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Revenue Committee
February 10, 2017

[LB121 LB169 LB453]

The Committee on Revenue met at 1:30 p.m. on Friday, February 10, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB121, LB169, and LB453. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Tyson Larson; Brett Lindstrom; and Paul Schumacher. Senators absent: None.

SENATOR SMITH: Welcome to the Revenue Committee public hearing. My name is Jim Smith and I'm from Papillion, Nebraska. I represent Sarpy County in the 14th Legislative District, and I serve as Chairman of the committee. The committee will take up the bills in the order posted on the outside of the room. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To best facilitate today's proceeding, I ask that you follow the following procedures. First, please turn off your cell phones and other electronic devices so it does not interfere with the person testifying. As you begin to testify and others move up to testify, if you could move towards the front of the room if you're wanting to provide testimony to us today. The order of testimony will be the introducer of the bill, the proponents of the bill, the opponents of the bill, those testifying in a neutral capacity, and then closing remarks by the introducer of the bill. If you will be testifying, please complete the green form and hand that to the committee clerk when you come up to testify. If you have written testimony or exhibits for the committee and you would like to have those distributed, please hand them to the page and they'll get those into our hands. We will need 11 copies for all committee members and staff, and if you need assistance in making those copies, let us know and we can help you out with that. When you do come up to testify we will need you to both state and spell your name. That's so we can get it correctly into the record. We will limit testimony today, and let me see a show of hands of all those that are wanting to testify on things today. All right. You know what, I would like to go with five minutes for each person wishing to testify. The light will come on, the green light will be on for four minutes while you provide your testimony. It will then change to an amber color for the next minute. During that time if you could wrap up your testimony, we'd appreciate it. And then it will go to red and at that time, certainly, please close out your testimony. If you would like your position to be known but do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. The microphone on the desk up here is not for amplification, it's to capture your testimony for the transcribers, so you will need to speak loudly enough for others to hear you. Let me introduce the committee staff that's with us today. To my immediate right is legal counsel, Mary Jane Egr Edson; to my immediate left is research analyst, Kay Bergquist; and to my left at the end of the table is committee clerk, Krissa Delka. And I'm going to allow the committee members that are here to introduce themselves. Some will be coming and going. We have other bills to introduce in other committees, but Senator Tyson Larson at the end of the

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table is not with us currently, and then next to him is Senator Mike Groene. I believe Senator Groene will be joining us in just a bit and Senator Groene represents North Platte, District 42.

SENATOR LINDSTROM: Senator Brett Lindstrom, District 18, northwest Omaha.

SENATOR FRIESEN: Curt Friesen, District 34, Hamilton, Merrick, Nance and part of Hall County.

SENATOR BRASCH: Lydia Brasch, District 16. That's Burt County, Cuming County and Washington County.

SENATOR SCHUMACHER: Paul Schumacher, District 22. That's Platte and parts of Stanton and Colfax County.

SENATOR HARR: Burke Harr, Legislative District 8, which is a part of Douglas County.

SENATOR SMITH: And our pages today that will be assisting you and assisting us are Alexi Richmond from Milwaukee, Wisconsin, and Sarah Wearne from Topeka, Kansas. And again, a reminder. Senators will come and go during the hearing. Please don't take offense at that. We do have other responsibilities in other committees. We are going to open today on LB121 to be introduced by Senator Brewer related to changing provisions relating to the taxation in military benefits. And let me just take a quick moment on behalf of the...I know we have a number of veterans with us today in the audience, and on behalf of the committee I would just like to say thank you for your service and it's good to have you here today. Senator Brewer.

SENATOR BREWER: (Exhibits 1-3) Thank you, Chairman Smith and good afternoon fellow members of the Revenue Committee. I am Senator Tom Brewer. For the record, T-o-m B-r-e-w-e-r. I represent the 43rd District of western Nebraska. I am here to introduce LB121 which reduces the income tax on military retired pay and amends Section 77-2716 of the Revised Statutes. This bill takes a substantial step forward in solving a serious problem I believe that we have had in Nebraska for a long time. Our income tax laws discourage military retirees from settling in Nebraska. To fix this problem, this bill untaxes military pensions at a rate of \$10,000 a year for five years, ultimately resolving in \$50,000 in military pension being exempt from Nebraska income tax. After the end of five years this means the military pension of all retired enlisted service members would be completely untaxed. The pension of retired officers would be...hang on, the pension of retired senior officers would not be completely untaxed. There are pay charts that are provided to you, but they will still pay Nebraska income tax on the portion of military pay that exceeds \$50,000. Ultimately, I believe 100 percent of the military pension

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should be exempt from Nebraska income tax, but given our constrained fiscal environment this session, I felt this measure would be a good step in the right direction. When the War on Terror began about eighteen years ago, a large