else. Our recommendation is change the rate to a flat 5.5 percent and base it on the federal form after itemized deductions. Tax government retirement payments that leave the state. Government and individual contributions to school and state employees' retirement accounts are not taxed. Those retirement benefits were originally earned while individuals were citizens of the state. Government retirees fleeing Nebraska high state income taxes should pay their fair share. They don't pay it when we put in the contributions and then they leave the state and we are not collecting income taxes on income that was previously earned while they were residents. That would be something to look at to make it fairer. Then the corporate tax rate, the present 7.81 percent rate is burdensome and punishes loyal companies who have supported

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the state for decades while new businesses are bribed with incentives to overcome their reluctance to enter Nebraska due to its high corporate and individual tax rates. The old rule of cause and effect applies everywhere and it's applying here. Eliminate those incentives. Lower the tax rate down to 5.5 percent like...make it a flat tax. Then folks...small businesses that are incorporated, farmers, everybody don't have to play the tax game trying to make sure that money ends up in the lower tax rate if it's in the personal or if it's in the corporation. If it's 5.5 percent, it's 5.5 percent. Income is income. So you would fix that. Eliminate the business incentives, they're unfair to long-established businesses. Adjust tax rates lower if incentive elimination raises revenues above expectations. I don't understand why you wink at the pretty girl and you don't take your wife out to dinner. These companies that have been loyal for years are paying a high tax rate and then somebody comes and winks at you and you give them tax breaks. Lower the corporate taxes so that everybody pays the same amount and there's no games played. Besides, the taxpayer don't even know what you're giving incentives to, how much is given. It's private and it should be gone. Just make it a flat tax rate. Sales taxes, eliminate exemptions for groceries and services that apply to individual consumption. Income generated does not always show up on W-2s and 1099s. Income generated through trust funds, gifts, government assistance, and illegal activity are not usually taxed. All Nebraskans and visitors should be allowed to pay their fair share of support for the functions of the state government. Sales taxes are a fairer and wider support of state and local governments. The Legislature should lower the sales tax rate to the levy that offsets any loss of revenue from lowering the income tax rates. People, I think it's prejudice to tell somebody...to sit and tell somebody, because you make less money than me that you don't get the opportunity to support your government, that you don't have to pay taxes. Everybody should have something in the game. And by taxing food, taxing services everybody will pay. There would be more people here in the lower income talking to you about taxes also. So put more sales tax, lower it, put it on food and some services. On inheritance tax, eliminate it by giving county governments relief from state mandates. You keep pouring more mandates on. There's one with juvenile justice that got dumped on the counties. I got a bunch to say

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so I'll have to come back. Also could offset by sharing more of the fuel tax revenues with counties, raise it a little, make sure the counties have a little more money for their roads so they don't have to rely on inheritance tax. Property taxes, 79 percent of the property taxes go to education...the state...of my taxes go to education. The state constitution states, "The Legislature shall provide for the free instruction in the common schools of this state of all persons between the ages of five and twenty-one years." The constitution also states, "The state shall be prohibited from levying a property tax for state purposes." I'm not a lawyer but when the state constitution says the state is responsible for education and you force, mandate local school districts to have a property tax, I think you're levying a property tax. I understand there have been court cases, but mandating to local property taxpayers that they must pay school property tax for a funding that is a required duty of the state seems to run against the dictates of our state constitution. We recommend the Legislature should fund state education equally per student across the state and allow local school districts to add to that funding with property taxes if they deem it necessary. We need to eliminate the state mandate of minimum property tax rate of 95 mills with the threat of a loss of state aid. School districts that are property rich but cash poor are punished by the state. Rural taxpayers pay income and sales taxes and they should get their equal return of those taxes through state aid to education. There are a hundred-and-some school districts that get no state aid... [LR155]

SENATOR HADLEY: Okay, I think... [LR155]

MIKE GROENE: ...because they're property rich. And that doesn't mean they make income. A lot of farmers are millionaires in land and poor in cash. [LR155]

SENATOR HADLEY: Sure. You will be allowed to come back up later. [LR155]

MIKE GROENE: All right. Talk about the other issue? [LR155]

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SENATOR HADLEY: Yeah, because we'll...on the other issues. [LR155]

MIKE GROENE: Thank you. [LR155]

SENATOR HADLEY: So thank you, Mr. Groene. Next. [LR155]

SHERRIL HANSEN: (Exhibit 3) Senator Hadley, my name is Sherril Hansen, S-h-e-r-r-i-l, Hansen, H-a-n-s-e-n, and I'm from Axtell, Nebraska. I have worked in the North Platte community for the past 10 years and have worked with the low-income folks for the past 30 years. I have family here in North Platte and it's important to me that the Tax Modernization Committee focus on making sure our community has the resources necessary to continue the strong tradition of the good life that we are accustomed to here. I ask that any changes in the tax system the committee proposes include enough revenue to invest in things that are important to our community like quality education, good roads, a safe community in which our children and grandchildren can play, and our elderly can enjoy their later years. I worked many years with the senior centers in central and south-central Nebraska with Community Action Partnership of Mid-Nebraska. We serve 27 counties in central and south-central Nebraska. And so again, I come from the side of the lower-income people who work very hard to make a decent living. Cutting taxes for the wealthiest Nebraskans would take away the revenue Nebraska needs for investments in true economic engines such as education, infrastructure, and healthcare. Income tax cuts also will increase our reliance on sales and property taxes which are regressive taxes that put a greater portion of the tax burden on the state's middle- and low-income tax earners. The Tax Modernization Committee should ensure that low- and middle-income people aren't paying a higher percentage of their income in taxes than the wealthy. Low-income families are already paying a higher percent of their income taxes and the local taxes compared to the wealthiest Nebraskans. This is true because all Nebraskans, whether they make \$15,000 per year at a minimum wage or \$100,000 per year, pay the same sales tax amount. Thus a family of 4 living on \$15,000 and purchasing the same taxable

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goods and services as a family of 4 earning \$100,000 would end up paying the same dollar amount in taxes which is a higher percentage of the low-income earner's total income than the higher income earner's. The tax committee has an opportunity to make recommendations that would address this problem. Property tax relief, if included, should include all property taxpayers, or it should be targeted toward low- and middle-income earners. An increase in state aid funding would allow Nebraska to further invest in things that boost the economy like schools, healthcare systems, and safety of our communities, all while providing property tax relief to those who really need it. Nebraska has a good quality of life and the Tax Modernization Committee should focus on making sure that the state has the resources necessary to continue this strong tradition. Thank you for your time. [LR155]

SENATOR HADLEY: Are there questions for Mrs. Hansen? Seeing none, thank you so much. Next testifier. [LR155]

NORMA LASHLEY: (Exhibit 4) My name is Norma Lashley spelled N-o-r-m-a L-a-s-h-l-e-y. I am a farm and ranch owner in Frontier County, Nebraska, and I'm presently the president of the Nebraska Land Improvement Contractors Association. And I don't know...and I wish to speak to the occupation tax for irrigators in southwest Nebraska and in the Republican water district. We had no representation when the original agreement was made by the entire state of Nebraska, not just the southwest portion of the state. We're being taxed \$10 per acre above the irrigated land tax while no other irrigators in the state are being taxed. We are being regulated on the amount of water we can use and no others are being regulated. I was forced this last year to give up 32 acre-feet of water which equates to 72 percent less water. Considering that I had used and conserved water and consequentially I was penalized for being conservative. This is an agreement between the state of Nebraska and the state of Kansas. We are not all...why are not all irrigators being charged? This would have been a small amount if spread over the whole state. If we are forced to use lesser amounts of water, the irrigators will be forced to return to dryland farming. This will adversely affect the school

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districts, the economy, soil conservation, and the well-being of the southwest part of Nebraska. This will have a domino effect resulting in adverse conditions contagious to the entire state. There was a flawed conclusion that was reached about charging an occupation tax and needs to be reconsidered. If we are charged a tax for irrigating, we should at minimum be compensated with water allotments for suitable crop production. We have utilized pivots to reduce to amount of water used but are still being regulated. In the event of an overrun of the allotment we are subjected to, we are taxed again. We in southwest Nebraska have become victims of the agreement between Nebraska and Kansas. It is at the expense of the economy in southwest Nebraska. We appreciate the opportunity to voice our opinion. And I appreciate your time. [LR155]

SENATOR HADLEY: Thank you. Are there...there is the Water Task Force, and I'm sure you know about that, that Senator Carlson is meeting. And Senator Schilz I believe is on it. I don't believe anybody else on this committee is on it. But I think they're meeting something like 20 times between now and the end of the year to... [LR155]

NORMA LASHLEY: And the reason that I'm testifying about this today is because of the tax relief...I mean, the taxes that we are currently paying in our counties are almost to the point that we have a problem with that just trying...I realize that farm incomes and things are better. However, as a landowner who currently cash rents out their ground, I have to come up with these taxes no matter what. And lots of times there are contracts that you are entered into that limit the amount that you can collect from your renters. [LR155]

SENATOR HADLEY: Okay. Thank you. Okay, next. [LR155]

DON MOORE: I'm Don Moore, D-o-n M-o-o-r-e. I'm from Tryon, Nebraska. I've ranched for I think I've figured up something like 46, 47 years in control of it. I've ranched my entire life. I have no notes today. Our homestead was established in 1898 by my grandad. We have been a father-son operation ever since that time. My

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great-granddad...I live on that place. Today, my son and I...and we had to hire a hired man last year. Granddad had a hired man. So we usually have an extra man. At his time, he made a living on 30 cows, a few hogs, a few horses, this kind of stuff. Made a pretty good living trading some horses. He didn't hardly pay any income tax. When dad come along...when I come back in 1970, we had 200 head of cows. Our purpose...property tax was under \$10,000. I can't tell you. I think it was around \$5,000. I will tell you in 2003, we were at \$27,000. Today, my tax in our operation and it is a father-son operation. We have one hired hand. We will pay \$75,000 this year. And I'm going to put that in perspective. That is one pot load of cattle that I send to town just to pay for you folks. And I say you folks because you are the government. I wouldn't be here today, but I made a phone call on Friday and I found out that I ain't paying enough tax. As of next year, I will have another 10 percent added on to that. And most of you know, and the lady just ahead of me talked about the same thing. The government is buying a farm down here, and we're going to put water into the rivers so that it can evaporate and so on. But I am going to be assessed \$10 an acre, and we have 750 acres. So that's \$7,500, and that's a 10 percent increase next year alone. Mid-Plains, they got to...you know, they got to have a little bit more money. I picked this up at the courthouse today, and it just puts things in perspective. Our little old county spends about \$900,000 a year. When I come down to Twin Platte, \$3 million comes out of McPherson County. Now ain't that a little bit off kilter? It is in my deal. With this new tax increase, I'm going to send a pot load of cattle to town, and I'm going to have another trailer following right in behind it. That's how many taxes you're going to take from me. And I'd almost bet you within two years, I'm sending two pot loads of cattle. We got Obamacare coming down. Got to give that damn government some more money. Somewhere, folks, this has to stop. In our local districts, we got people that don't pay one damn red cent into that county school. This is wrong. Our old method was that everybody paid and everybody got something out of it. We've lost that a long time ago. If you're a railroader in North Platte and you rent your house, you pay nothing into the school district. You got income tax and sales tax. [LR155]

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SENATOR HADLEY: You have one minute left. You can finish. [LR155]

DON MOORE: Oh, I don't need it. I've already said what I needed. (Laughter) [LR155]

SENATOR HADLEY: Well, okay. I... [LR155]

DON MOORE: By God, we got to do something on this, folks. We cannot continue the way we are going. I've never seen it like this. Our expenses have doubled in two years here. And something has got to give. And you are the government. I don't care how you do it, whether it's county, state, or whatever. This water deal is the craziest damn thing I've ever heard of in my life. It's not even practical, but everybody okays it, so I guess it's okay. Thank you very much for your time. [LR155]

SENATOR HADLEY: Any questions? [LR155]

DON MOORE: I appreciate it. And you folks from Omaha,... [LR155]

SENATOR HADLEY: Questions? [LR155]

DON MOORE: ...come out once in a while and you'll see what us folks do. [LR155]

SENATOR HADLEY: Okay. [LR155]

DON MOORE: You live in a different world than I do. Thank you. [LR155]

SENATOR HADLEY: Thank you, Mr. Moore. Next [LR155]

MARY LOU BLOCK: (Exhibit 5) I'll go next, but that's a hard act to follow. My name is Mary Lou Block, M-a-r-y L-o-u B-l-o-c-k. I am a fourth generation owner-operator of a small family farm in Custer County. My great-grandad homesteaded when he

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immigrated here from Sweden in 1886. Our real estate taxes have increased 51 percent from 2008 to 2012. And this next year they are scheduled to take another big jump. This is not a tax on our income. This is not a tax on our home, although it does include our home. This is a tax on our ability to make an income on our farm. Owning the land gives us the ability to make an income. Unless we want to sell the land, the increase in value does not give us one more cent in our pocket to share with you for taxes. We are reliant upon the market for our income and we cannot pass our high input costs, including taxes, along to the consumer. So that if I was running a business and I was making dolls or selling dolls, I could just charge my customer more for the dolls. But I can't. I have to rely upon the market. I get what the market tells me. When input costs are low and prices are high, we pay our real estate taxes. When input costs are high and prices are low, we pay the same real estate taxes. Seventy percent and more of our real estate tax bill funds education. State officials say that our real estate taxes are then a local problem. Local school officials tell us their budget hands are tied by the state. They must meet mandates and salaries and they request local money based on how the state aid to schools fund formula works. Everyone seems to say this is somebody else's problem and fault. While maybe it is our own fault, we want what is no longer feasible to maintain: an ever-increasing budget through spending we simply can no longer afford. In the meantime, the property taxes on our family farm now exceed the remaining principal on our land loan. When we purchased our land from my father's estate in 2002, we paid \$300 an acre for pasture and \$1,200 an acre for irrigated corn ground. Now, similar land sells for \$800 and \$4,700. Unless something changes, our land value and taxes will continue to rise until we either sell or go down with the ship. And for those of us who have invested in our operations or who have been on the family farm for generations, selling is neither an easy or an appealing option. But I make an appeal to you not just to shift the taxes from one pot to the other, but to reduce them in general. But something has to be done or you're going to lose the small family farms and you will have corporate farming. [LR155]

SENATOR HADLEY: Are there any questions? Seeing none, thank you. Next. [LR155]

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KEN HERZ: (Exhibit 6) Senator Hadley, members of the Tax Modernization Committee, thank you for the opportunity to address your committee. My name is Ken Herz, H-e-r-z, and I have a farm and ranch operation 25 miles southeast of Hastings near Lawrence. I have been in the business since graduating from the University of Nebraska in 1973. I would like to commend the Unicameral Legislature for looking at our tax system to make sure that it's balanced, fair, and stable. The first thing that I would do is urge a little caution. Nebraska has, in my opinion, a very strong and stable economy. I would hate to see major changes made to our tax system that could jeopardize our economy. Rather, I would urge gradual changes made to gauge the effectiveness of the desired outcomes. I believe that the three leg system of income tax, sales tax, and property tax has served our state well. I would like to see a balance between these three taxes. At the present time, property taxes is sharing the greatest burden. Landowners and especially those that make a living from property such as farmers and ranchers carry a disproportionate burden in the tax structure. I believe that there needs to be real and sustained property tax relief. To achieve this, increasing sales tax collected is an avenue worthy of consideration. Sales tax should not be placed on true business inputs. They should be fair across all business sectors. Placing a sales tax on services could be a viable option. Any new revenues generated under the context of property tax relief should go directly to those paying property taxes to provide this relief for property taxpayers. I believe that there currently is a mechanism in place, the state tax credit, that could be utilized to achieve this relief. Thank you for allowing me to address your committee. [LR155]

SENATOR HADLEY: Thank you, Mr. Herz. Are there questions for Mr. Herz? Thank you. We appreciate your making the trip here. [LR155]

JACK OSTERGARD: Senators, I'd like to thank you for coming. It might get a little bit redundant, but I feel a little bit like Elizabeth Taylor's eighth husband. I know what to do, I just don't know how to make it interesting. (Laughter) Sunday I held an ice cream

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social to celebrate 130 years of the Ostergard ranch. I wish you could have all been there. It was wonderful. Now, my name is Jack Ostergard, J-a-c-k O-s-t-e-r-g-a-r-d. And I have just a couple of points I want to make, try and make it quick. Everyone is very aware that land valuations have increased drastically over the last years. Whether this is permanent or not remains to be seen. Point number one: the ability to own property does not necessitate the ability to pay taxes. My farmer friends tell me that the new crop corn is below cost of production. Point number two: due to the necessity of owning it and renting large amounts of property by farmers and ranchers, this makes them pay a disproportionate share of the local taxes, the largest recipients being schools. We send less students in to be educated because there are less of us on the farm and ranch now. In the past where the states have given this additional money to the schools, there have been no strings attached and they've accepted this money and went along with their same levy with the other money they had too. I think if we're going to give more state aid to school, we need to attach just a few strings on what it does. If it's for property tax relief, let's make sure that's what it is. I'm old enough to remember back in the '30s. My grandfather had one particular quarter section, and I believe the taxes on it were \$1.87. And they were three years in arrears. Now this sort of thing could happen again. The first land we owned north of Arnold in the Sandhills was land that had been foreclosed for taxes. While dollar amounts are much different today, it could still happen at a higher level. Land prices do fluctuate. I'd be happy to answer any questions.

[LR155]

SENATOR HADLEY: Are there any questions for Mr. Ostergard? [LR155]

JACK OSTERGARD: Thank you. [LR155]

SENATOR HADLEY: Thank you, sir, for coming. [LR155]

JACK OSTERGARD: Thank you. [LR155]

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SENATOR HADLEY: Next. [LR155]

CINDY HALLIGAN: Good afternoon. I'm Cindy Halligan, C-i-n-d-y H-a-l-l-i-g-a-n. I'm here representing a family business that I'm employed by, Mentzer Oil Company, and a board member of the Nebraska Petroleum Marketers and Convenience Store Association. I have grown up in the fuel business all of my life. And like the farmers, it's a small business. We have struggled. I have watched several family-owned businesses go under in the last several years. I understand in Omaha and Lincoln that you have introduced an occupation tax to replace the property tax to relieve it. I would ask you not to do that in North Platte. We...the fuel taxes and sales tax on lubricants are enough. I don't think we want to tax our consumers twice on products or services. Like I said, it's a tough business. We're struggling trying to get along in the fuel business. The fuel prices affect so many different entities and industries. We don't want to jeopardize having to raise our prices to our consumers also. I guess I thank you for the opportunity to speak today. And I would like to say I'm proud to be a resident of Nebraska where we have a balanced budget. [LR155]

SENATOR HADLEY: Thank you. Are there any... [LR155]

CINDY HALLIGAN: Thank you. [LR155]

SENATOR HADLEY: Thank you for coming. Are there any questions? Thank you so much. We appreciate your coming. Next. [LR155]

JIM JONES: (Exhibits 7 and 8) Mr. Chairman and members of the committee, I'm Jim Jones and I live in the ranch in the southern part of Custer County. Jim Jones spelled J-i-m J-o-n-e-s, that ought to be easy. Okay, I'm here to talk about property tax. First, I want to talk about personal property tax a little bit. For example, if you had a center...if you had a dryland quarter and you put a center pivot on it, then they raise the taxes on that land. Then they turn around and charge personal property tax on the pivot. I say

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that's double taxation on that quarter. So I think that's something that they can work on down there. On machinery is another issue on personal property tax. An older person can pay the personal property tax for seven years on the machinery. And if he gets ready to retire and want to sell it to his son, the machinery, or to a neighbor to start over with, they've got to pay seven years on it. So it's paid seven years twice on that piece of machinery. And I think that's something that could be corrected. Now on real estate tax, it needs to be put on productivity. I realize that it's going to take some time to do this, to change that. But I think it's time to get started on it. You need to figure out what soil types. You need to figure out how many cattle can be run on different types of grass. But you're going to have to figure out how to get it over on productivity sooner or later because that's going to be a serious thing if we don't because that makes a lot. And just to show you much valuation increased on my ranch, they told me in 2013 my valuation is going to be \$310,123 more on the valuation. So that's a big increase for one year. And the land prices keeps going up, but that land is worth no more to me than it was before it went up. The only reason it's worth more is if I have to sell it. And I would like to give you an example on my ranch. In 2012, I paid \$59,528.92. This is on 4,098 acres; 3,500 of that is pasture. So that's \$14.53 an acre. And I also had 460 calves last year, and I figured that up. And that's \$130 a calf for each one of them before I can do anything else...it's got to pay that tax. So that keeps adding up. And of course last year was 2012, and I had to sell a bunch of cows because they run out of grass. So now I've got less calves here in 2013. So I don't know how that's going to figure out with the new valuation. One other thing I wanted to mention, too: I have a bridge that needs some repair to get out. It's closest way to town. And the county blocked it off for five years now. And I keep going to them, and they say they cannot fix it because all the money is going to schools. And I thought, well, that's...out of my \$59,528, \$38,757.89 went to schools in 2012, out the \$59,000. So I think I'm paying my share on that. Schools is public schools, and it should be paid by the public, not land. And I think that's an important issue too. Things to do: I think you're going to have to lower that percentage of valuation down to 65 percent or else take community colleges off because them two issues would help us. And I think that's important too. Interesting deal at the Broken

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Bow...I'm in the Broken Bow Public School District. And they finally got a bond passed. And I wanted to mention...I've got a copy of it here and I'll leave it here on the deal. But I thought it was kind of interesting. The school was able to keep the levy to the same as it was last year in place of increasing it because of assessed valuation increase. A lot of these subdivisions have used this new valuation and they use the same mill levy. That just gives them a lot more money, and I think that they're going to have to figure out how to cut that down because what if this land would go back down? And it's going to go back down one of these days. It's been following the corn prices. You watch the corn prices. If corn prices go down, it's going to start going down. And when it goes down, I don't know what a lot of these subdivisions are going to do because they've been using these new valuations to get them more money. And I talked to the Governor one time. He says, well, if the valuation is higher, all we got to do is lower the mill levy. They don't lower the mill levy. They just take it times the new valuation and get them a lot more money. But that's the issues. Thank you. [LR155]

SENATOR HADLEY: Thank you. Are there questions for Mr. Jones? Thank you for coming in. We appreciate your testimony. [LR155]

JIM JONES: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

DALE GRONEWOLD: My name is Dale Gronewold from Gothenburg, Nebraska. I likewise feel like I'm kind of beating the same stick. [LR155]

SENATOR HADLEY: Would you spell your last name? [LR155]

DALE GRONEWOLD: (Exhibit 9) Gronewold; that's G-r-o-n-e-w-o-l-d, Dale, D-a-l-e. Anyway, you guys got a job, don't you? I likewise am a family farmer. I farm right now with my son. We had some of this ground since the late 1800s. I'll just read this

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statement and then I'll say a few things. Thanks for the opportunity to speak with this group today concerning the issue of tax reform as it affects the agricultural community. The state has not properly considered the ability to pay the tax levy as it applies to agricultural real estate. Our revenue generator is crippled by its ever-increasing amount of property taxes on ag land. The land is our source of income and with it, our ability to pay for the ever-increasing tax load placed on us. My personal example is that the farm I own and operate, the land valuations have increased between 60 percent and 71 percent since 2007. These increases on the farm have been in Dawson and Lincoln Counties respectively. With a 21 percent increase pending for Dawson County and a 14 percent in Lincoln County in land valuation, a proportional increase can be expected for the tax levy on my ground because it's just been almost...(sound effect). The land goes up; the tax goes up that percentage. With the expected increase in the real estate value in the coming years, I can realistically see my tax burdens double in about five years. Let me illustrate the unequal burden this...a coming increase will have on the ag industry. I realize that the state works with a certain amount of money from taxes and that those are generated from several forms. If one groups pays less, then another group will make it up so the state will operate with a full budget. We understate that. It's simple economics. With the increase of farm valuation, I have paid up to 70 percent more in the few short years based on the rules set by the state. With this trend continuing, it will force changes in all of agriculture to make up this difference from these changes. And I might add, I could see this as what you'd call and we'd call the perfect storm. We've had wonderful ag prices. We've had great land prices coming up. And as some of the other speakers have spoken and said, but as that comes down, we in the industry are saddled with those taxes from back here, not here and the ability to pay. The increase per acre of the tax burden is having a...will make having a profitable operation all but impossible. When a cost per acre can move from \$62 an acre in 2014...that's my projected cost. In a 5-year projection, a realistic increase could be over \$150...\$120. These doublings of the cost have to be paid if no changes are made. I realize the value of the land has increased, but it only is a theoretical increase. The only way for agriculture to receive these increases is to sell the assets, thus losing our

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revenue-generating ground. I would ask you to carefully consider a change in property taxes. As they stand now, the major tax burden is placed on agriculture. Our land is key to our livelihood. It is our income-generating resource that is being cut off at the knees by inequitable treatment of the valuation of farmland as compared to other property. I would say, we just feel here in ag that it's very inequitable the way the system has worked. We know that we pay 70 percent in local taxes to our school districts. Continue to go...and it's all valued on this land valuation. I don't really know what the answer is. But I know it can't be sustained. I would rather pay a state tax on my income. When I listened to this man talk about the \$14 an acre per calf and \$130, I was going to ask, well, did you pay taxes on any income? He did that too. And it's just...like I said, it's unsustainable. And I just ask you to consider what's happening in ag. Freeze it or do something. Thank you. Any questions? [LR155]

SENATOR HADLEY: Are there questions? Seeing none, thank you for coming in. Next. [LR155]

JOE HEWGLEY: Chairman Hadley, since I don't see a page, may I bring my testimony up? [LR155]

SENATOR HADLEY: You can drop it right in the box by Senator Bolz. [LR155]

JOE HEWGLEY: Oh, thank you very much. Right. Thank you. Senator Hadley and members of the committee, my name is Joe Hewgley. I want to personally thank you and the Legislature as a body for taking time to address this very important issue and allowing the citizens around the state to have a voice in this discussion. I'm a member of the Lincoln County Board of Commissioners serving in my 29th year. [LR155]

SENATOR HADLEY: Can you spell your last name, sir? [LR155]

JOE HEWGLEY: Oh, I apologize. It's Hewgley, H-e-w-g-l-e-y. [LR155]

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SENATOR HADLEY: Thank you. [LR155]

JOE HEWGLEY: (Exhibit 10) And I apologize again. I should know after this number of times beforehand. And I'm serving in my 29th year on the Lincoln County Board and I think in my 12th year as a member of the Nebraska Association of County Officials board of directors. I've also had the great pleasure of serving as that group's president on two separate occasions. As you may already know, NACO's policy platform supports periodic review of the property tax system as well as other forms of taxation generated within this state. And as any of you that have spent any time in public office already know, that the best tax for this system...this state is the tax that somebody else pays. There's no quick fix. There's no easy fix. You have the question of the rural-urban split. The one thing that I think we need to keep in the forefront is that the population diversity in this state doesn't allow for--at least in my opinion--a one-size-fits-all solution. Let me first try to address from the counties' perspective the issue of agricultural valuation and real estate. We do not support the idea of reducing land valuation below the current 75 percent for the purpose of increasing state aid to schools. Let me repeat that last end--for the purpose of reducing...increasing state aid to schools. Our assessors are telling us to do so would require two separate sets of books and make it even more complicated for the average taxpayer throughout the state. As you are well aware, a vast majority of this state is comprised of farm and ranch ground and smaller villages and towns and not large urban areas found in Douglas, Lancaster, or even Sarpy Counties. If we see reduction in agricultural land values, there simply is not enough valuation in our smaller communities to make up the reduction in tax revenue for these forms of local government. While I realize there are those proponents of an income approach, there may be some merit to this approach also, but I think that ultimately the same number of dollars will need to be generated. And if we look at an income approach, in my opinion at least, it will penalize our good producers and reward those that do not get as much production out of the same land or similar operation. I'd also like to talk briefly about some of the policy decisions made by the Legislature that have had

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unintended but nevertheless extremely detrimental impact to those of us in local government. One example is the passage of LB561 this past year which...and I know that that's close to many of you. I see Senator Campbell, Senator Hansen up there...that actually changed some of the requirements from the Department of Health and Human Services to the State Probation system with our juveniles within this state. That bill will cost Lincoln County in excess of \$100,000 in this budget year alone. I also know there are counties that have impact far greater than ours. Our only way to fund this additional burden was to borrow funds from the inheritance tax fund, thus reduce the county's road budget. And that's what we did. We did without three pieces of road equipment that was needed this year, and we did that because we needed to fund what I'm going to call an unfunded mandated. I don't need to tell you what's happened to the various reimbursement programs such as jail reimbursement for state prisoners that I was...

[LR155]

SENATOR HADLEY: One minute. [LR155]

JOE HEWGLEY: Okay...and also what's happened to the state aid to counties. I think it's imperative that the Legislature focuses any program back to the state or forces any program back to local government. They also provide funding mechanism to pay for such programs. I'm adamant about that. Along that same line, I think if the Legislature should decide that...grant additional exemptions on personal property tax without assuring replacement revenue in some form, counties are going to be forced to either raise real estate tax, which we don't want to do, or cut needed services. Such tax shift were to continue, it would just be a greater burden I feel on real estate taxes. I'd like to offer two...a couple of solutions that I think might lessen the burden for everyone. If the state were to authorize a state sales tax statewide regardless of the city sales tax, I think we could truly see a reduction in real estate taxes. I also think the timing is right for such a shift, and I think the citizens would support it. We've been...also talked about a progressive system in this state. If--and that's in capital letters--if the constitution were to change to allow that, I think you should also visit the 50 cent levy limit on local

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governments. Thank you for this opportunity to allow the citizens of this state to be heard and I'd entertain any questions if you may have any. [LR155]

SENATOR HADLEY: Any questions? [LR155]

SENATOR NORDQUIST: Right here. [LR155]

SENATOR HADLEY: Yes. [LR155]

SENATOR NORDQUIST: Thank you for your testimony, Joe. When the Legislature chose to eliminate the state aid to counties to use that (inaudible) and that program was reduced, what actions did Lincoln County take to make up for that lost revenue? Was there property tax increases, a service reduction, or...? [LR155]

JOE HEWGLEY: A service reduction. [LR155]

SENATOR NORDQUIST: What services? [LR155]

JOE HEWGLEY: I can tell you that our roads receiving less gravel and it was across the board. We didn't look at one particular area. Everybody took a haircut on that one. I also might say that I forgot to mention that we did reduce our levy this year. And you know, if the valuation goes up, let's be honest, folks, those of us that are into...I'm not going to speak for other people. We did lower our mill levy and I think that's important. You know, those two have to go hand in hand or there's going to be no trust whatsoever out there, whether it be urban or rural taxpayers. [LR155]

SENATOR HADLEY: Thank you, Joe. [LR155]

JOE HEWGLEY: Thank you. [LR155]

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SENATOR HADLEY: We have time for three more on property taxes, then we're going to shift to sales taxes. Next. [LR155]

LLOYD BENJAMIN: Thank you, Senators. My name is Lloyd Benjamin. I'm from McCook, Nebraska. I'm a small businessman there. I have a... [LR155]

SENATOR HADLEY: Would you spell your last name, sir? [LR155]

LLOYD BENJAMIN: ...just a few... [LR155]

SENATOR HADLEY: Spell your last name for us, please, sir. [LR155]

LLOYD BENJAMIN: Benjamin. One of the ten tribes of Israel. (Laughter) I have a... [LR155]

SENATOR HADLEY: I'm sorry, sir. I would like you to spell your last name. We need it for the record. [LR155]

LLOYD BENJAMIN: B-e-n-j-a-m-i-n. [LR155]

SENATOR HADLEY: Thank you. [LR155]

LLOYD BENJAMIN: (Exhibit 11) I have just a couple comments, and they kind of go the gamut of all of the three areas that you're talking about...almost everything that's been discussed tonight or this afternoon does. But I have an article here that probably says a little bit different...in a different way. But it is the least tax-friendly states for retirees. And the Tax Institute and the Tax Foundation, the CCH which is a forum for accountants, etcetera, has rated the states as far as the least friendly. California is the worst in accordance with their ranking. California is one. Connecticut is next. Iowa is next, and Maine is the fourth. Nebraska is number five. I will leave you that information for your

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perusal. They consider many things. I would like to I guess first off, to...your comment to start out with was revenue neutral. We...I want you...I see some gray hair up there, so many of you may or some of you may remember. Many years ago when Norbert Tiemann was our Governor and we had a smaller state government, there was a tax proposal that was supposed to be revenue neutral. We would eliminate the income tax which at that time was 3 percent of federal. And we would implement a sales tax of 3 percent. It would eliminate the income tax by implementing the sales tax, and we would also reduce property taxes because there would be such an influx of funds to the state that we would rebate some of it to the local entities so that we could reduce property taxes with those state funds. Today, I don't have to tell you that we have both the sales tax and an income tax at higher levels than they were then and a much larger state government. Whether that is needed or not, I'll leave that up to you. You're the legislators for Nebraska. But let us not do this again. Tonight...this afternoon, this sales tax that was started back then started at 3 percent. It started with few exemptions such as food. However, these exemptions gradually became greater in number and increased in size so that we had to increase...if we're going to generate the same revenue, we had to increase the tax rate. And we're now sitting at 5.5 percent sales tax in the state of Nebraska in addition to our income tax. But we also have a hodgepodge for our sales tax right now. I'll give you a couple of examples. The McCook, Nebraska, Airport operates an airport. It is exempt from sales tax. Anything that goes on that airport is exempt from sales tax. Imperial, Nebraska, has an airport authority. It operates an airport. It is subject to sales tax. All the items that go into that airport, they're subject to sales tax. In Nebraska, county fair boards which are a part of the county are exempt from sales tax. Ag societies which also run fairs in Nebraska are not exempt. You've got one minute? [LR155]

SENATOR HADLEY: One minute left. [LR155]

LLOYD BENJAMIN: Okay. My thought is that a sales or consumption tax should be at the lowest possible level with no exemption. And I also would like you to remember that

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whenever...whatever you do with sales tax, if you do anything with sales tax, that the individual company or the other entities or some other entity is forced to be your sales tax collector. His personnel's time and retraining is expensive and increases the cost of his product. Revenue neutral is a term used for what is being studied here. However, most of what I see in anything that is proposed here is a progressive potential, which in my experience progressive taxes are an incentive for destroying incentive. [LR155]

SENATOR HADLEY: Okay. [LR155]

LLOYD BENJAMIN: Everyone needs some skin in the game, as somebody has previously said. And we should...everybody should pay some taxes. Property taxes are so high in this state... [LR155]

SENATOR HADLEY: I think we need to find an ending, sir. [LR155]

LLOYD BENJAMIN: ...do allow for local government boards and government closest to the people is the best. And it is more accountable to the people. Thank you. [LR155]

SENATOR HADLEY: Thank you, Mr. Benjamin. Are there questions? Seeing none, thank you, sir. We'll have two more on property tax, and then we will shift to sales tax. Yes, sir. [LR155]

DOUG GERMAN: Chairman Hadley and members of the committee, thank you for coming to our part of the country. And thank you for taking on this difficult task. My name is Doug German, G-e-r-m-a-n. I was born and raised in Cozad, down the road a piece. My family was involved in farming and ag manufacturing. I currently live in Eustis in Frontier County, a small town south of Cozad. My wife and I own farms in the Eustis and Elwood areas. I want to throw my weight behind what I think has been the three main points made here today. Property tax relief is definitely needed. The excellent testimony from a number of ranchers and farmers make that point very clear. Secondly,

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broaden the sales tax base. And thirdly, find an equitable way to finance each student in this state on an equal basis. It should not depend upon where you live to get a good education. That said, there's a couple other things I want to touch upon. I am of immigrant stock. My folks came here with no job, no money, and no English. But they came here with a dream, and they were doers and they were people who embraced the future. And I expect to do the very same. And I think I have the opportunity here if, if we invest. We live in a mixed economy. We always have. We always will. And there is a very, very critical role to be played by government. We must invest in government. Our economy is growing and is becoming more complex. It stands to reason that our government, in order to play its very important though minor role by comparison, must be properly financed. I plead of you to make sure that that investment is done so that the economy is good, so that I make more money, and so I pay more taxes. And it keeps going around and around. Now at the end of each year, I look at my books. I look at the taxes I have paid. And I say, well, that's no small sum though it's not out of hand. And you know what? Every year, I sit back and I say, look. For that amount, I've got an Army. I've got a Navy. I've got the Air Force. I've got the Marines. I explore space. I explore the oceans. I've got a hospital. I've got a sheriff. I've got bridges. I've got roads. And I could go on and on. I look at that sum and I say, every year that's the very best investment I have made all year long. And I ask you to keep making that investment. Let me turn to the issue of trust as you go about your business. We cannot end up with a tax structure that moves our income and our wealth from the bottom to the top or from the many to the few. We cannot have a tax structure that is tortured in the name of boosterism in the hopes of moving Mercedes-Benz to Nebraska. And we cannot have the fingerprints on this structure that is brought in by outside organizations with their own ideology and their own political agenda. This has to be our tax structure that serves the people of Nebraska. It cannot serve six-figure professionals and seven-figure CEOs. It has to serve the people who fill Memorial Stadium on Saturday afternoon, who fill the gyms and the ball diamonds across the state on Friday night, and who go to the houses of worship on Sunday morning. It has to serve the person who gets up on Monday morning and goes to work. And it has to serve those people in need. We are a generous

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people. So as you go about your work, think about this being something that I can believe, I can trust and will serve everybody in Nebraska regardless of the walk of life that they may have. Thank you. [LR155]

SENATOR HADLEY: Thank you. Questions for Mr. German? Seeing none, thank you. This will be the last person on property tax, and then we will shift to sales tax. Yes. [LR155]

TY LUCAS: (Exhibit 12) Hi, my name is Ty Lucas, L-u-c-a-s. I work as a senior loan officer for NebraskaLand National Bank, which is headquartered here in North Platte. I wanted to speak just for a minute about the great economic development effects of construction and how tax policy could tie to that. As I look at the difficult task that you guys are facing, one of the best solutions...if you can grow the economic development pie because, you know, we can still provide essential services and lower tax rates. I think sometimes we forget that when somebody builds a home or a commercial building that you're creating jobs for the people that supply materials and provide the plumbing and the electricity and the roof and insure it and write a mortgage loan for it. All of those activities have a tremendous job creation and economic effect. I think sometimes it gets overlooked because it's very difficult to measure the economic multiplier in construction. But it's very significant. I just wanted to point out a couple numbers in relation to how real estate taxes affect housing construction. I think this ties to commercial construction, too, but I think housing is a good way to provide the example. In North Platte, right now our median household income is \$41,841 for the last census. That's our median household income here in North Platte. We work with people all the time that are near, around that median income, and a lot of them have saved 20 percent to put down. And they can qualify for a normal mortgage loan at today of 4.5 percent or 5 percent interest rate. You know, if you use the normal insurance assumptions and if you figure your average people can afford to spend about 34 percent of their gross household income on housing and debt obligations. Of that, they usually have about 10 percent in things like car loans or student loans or whatnot leaving them on average about 24 percent of

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their gross income for housing. And I gave you guys a table on this so you don't have to write it all down. You can look at it after I'm done. But...and so if you take that analysis further and you say, okay, you can build a home in North Platte, Nebraska, today for \$125 a square foot. And that's a pretty good average. If you take our median income family today in North Platte, they cannot afford new construction at any size. If you take a 1,250 square foot home, which is about what the minimum you could build and gain any construction efficiency from, their housing payment with today's real estate taxes would be a little over \$1,000--about \$1,005. For their ratios that I just told you about, they can afford about \$837. If you did a 75 percent decrease in real estate taxes, that couple could afford to buy a brand new 1,250 square foot home. If I take that up to families that are 150 percent of median income which would be just under \$63,000 a year, per those ratios they can afford the 1,250 square foot house either way, but with a 75 tax reduction, they could afford a 1,500 square foot house. And so they might be more apt to buy new housing stock than used housing stock to get the size they need. You go to 200 percent of our median family income in North Platte which would be about \$83,000 household income, then that group can all of a sudden go up to a 2,000 square foot house, which then again would attract them into new construction. And I provided a table for you that breaks down different income levels, different housing expense. But I think what my point is, is that reduction in real estate taxes has a significant effect on people's affordability of housing. And especially in the times of low interest rates, the real estate tax component becomes an inordinate portion of the monthly housing expense. And so reduction of that would I think result in more and more new construction which I think then has a fast-spinning effect on economic development that would then result in hopefully lower tax rates and a more competitive state. In closing, I just want to thank you guys for your service to our state and looking at this important issue. [LR155]

SENATOR HADLEY: Thank you so much. Are there questions? Yes, Senator Hansen. [LR155]

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SENATOR HANSEN: Mr. Lucas, how much house can you get for \$12,000 a year? That's all we get paid. (Laughter) And we're setting policy. Is there something wrong with this picture? [LR155]

TY LUCAS: There might be, Tom. It might be. [LR155]

SENATOR HANSEN: We better move on. [LR155]

TY LUCAS: All right. Thank you. [LR155]

SENATOR HADLEY: Thank you. Okay, let's switch to, if we could, to sales tax. We want to talk about all three taxes. And again, we're interested in your thoughts. And also, there's nothing wrong with saying, I agree with the previous speakers. There's nothing wrong with saying that also. First person that wants to come up and talk about sales taxes. [LR155]

DAVID HANSEN: (Exhibit 13) Zip it. David Hansen, H-a-n-s-e-n, Anselmo, Nebraska. I'm a farmer. I was a bit confused in the directives. I understood you were taking these one at a time. But on the other hand, most all of us have something to say on a different one. Are we to still go ahead and share things on other things besides sales tax? [LR155]

SENATOR HADLEY: We certainly are not going to shut somebody off for that, but we would like especially to hear on property taxes. But go ahead...or on sales taxes. [LR155]

DAVID HANSEN: Okay. Senator Hadley, then, and members of the Tax Modernization Committee, thank you for the opportunity to express my concern regarding the Nebraska tax system. I believe it was a wise decision when back in the 1960s and '70s a sales and income tax was adopted to decrease the heavy reliance on property tax to

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raise the necessary funds to run the state. It broadened the tax base immensely and made taxation more equitable. I continue to believe that each of these three taxes--property, sales, and income--still have an appropriate place in our tax system. However, there are changes in each that would further broaden the base and make each more fair and at the same time generate the necessary revenue. Regarding sales tax, it is a regressive tax. But it does ensure that everyone helps underwrite the tax burden. And I believe that's important. Even though a person may pay a little, it helps them feel ownership in their government and I think that's important. Expanding the sales tax to include consumer services would make it possible to lower the rate and yet maintain raising approximately one third of the total revenue raised in the state. Back when these were adopted, the idea was that one third of the revenue from the state across the board would be from personal property tax, one third from sales, and one third from income. While some services are currently taxed, there is a lot of confusion regarding when the tax is applied. For example, I took my car to one place for a radiator leak that needed repairing. On the bill, there was a tax on the labor as well as on the parts. On another occasion, I took a car to a mechanic to correct an oil leak. In this bill, there was a tax on the parts but no tax on the labor. It would appear there is confusion as to when labor is to be taxed. This inconsistency needs to be addressed in legislation. And I only give one small example. There is undoubtedly a tremendous amount more of confusion regarding the taxation of services and labor in our system. I would agree or would feel strongly that I don't think we want to tax food. And also I think charitable contributions should remain untaxed. If I may then speak to the other things, regarding the property tax, we should continue to let this be the primary way that local government bodies raise revenue but with some changes. Since property taxes are assessed regardless of income, the circuit-breaker concept would be a very good way to prevent a taxpayer from paying excessive property taxes when one's income is down. I think the suggestion that a maximum property tax of 5 percent of adjusted gross income could be about right. In my case in 2013, 7 percent of our gross adjusted income was what covered or was equal to the property tax. For some people, I know it's a lot more than that. In some cases, it may be less. But the circuit-breaker idea is one that I think would

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be valuable there. Regarding income tax, I believe this should continue to be a progressive tax with rates increasing as income rises. There has been some suggestion that, you know, oh, people that are wealthy don't want to pay taxes. Well, there may be some. But there are also some like Warren Buffett that say, hey, I have wealth. I should pay my share. And I think by and large people who do have wealth feel, yes, they should be sharing a larger portion of their wealth to help support the government than someone who is on a low income. I think the present brackets and rates are about right except maybe to top the rate at 6 percent on that highest bracket of income. As for the corporate income tax, I strongly believe we should continue such but reduce the rates so that they are in line with surrounding states that also have corporation taxes. One other thing regarding taxes as it comes up from time to time regarding whether we should do away with the capital gains tax, I feel strongly that that should be kept in place mainly because capital gains do come to the people who have wealth mostly. And they are in a position to afford to pay taxes. And therefore, I think the capital gains should be kept in place. Over the last 20 years, the Legislature has tried with partial success to keep property taxes from being excessive. In more recent years, there has been a decrease in state aid to schools from state and sales income tax revenue which has thrown a greater burden back on the property tax as we have heard. And I think it's important that restoring some of that state aid back especially to schools is needed because schools are so basic to our whole society. Thank you. [LR155]

SENATOR HADLEY: Thank you. I appreciate very much your comments. Are there any questions? Seeing none, thank you. Are there...anyone else that would like to talk on terms of sales tax? Yes. [LR155]

TED HOATSON: Thank you, Senator Hadley. My name is Ted Hoatson, H-o-a-t-s-o-n. I'm here representing Titan Machinery, Fairbanks International, and a lot of the dealers in the state of Nebraska, equipment dealers. And I'm also a member of the Nebraska Iowa Dealers Association. And I know that they've work hard with you guys to get LR155 in there to support the elimination of the sales tax on repair parts and services.

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One of the reasons why we've done this is we're seeing a lot of our revenue leave the state of Nebraska in the form of the equipment sales through the additional taxes that people pay on their parts and repairs they do here. On our outlying areas of the dealers, we see them going to the states that don't have it for the simple fact of lower prices on the goods that they're offering. We see that in the relationship-building type of thing that starts there and all of a sudden we're seeing revenue leave the state because of that. It's taken over time and we've seen, as dealerships grow, the impact of that in just the small parts that are being offered. We've also seen the Internet be involved on that because the Internet sales and taxation on those that goods that we usually have provided, small ones, we're seeing more and more Shortliners come in and offer those and being shipped to the customers or delivered at trade shows and seeing their customers are not paying the sales tax on it. So we'd just like for you guys to really consider that and keep the revenue here in Nebraska. One of the companies I represent is Case-IH New Holland. And we've made significant investment in the Grand Island facility to bring our products into this part of the country. So with that, I know that we've also put a lot of money into education on bringing people back to the community to work in our dealerships in the ag industry and just keeping them here in Nebraska so there is that generation that we have. So with that, I thank you guys. [LR155]

SENATOR HADLEY: Okay. Any questions? Senator Harr. [LR155]

SENATOR HARR: Thank you. I think it's a very good bill. Senator Hansen here prioritized that bill. And I think we'll probably pass it this year. I hope it does, at least. [LR155]

MARY JANE EGR EDSON: Turn your mike on. [LR155]

SENATOR HARR: I feel like a high school principal now. [LR155]

TED HOATSON: I get a little offensive on that. [LR155]

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SENATOR HARR: But it brings up a valuable point in that I've heard a lot of talk of, lower my property taxes and broaden the sales tax, okay, which means we're going to start taxing industries that weren't taxed before. And all those industries are going to come in and make the exact same argument you just made. And so it's very difficult for us to sit there and say, oh, it sounds great in the abstract. Let's go ahead and tax more services. But you're going to get a different kind of border bleed. So how do we address that issue? [LR155]

TED HOATSON: That's a good question. I don't have an answer for you right now. [LR155]

SENATOR HARR: Yeah, and I don't either. But it's a policy question we have to answer. [LR155]

TED HOATSON: Sure. [LR155]

SENATOR HARR: But thank you for coming to testify. Appreciate it. [LR155]

TED HOATSON: Thank you. [LR155]

SENATOR HADLEY: Okay. Thank you. Any other questions? Seeing none, next. [LR155]

SHERMAN HIRSCH: My name is Sherman Hirsch. I'm a retired educator living here in North Platte; first name, S-h-e-r-m-a-n, just like the tank or general, last name, H-i-r-s-c-h. I just simply have a question. Do you have available a list of services and/or items that are exempt from sales tax? Could that be provided today? [LR155]

MARY JANE EGR EDSON: Yeah, I can get you one. [LR155]

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SHERMAN HIRSCH: Okay. Thank you. Appreciate it. [LR155]

SENATOR HADLEY: Yes, we certainly can. Okay. [LR155]

SHERMAN HIRSCH: Thank you very much. [LR155]

SENATOR HADLEY: And I believe it's published by the Department of Revenue, if you go to their Web site and look. Yes. [LR155]

SHERMAN HIRSCH: Well, my computer doesn't like me. (Laughter) So it's a good idea. I can play solitaire on it and that's about it. [LR155]

SENATOR HADLEY: Okay, next. [LR155]

GREG NIELSEN: (Exhibit 14) Good afternoon, Senators. My name is Greg Nielsen, G-r-e-g N-i-e-l-s-e-n. I am a resident of North Platte and the chief executive officer at Great Plains Regional Medical Center. I am testifying on behalf of Great Plains. Jim Ulrich, president and CEO of Community Hospital in McCook, could not be here today but asked that I include him in our comments. Great Plains Regional Medical Center in North Platte employs 885 people coming from 52 zip codes, mostly in Nebraska. Last year, we invested nearly \$20 million in community benefit to improve the overall health of the communities we serve. Our service area covers 15,944 square miles, about a fifth of the state. Our medical staff consists of nearly 90 physicians representing 27 medical specialties, and we care for about 6,000 patients per month. Community Hospital is a 25-bed critical-access hospital. As one of its area's leading employers, Community Hospital currently has 286 employees and paid annual salaries and wages for its fiscal year ending June 30, 2013, of \$13,041,000. During its most recent fiscal year, Community Hospital provided 32,262 occasions of inpatient and outpatient services averaging 120 per weekday and 20 per weekend day. In addition, Community Hospital

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provided charity care to patients at a cost in excess of \$1.1 million. We applaud the intent behind the Legislature's efforts for much needed tax modernization and thank you for the opportunity to offer our insight. We agree that Nebraska must address the current tax structure in order to attract more businesses and remain globally competitive. The question, as you well know, lies in how we go about restructuring our current tax model without causing significant negative impact to the industries that currently exist in Nebraska. Nebraska's solution cannot jeopardize the quality, access, availability, and cost of healthcare services in our state. During the last legislative session, there were tax modernization proposals that included the addition of sales tax on home medical equipment and inpatient hospital beds that would serve to keep the budget neutral and any revenue decreases in newly proposed income tax structures. Eliminating current sales tax exemptions on lifesaving medical equipment such as durable medical equipment, home medical supplies, mobility-enhancing equipment, prosthetic devices, oxygen and oxygen equipment, as well as pharmaceuticals would surely have a negative impact on the many Nebraska patients who currently struggle to pay healthcare-related expenses. It would be wrong for Nebraska to develop a sales tax that would target individuals who are sick. In addition, the legislative proposal during the last session which suggested imposing sales tax on energy costs that keep hospital machines and facilities running 24 hours a day would negatively impact hospitals already in poor financial condition throughout the state. At Great Plains, our yearly hospital energy bill averages about \$1 million per year. The tax on this amount would likely be in the thousands of dollars, a high price to pay to serve those who are unfortunately ill. Nonprofit hospitals are provided special tax treatment because of their expectation to do three things: reinvest assets in a way that expands and improves access to healthcare in Nebraska, invest in the education and training of healthcare professionals, and provide care to the poor regardless of their ability to pay. Again and again, Nebraska hospitals, including Great Plains Regional Medical Center, have met this mission and remain continually committed to providing millions of dollars in uncompensated care, wellness programs, immunization clinics, prevention programs, health fairs, and screenings. We remain nonprofit for a reason: to meet the healthcare

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needs of the communities we serve often despite ability to pay or profitability of services. Behavioral health and emergency services are prime examples. In closing, taxation of Nebraska hospitals would most certainly drive up the cost of healthcare at a time when such costs are already rising due to unintended consequences of the Affordable Care Act. Higher healthcare costs and lower reimbursement levels lead to the cost-shifting of healthcare expenses in order to ensure that hospitals remain financially viable. The shift continues to create a larger burden on the same group of people who are the payers of healthcare. This shift likens to a hidden tax that is often overlooked in any healthcare reform discussion. It is an unfortunate situation and any state sales tax for hospitals and healthcare consumers would only further perpetuate the cycle. We ask that in your consideration of tax modernization solutions, the needs of sick individuals across the state, the financial viability of hospitals, and the continued ability to provide much needed prevention and healthcare services is given much contemplated thought. Thank you for your time. [LR155]

SENATOR HADLEY: Questions? Senator Hansen. [LR155]

SENATOR HANSEN: Mr. Nielsen, thank you for being here today. If you had your choice, one or the other, would you want to be exempt from sales taxes or exempt from property taxes? [LR155]

GREG NIELSEN: Both. (Laughter) [LR155]

SENATOR HANSEN: (Inaudible)...one or the other. [LR155]

GREG NIELSEN: I'm not sure I could answer that on the spot. I have to give that some thought. I don't know that I could say one way or the other. [LR155]

SENATOR HANSEN: Okay. Thank you. [LR155]

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SENATOR HADLEY: Further questions? Thank you. [LR155]

GREG NIELSEN: Thank you. [LR155]

SENATOR HADLEY: Just while we're waiting for maybe the next person to come up, there was a question asked about the exemptions, the sales tax exemptions. We exempt about \$5.8 billion in exemptions. And everybody thinks that that is such a huge number. But let me read some of the bigger exemptions and see what you think, whether they should be taxed or not. Items purchased, sale for resale: the jeweler that buys a watch and turns around and resells that watch. Should we tax the jeweler a sales tax on purchasing that watch? We exempt \$1.8 billion on sale for resale. Ingredient and component parts in manufacturing, we exempt \$1.3 billion because they become a component part of another product that we sell. Animal life that the agricultural people buy, \$630 million; political subdivisions--your city, your counties, \$315 million; veterinary supplies, \$300 million; grain for feed, \$167 million; purchases by churches, medical facilities, \$163 million; food, \$127 million; energy used in industry to produce product, \$124 million; medical equipment and medicine, \$114 million. So when people talk about the large amount of exemptions that we have from sales tax, this gives you an example of what we're exempting. And every one of these things, if we do away with exemptions, they're going to raise the price of these products to you because these people are going to pass this...if they pay taxes, businesses pass costs on. So I just wanted you to know there was an article in The New York Times about the exemptions and everything that Nebraska has. And we've covered about 80 to 85 percent of the exemptions in those items that we just talked about. Next person. Senator Schmit, welcome. [LR155]

LORAN SCHMIT: (Exhibit 15) Thank you, Senator. My name is Loran Schmit. Today, I testify on behalf of the Association of Nebraska Ethanol Producers. I'm going to dispense with my testimony, Senators, and save a little time. But I want to identify again, just what you have said when I said yesterday that those exemptions which exist

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were debated extensively and intensively. And there was a lot of heat and some anger on the floor of the Legislature. No one just walked in and said, let's exempt this or this. They were discussed at great lengths. And so the...and I would just want to say that if you really broaden the tax base, Senator Carson Rogers and I drafted a really broadened tax base one time, though it would lower the sales tax to about 2 percent, and we heard from everyone from the mighty to the lowly. And the bill never made it out of committee. I heard from Mr. Buffett, and I heard from Mr. Peter Kiewit and a whole host of other people on down the line. I would just like to read what Mr. Kiewit told me at that time. He said, Schmit, you fellows and ladies make the rules and we play in your ballpark. If we can't live by the rules, some of us will leave. Most of the time he said, we could live by the rules providing you adhere to one rule. Don't change the rules in the middle of the ball game. Taxes are to business just like any other raw material. We can calculate the cost of a bid so long as you don't change the rules. We bid against other people who work under the same tax structure as we do. But if you change the rules during the time of our contract, sometimes a project which started out to be profitable can become unprofitable. And likewise, businesses who locate in this state like to know that there will not be drastic tax changes. I think I said yesterday the ethanol industry was founded in this state with a certain set of tax rules. If you change those tax rules today, an average small 40 million gallon ethanol plant would pay about \$500,000 tax on energy. And none of us are under the illusion that natural gas prices are going to stay where they're at or that other energy prices are going to remain low. So when those taxes rise, of course, the impact rises a great deal. I'd just like to also say that included in...there have been some conversation about putting a tax on intangibles. Senator Carson and I thought it would be good to tax the sale of stocks and bonds. And I received a very gentlemanly phone call from Mr. Buffett explaining to me why that wouldn't work. And apparently the committee agreed with him because as I said earlier to the tax committee, the bill didn't get out of committee. There may be a problem with the taxation of stocks and bonds. I talked to Bill Peters, the former tax commissioner, and he has told me that it no doubt deserved looking into, that there may be a problem. There's enough attorneys on your committee I think that can probably resolve that

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issue. There's been a lot of discussion here again today about broadening the tax base, the sales taxes. And when you do that, if you do that, you're going to get a lot of input. We think that no drastic changes should be in order, number one. Number two, we favor the income tax approach over the sales tax. There has been a lot of discussion over the years on the floor of the Legislature about how rural people don't pay income taxes. Well, the reason rural people don't pay income taxes is because of the reasons that have just been cited here by Senator Jones and others. Property taxes make it very hard in years past for rural people to earn any money. If they paid any money, they pay taxes. The last four or five years have been some of the best years we've had in agriculture, and I've around quite a while. We are under no illusions, as again was mentioned here this afternoon, that ag prices are going to stay where they're at today. We've already seen corn drop from \$8 to \$4.50, pretty drastic drop in any kind of a picture. So we have a tough...tremendous job. I know you'll do your best. But the one point I want to reemphasize again, make changes slowly because any drastic changes are going to have a tremendously adverse impact. Thank you very much. [LR155]

SENATOR HADLEY: Thank you, Senator Schmit. Senator Sullivan. [LR155]

SENATOR SULLIVAN: Thank you, Senator, and thank you, Senator Schmit. I agree that these sales taxes exemptions were hard fought and put in place for a reason. But do you think there's merit in revisiting the exemptions periodically to see if they still have value under current circumstances? [LR155]

LORAN SCHMIT: I think there would be merit if you left mine alone, both energy and...(laughter). I think it's good to look at them. But I think you have to realize that, for example, a company like Nucor which is probably...I believe it is the largest consumer of electrical energy in Nebraska. And they're also the largest steel mill in Nebraska. That's kind of a unique idea, that in the middle of the whole United States, we have the largest steel manufacturer in the United States. And so if you were going to put a tax on energy, it's going to have a tremendously adverse impact upon that company. I think

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Senator Schumacher led the Tax Commissioner through a series of questions at the hearing on LB405 about what it would do to the cost of steel if you taxed every single part of that operation. When you tax multiple portions of an operation, you add tax upon tax upon tax and eventually someone is going to go out of business. If we were to tax energy today on the ethanol industry, it could impact some of those companies. In essence, they would not be competitive and would probably go out of business. And I would guess the same thing will happen to some of the other companies who are heavy energy users. But the process is a continual process. You're here today because there's a problem. And as many witnesses so testified, there comes a time when you just can't put any more on the property. I even had a person suggest to me with some experience--I don't even like to mention this because I don't want it quoted in the paper tomorrow that Schmit said that you should only have property taxes support schools...no, support NRDs, cities, and counties, that the schools should be completely dependent upon sales taxes. I think as has been testifying here today that we have seen a lot of increase in state aid since 1967 when I think the first state aid was \$44 million to almost a billion but not a corresponding reduction in the property taxes. So whether or not that's a way you have to go, but that's something that's going to have to be looked at because so often the state aid turns out to be like money from heaven and we just keep on taxing at the same rate. So the aid to the counties and cities started out because a bill introduced, LB518. We removed the tax on personal property: farm equipment, cattle, and business inventories. And we compensated the counties for that amount of money that they lost. And so the first year it was \$70 million. And the Supreme Court said that was a legal, legitimate compensation. But they said you must inventory each year or else the proportion might not be fair next year, might not have the same amount of personal property from each county. And so we introduced a bill that would have allowed...required a reevaluation every year. Senator Dave Newell, in his wisdom and his chicanery, was able to convince the Legislature that instead of going back and reassessing every year, it would be much more expedient just to send that money back on a per capita basis. It was about \$12 million from rural Nebraska to Omaha, so they ought to put a statue of Senator Newell on 70th and Dodge in Omaha

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because he transferred money from rural Nebraska back to urban Nebraska. That was origination of the county and city aid. So everything has changed. Nothing can...there's an old saying: Nothing ever remains the same in the Nebraska Legislature. And it's true here. It was true 40 years ago. It will be true 40 years from now. [LR155]

SENATOR HADLEY: Thank you. Thank you, Senator Schmit. [LR155]

LORAN SCHMIT: Thank you. [LR155]

SENATOR HADLEY: Any other questions? Thank you, Senator Schmit. [LR155]

LORAN SCHMIT: Thank you. [LR155]

SENATOR HADLEY: Anyone else on sales tax? Seeing none, we can shift to income tax. Would anybody like to come forward and talk on income tax? [LR155]

MIKE GROENE: You said I could finish. I have something more important than all this. I've got a granddaughter playing softball here in an hour. One thing on the sales tax quickly that you didn't mention things that could be taxed--I have a list here from the Tax Foundation--groceries, prescription drugs, periodicals. I go to Kansas. I pay a sales tax when I...I do a lot of business in Kansas, and I pay a sales tax on newspapers. I don't...they're a business. I don't know why you don't pay sales tax on magazines. Rental housing, why not? Why not have the person who doesn't pay any property taxes...an individual said earlier, pay sales tax on his rent. That would help offset the property tax deduction for the business owner of that rental property. Nonprofit hospitals and nursings, we went over that. They are very profitable and they do pay very high wages so I think they could help out a little bit. Museum admissions; photo processing; financial services; financial services charges; investment services; trust, fiduciary, and custody services; day care; higher education tuition; elementary and secondary education tuition and expenses, legal services. I know the lawyers would fight you there.

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You probably wouldn't win that one. Accounting services, labor organization dues, professional association dues, that all adds up. And that might add up to a billion or so at 5 percent which would offset an awful lot. And those are nonessential services and things that everybody pays. It's a very simple line you draw to Senator Harr. If it's used in the production of creating income, you don't tax it. It's simple. If it's an end user--haircuts, food--you tax it. That's the line you draw. So when you talk about agricultural parts for a combine, that is used to create income which will be taxed later. To put something into production in a factory that's used to sell, it's a simple line. You can draw it very easily right down the line here. One point I'd like to make, 14 Senators, 3 of them are west of Grand Island. It's to the point where three-fourths of the state geographically is represented by 10 senators out of 49. That is an argument right there to give us back local control. I talked about property tax to the schools. Eliminate the .95 that we have to tax unless we lose state aid. There's a lot of these ranchers in here. They live in school districts where they get no state aid because they are property rich. Let the local school...we would have people running for school boards again if we could control property taxes. Out here in rural areas, we get good kids, get good families. We don't have the cost in the metropolitan areas. Let us spend less money on our students if we can get the job done. Do not dictate to us what property tax rate we have to charge. Give every student...treat us all fairly. Every student gets so much money and give it to the school district and leave us alone. Test us and you'll find our tests are fine. But we're only ten...we're three-fourths of the area, and we only got ten senators. Give us more local control and not less. I'm going to hit a couple of things because it's spending, folks. It's spending. It's all this money. You talked about what should we do differently. University of Nebraska, we put no value on a university education because we are the lowest tuition in the Big Ten and are the lowest tuition of any surrounding state. To me, what you pay means the value of what you buy. Ninety percent--that's a number I would estimate--of people in Nebraska do not attend the university system. They attend our community college. And here in North Platte, a lot of blue-collar workers right out of high school. They go in the family business to the railroad. You've got private colleges, Creighton. You're putting an unfair burden on them to try to exist

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because you subsidize a privileged group of individuals who happen to go to the university system. You tell...we're in the top five per capita supporting our university system tax-wise. If you're going to get an education from the university, you should have...you should take ownership of it and you should pay more. I hear Mr. Milliken bragging about 6,000 students don't pay a nickel. There's no skin in the game. They put no value on it because we subsidize...I mean, as a young man I worked my way through college living behind a vet clinic. I had guys living in the dorms who I knew because of some situation in their family, they got everything paid for. That's not right. I went into life with a debt. If you want public education, a college education, pay for it. Cut...you could cut the university's aid by a bunch, switch it over to state aid to public schools and you'd make a difference for everybody involved. Another one is the tax increment financing. Folks, you need to look at that. That was back in the '70s when we had the ghettos and we wanted to rejuvenate our old downtowns. It is being abused across the state. Last time I looked you're losing close to \$60 million in property taxes through tax increment financing. Our Walmart here...our Menards here in town in an alfalfa field that was bought for \$500,000 and sold for \$3.5 million by speculators is tax increment financed. Get rid of that program or put some policing into it. It's \$60 million property taxes right there you lose. Other issues are the...back to education and property taxes, get rid of the Educational Service Units. They're outdated. Educational Service Units do not do what they were meant to do back in the '60s and '70s. Modern communications, everything is on the Internet. You got huge school districts. I was told by a superintendent of schools here in North Platte one time, they don't use it. They have everything...services that they offer in-house. And examine the 16 ESUs. That's a property tax item. And see the salaries paid. It's a nest of bureaucrats. We get very little good out of it. Turn that, what they do, back over to the State Board of Education. Have a central, maybe one or two locations where everything comes out of. But get rid of them. They're outdated. They do no purpose. There's a lot of things, folks, you could cut, you could get rid of. It's spending. We spend too much. But anyway, that's all I've got to say. And remember what you're hearing here: 79 percent of property taxes in the rural areas go to education. The two are related. We spend way too much. [LR155]

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SENATOR HADLEY: Thank you, Mr. Groene. [LR155]

MIKE GROENE: We have too high administration costs. We have too high of...and what are we getting? Our test scores don't prove we're getting anything for our value. You need to say no to the State Education Association. Say no to them. They have too much power in Lincoln. But anyway, folks, most of us want to live here. And we don't move out. And we don't move out of this state because this is where we're from. This is where our families are. This is what we built. It isn't because we worry about taxes. I hear some of the progressives say, well, nobody is leaving. We have a stake here. And we don't need...a lot of us...there's a remanet of us that use a lot less government that what we pay for. And we're proud of that. But you're putting too much of a burden on us. And the percentage of us who are paying that extra amount for more than what we use is getting smaller all the time. It's unfair. [LR155]

SENATOR HADLEY: Thank you. [LR155]

MIKE GROENE: But fairness has got nothing to do with government I understand. [LR155]

SENATOR HADLEY: Thank you. Thank you. I also want to apologize. I should have...I did not realize that Senator Jones was a former senator. And I should have recognized him as a senator. So I apologize. Is there anyone else that would like to speak on income tax? Yes, please, come up. [LR155]

KAREN OLSON: (Exhibit 16) Senator Hadley and members of the committee, I am Karen Olson, K-a-r-e-n O-l-s-o-n, and I live here in North Platte. I'm here today to deliver testimony in favor of having no state income tax on Social Security income. This is not only fair to Social Security recipients, it's also in line with what all but five states do regarding Social Security income. Nebraska is one of just five states in the nation that

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tax Social Security at the maximum benefit allowed by federal law. North Platte is a railroad town. Railroads have a retirement system that actually predates Social Security. Railroad retirement provides a benefit for railroad workers when they retire and when they become disabled just as Social Security provides a benefit for nonrailroad workers when they retire or when they become disabled. When Social Security was set up, the railroad retirement system was kept in place and kept as a separate system from Social Security. Although railroad retirement is a separate plan, it provides the same kind of benefits. According to a report from the Social Security Administration, a worker born in 1943 and retiring at age 66, and that's the age at which you can retire and draw Social Security without reductions because of age, that person's benefits would be \$17,208 a year. The same worker for a railroad would receive an annual benefit from railroad retirement of \$26,736. Not only as a worker for a railroad would receive an annual benefit greater than the Social Security benefit, but they also get preferential treatment from the Nebraska state income tax. The railroad retirement benefit is not taxed by Nebraska while Social Security is taxed. A number of residents in North Platte as well as residents across the state draw from the railroad retirement benefits. Railroad retirement is treated as a replacement for Social Security. In fact, if you have enough work credits to qualify for both a railroad retirement benefit and a Social Security benefit, you may receive both. If you don't have enough work credits to qualify for the railroad retirement, then your work credits and contributions are automatically transferred to Social Security and you get a Social Security benefit for your combined career. I mention this because income from railroad retirement is treated very differently than income from Social Security in Nebraska. When a railroad retiree calculates his or her Nebraska income tax liability, they take their Tier I or Tier II railroad retirement benefit and subtract that from their adjusted gross income before applying the Nebraska state income tax. Their railroad retirement benefit provides the same kind of retirement security that my Social Security benefit provides, and the two incomes should be treated with the...the same in the state if we are going to treat all retirees fairly. Social Security income should also have an above-the-line subtraction from the adjusted gross income before calculating the Nebraska income tax liability. I ask that you treat two retirees in

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Nebraska, one who retired with a career from the railroad retirement system and one who retired from a career served by the Social Security, the same. The railroad retiree and the Social Security retiree should enjoy the same treatment of their retirement income regarding state income tax. I ask that you change the law to exempt all of Social Security income from state income tax, the same as the law exempts all railroad retirement from state income tax. Thank you for the opportunity to testify today before the committee. [LR155]

SENATOR HADLEY: Are there questions? Seeing none, thank you. Other questions or comments on income tax. [LR155]

RON PETERSON: My name is Ron Peterson, R-o-n P-e-t-e-r-s-o-n. I'm from Holdrege. I'm a business owner. I may not look like it, but I still work every day. Now, I think that the FairTax is an answer that you should be looking at. I'm not really certain that you've all heard of it. But it's the best tax alternative that I've ever seen. And I've been studying income tax for over a half a century. So could I just encourage you to take a look at the book. Take a look at the things that are available to tell you what the FairTax is because I don't think you know or you'd jump on it. Thank you very much. Thank you. [LR155]

SENATOR HADLEY: (Inaudible). Thank you. Any further comments? [LR155]

ERIC SEACREST: Good afternoon. Thank you for your service. My name is Eric Seacrest, E-r-i-c, Seacrest, S-e-a-c-r-e-s-t. I live here in North Platte. We're pleased to have you out here. Just going to talk briefly about four things...income tax on capital gains. Nebraska taxes virtually all capital gains at ordinary income tax rates rather than at some preferential tax rate. This is one of the few areas where I think the federal government got it right. They give preferential tax treatment to capital gains at lower rates than ordinary rates. Nebraska's top ordinary tax rate on income taxes is 6.84 percent. Many people pay that rate on capital gains. And at the same time through a special law on books of the state, the state gives special tax treatment on capital gains

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to a very small number of taxpayers. And they pay either nothing or virtually nothing. Revenue savings from revising the special tax break on capital gains ought to be used to lower the top rate on capital gains for all Nebraskans. Capital gains tax rates certainly deserve your attention. With your permission, I'd like to briefly talk about a few other little things. [LR155]

SENATOR HADLEY: (Inaudible). [LR155]

ERIC SEACREST: Nebraska ought to reduce the high burden of property taxes by continuing to increase state aid to schools. But at the same time, the state needs to reform the retirement system for public school educators going forward. The present K-12 retirement system is simply not sustainable. It's built on excessively optimistic assumptions, it's extremely costly, and going up at a rapid rate. And it's undermining, in many people's eyes, the support that we ought to be giving public education. The retirement system going forward needs attention. Sales tax, Nebraska exempts farm machinery and equipment from sales tax but not farm repairs or replacement parts. These are repairs and replacements to produce income. This just doesn't make sense and it hurts our state's competitiveness. Please consider some way to eliminate or reduce the sales tax on farm repair and replacement costs. You have done some neat things over the years that have helped. For example, with the community colleges, you have a separate mill levy rate for capital construction. Capital, you recently increased it to 2 cents. That has kept our community college facilities in good shape, and it has kept a lot of monkey business of using indirectly state money to build local facilities at community colleges. I congratulate you for that change. That's an example of a careful and a gradual repair to make the system better. Another change you made recently is you're now spending a portion of the state's sales taxes to maintain and improve our road system. It's not a big proportion, but it's a small proportion. And it is entirely appropriate because even people who never drive a mile or pay a penny of fuel tax benefit over and over again by having a road system that goes in front of their place where they live or where they work. So I congratulate you on making appropriate

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changes over the years and urge you to keep up this difficult and probably thankless but important work. Thank you. [LR155]

SENATOR HADLEY: Thank you, Eric. Are there questions for Eric? Seeing none, thank you. Anyone else that would like to talk on income tax? We have some time left. Would anyone else like to talk on any of the issues? How many do we have? [LR155]

DON BATIE: (Exhibit 17) Good afternoon. My name is Don Batie, D-o-n B-a-t-i-e. I am a farmer from Dawson County and I'm president of Batie Cattle Company which is a closely held family corporation. We operate about 1,400 acres of irrigated corn, soybean, and alfalfa. Appreciate the time and effort that you are putting in to modernize Nebraska's tax system. I think a comprehensive look at all the taxes that we pay is long overdue. I strongly feel that property tax reform is an essential part of that solution. Property taxes, the way they're currently managed, are inherently unfair. Property valuations have no relationship with the ability to pay taxes. Oftentimes, property values rise for reasons that have nothing to do with the income production ability of the land. With the rising values of ag land the last few years, the farming sector is paying a much higher percentage of property taxes than our urban neighbors. One reason is that ag land has to be revalued every year while other businesses and homes are revalued less often. I'll give you some numbers and they're in the testimony so you don't need to write them down if you don't wish to. But the property taxes I've been paying have risen substantially the last few years. For example, the property taxes I paid on the 390 acres that my family owns...paid in 2010 for the 2009 taxes was a total of \$9,558 or \$24.51 per irrigated acre. It has risen each year since then, and this year for the 2012 taxes I paid \$13,294, which is \$34.09 an acre. That's a 40 percent increase in four years. If you extrapolate those taxes that I pay on my ownership over the entire operation including the thousand acres that I rent, the property taxes that were paid in 2013 would total about \$47,726. Conversely, the property taxes that I pay on my home and 11 acres of our farm yard have not followed suit. And I can track this because my farm yard is a separate tract and is taxed separately. In 2009, I paid \$1,578 of property tax on my

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home and 11 acres. In 2013, I paid \$1,495, a slight decrease. In the intervening years, it has gone both up and down. We also pay property taxes on our farm equipment. This has greatly increased over the last four years partially because I have used the income generated through our farm to modernize my farm equipment. In 2009, I paid \$1,578...excuse me, I got the wrong line. In 2010, I paid \$1,780 of property tax on equipment. This year, I paid \$7,406. Since we pay tax in the same taxing district for education as the city of Lexington does, the share of local funding paid by the ag sector has risen as our valuation and taxes have gone up while our urban neighbors' valuation and taxes have remained flat. One of the things I would like to bring up and it was a thought that I had while sitting here, oftentimes, farmers have their farmland is their investment for retirement. My wife and I have been investing in farmland since we first got married and that is going to be our retirement income we hope. Other businesses maybe do the same thing, invest in their business. But if you invest in bonds or stocks, you're not taxed on your investments. You can have those without taxation. I feel that is very unfair that I should be taxed on my investment for retirement while other people do not get taxed on their investment for retirement. In conclusion, I would recommend your committee reform the property tax structure of Nebraska and attempt to move toward an income capitalization type of valuation. That way it would...the tax to be paid would be tied to the income production ability of the land. Many of our neighboring states have gone that direction, and I think it's a much more equitable method of valuation of property. Thank you. [LR155]

SENATOR HADLEY: (Inaudible). Seeing none, thank you, sir. [LR155]

DON BATIE: Thank you. [LR155]

SENATOR HADLEY: Is there anyone else? Have you filled out a green sheet, sir?
[LR155]

GARY HEINZLE: Pardon? [LR155]

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SENATOR HADLEY: A green sheet. [LR155]

GARY HEINZLE: I don't have a green sheet. [LR155]

SENATOR HADLEY: We will get you one. We need to have you... [LR155]

GARY HEINZLE: Okay. [LR155]

SENATOR HADLEY: Okay. [LR155]

GARY HEINZLE: My name is Gary Heinzle; Gary like the famous actor Cooper and H-e-i-n-z-l-e. I'm from North Platte. It would appear to me that this committee was instigated by the fact that the Governor wanted to change our tax laws. And there was some controversy there and as a result of that, we have this group. My impression was the Governor was trying to change the tax laws to make the state more attractive to industry. But in reality, what he was proposing was tax shifts. My opinion is you accomplish nothing with tax shifts. That allows the Senate and the Governor to pick and choose the losers and the winners. In order to really make a difference in our tax structures, we need to cut spending. That's a word you don't want to hear but that's the bottom line. And Joe Hewgley referred to just recent legislation that brought expenses to Lincoln County of over \$100,000. Those are the kinds of legislation that we cannot tolerate. Another example of...and I propose that the Senate looks at a lot of mandates, evaluates them and decides, is this really critical for us to continue with our lifestyle? And I'm going to use one other reference and that's the CIR Board. Let's see, I always have trouble remembering what that stands for--Commission of Industrial Relations. And what that program does is just accelerates our expenses for public employees with no regard to the economy, no regard to any sort of capitalism. It's just mandated that you increase salaries. For...I'm sure most of you realize how this works. You'll have an array say of six schools. And you can't be on the bottom of that array in the salary

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schedule. You have to be above the bottom. So you're on the bottom. You raise your salaries. So what's that do? Puts somebody else on the bottom; it's just a snowball effect that we cannot continue to tolerate. And I'm using that as just one example of what you have to look at to try to improve our tax situation. And that's...all this I'm talking about goes right back to property tax. If you want property tax relief, you've got to relieve the burden on the schools, the counties, and the cities that you have created for us. I would welcome questions. [LR155]

SENATOR HADLEY: Any questions? Seeing none, thank you, sir. [LR155]

GARY HEINZLE: It's a tough row to hoe, but you guys got to get the hoe out. [LR155]

SENATOR HADLEY: Now, would you please take the green sheet and fill it out for us, sir? It's part of our...you can take it back up to your seat. [LR155]

GARY HEINZLE: Yeah, I will. [LR155]

SENATOR HADLEY: I appreciate that. It's just for our records because we transcribe and we actually have a transcription of this hearing. Anyone else? [LR155]

JIM TIERNEY: My name is Jim Tierney, J-i-m T-i-e-r-n-e-y. While we're sitting here talking about taxes, we're watching a river go down. And I hope everybody understands how many dollars' worth of water is going down that river. It's going to end up in New Orleans. We should have some reservoirs along the way to catch that so it doesn't. There is something going on. A man talked about it, that he was going to get a 10 percent tax over here down by Wellfleet where they're giving up taxes to make another government entity to pump water to the Republican River. Well, all of this water is going down. Twelve months out of the year there's water--it goes down the Tri-County Canal--that is closer to the Republican River and there's a dome of three big counties down there. They could be pumping that out of there without spending hundreds of

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millions of dollars to build pipelines, build wells and all of this. And there's no common sense when all of this water is down here. Now, all of these entities like the man is talking about...they hop, skip on getting salaries up. We have everybody, and I know they do a good job. But the Department of Roads, NPPD, the Central, NPID, that all of those are government entities that take money. And this turns in that we have a socialist country going on here, and there's not a whole lot of common sense in how it's doing. It's just feeding on itself until it feeds on its babies and there are no more people to pay taxes. So I just want to bring up about...they could be pumping water right out of those counties down there--Phelps, which is close to the Republican. And they're going to spend \$200,000...\$200 million, maybe \$300 million to do it some rich guy's way that was in New York and had an idea. Thank you. [LR155]

SENATOR HADLEY: Have you filled out a green sheet? [LR155]

JIM TIERNEY: No. [LR155]

SENATOR HADLEY: (Inaudible). Just again, Senator Carlson and...there is a Water Task Force that will be having hearings. Senator Schilz, how many hearings are you going to have? [LR155]

SENATOR SCHILZ: I think total there's something like 26 different hearings. [LR155]

SENATOR HADLEY: Twenty-six different hearings, right? And could you just take maybe a minute or two, and what is the goal of the Water Task Force? [LR155]

SENATOR SCHILZ: Thank you, Senator Hadley. And for anybody who's interested, the Water Policy Funding Task Force is going to look at exactly the types of issues that the gentleman was talking about here: how to better manage water, how to better fund it, and how to find the most efficient uses and most efficient way to manage that water going forward. And many of the issues in what he talks about are exactly the

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discussions that we're having at those hearings. And so I was like, wait a minute. Did I wake up at the wrong hearing? But I think you're exactly right. There's a lot of that stuff that goes on. And you're right. If we had done some of the work prior to now, if we had been ready for some of these flows with infrastructure and things like that, we could capture more of this water. But the problem is infrastructure costs money and as we hear here today, nobody likes to be taxed any more without seeing a definite benefit from it. The other side to that is you don't find out what the exact benefit is until you do the research and you do the feasibility studies to find out where you're at and where you could be. So therein lies the rub. But we will be having...starting up again on October 10, we start with a hearing. And that is in Alliance and there's some others. If you go on the Department of Natural Resources Web site and look at the LB517 process, click on the bottom right hand corner. It will show you the meeting dates. It will show you all the minutes that have been had from the meetings so far. And I would invite anybody to go out there and look. Thank you. [LR155]

SENATOR HADLEY: Thank you. Thank you, sir. [LR155]

JIM TIERNEY: Thank you. [LR155]

SENATOR HADLEY: And take your green sheet and fill it out. []

JIM TIERNEY: You bet. [LR155]

SENATOR HADLEY: Or you're going to be held after school. Anyone else? [LR155]

CARL DIETZ: I don't have a green sheet but I'll speak anyway. [LR155]

SENATOR HADLEY: I'm sure you'll fill one out. [LR155]

CARL DIETZ: I've been debating all day whether I'm going to speak or not. [LR155]

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SENATOR HADLEY: Well, we appreciate... [LR155]

CARL DIETZ: Here is my opportunity. So my name is Carl Dietz, C-a-r-l D-i-e-t-z, superintendent of Ogallala Public Schools. And I guess I want to talk about the funding for education. For the most part, we have three funding mechanisms. We have local, state, and federal. The national average for funding education is about 56 percent...excuse me, about 45 percent. Our local in the state of Nebraska is about 56 percent. So we're number eight in the nation on funding locally, heavy burden on the local tax owners. Our state funds education at 36 percent. So the state has not taken on their responsibility for funding education. Now I guess locally in Ogallala, we've cut our spending over the last four years about 10 percent. So we're spending about 10 percent less now than what we did 4 years ago to try to meet our expenditures or make up for the loss in state aid, the changes in the state aid formula. But at the same time, even though we're cut...we have cut spending at 10 percent, our property owners are paying about 15 percent more than what they were four years ago. So even though we're cutting spending--I want to repeat that. Even though we're cutting spending locally, we are depending on our taxpayers at a larger rate. Now, you would think that they would be happy that we're cutting spending and our budget is cut for the fourth consecutive year, but yet they are paying more. I would like to see changes in the state aid formula. I would like to see, you know, as far a taxing mechanism, I am an advocate for gambling in the state. I think that's something that needs to be looked at. We started the lottery, I'm going to say, back in the late '90s if my memory serves me correctly. The money was supposed to go to education and early on it did. I don't know what's happened to the lottery money. I don't see any of it going to education any longer. There's been other ploys to try to get money channeled for education. I have not seen that. But something needs to be done as far as education. I agree that the 95 cent rule needs to be thrown out. The \$1.05 needs to be thrown out. If you're going to have that, there's no reason why the minimum levy limit and the local effort rate don't match. They do not match. There's a 10 cent or about an 8 cent differential between those 2 numbers. That needs

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to be looked at. I don't know why it hasn't. School districts maintain the 95 cent just so that they are able to maintain their state aid. If they drop below the 95 cent, then they lose a proportionate share of state aid. I'm sure some of you are aware of that. Many of you are not aware of that. So anyway, I guess that's that. I'll take my green sheet and answer any questions that somebody might have. [LR155]

SENATOR HADLEY: I just would like to...the problems that people are bringing up with water and school aid, we recognize that they need to be looked at in the Legislature. And would Senator Sullivan just spend a minute or two talking about the process that the Education Committee is going through as far as hearings on the school aid formula. And there will be hearings, again, across the state to deal with the school aid formula. Senator Sullivan. [LR155]

SENATOR SULLIVAN: Thank you. Thank you, Senator Hadley, and thank you, Superintendent, for your comments. Without a doubt, school aid and funding for our public schools came up loud and clear here today as it did in the hearing in Scottsbluff last night. And we hear you. And the Legislature has sent a clear message this past session that they wanted the Education Committee, the committee which I chair, to take a closer look at our school aid formula. And that's exactly what the committee has been doing over this summer. We've met several times. And just next week we will embark on a series of five public hearings across the state. I think the nearest one to you folks will be in McCook next Tuesday afternoon. We're starting out in Hastings, going to McCook. Then we'll go into the Sandhills, a school in Dunning. And then the following week we'll be in Omaha Public Schools, Crete Public Schools, and up to Macy. So we are on a quest to hear what the citizens have to say. As I think we're finding in this tax committee and we're going to find in the Education Committee, there's no silver bullet. There's no answer that's going to please everyone. But we also know we have a constitutional responsibility to fund our public schools in this state, and it serves us well that we take a close look at how we do that funding-wise, both from the local level and at the state level. So we sent out a press release just Monday. So it should be in the local

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newspapers as to the time and locations of all those hearings. So any of you that have testified today, I hope you also come to those hearings. Thank you. [LR155]

SENATOR HADLEY: Thank you. With that, I will close the hearings. Is there anything that any of the committee members would like to comment on before we go? Okay. Seeing none, thank you. We appreciate your input. That is the purpose of these and we will take into...as much as we can what you've given us today. Thank you. [LR155]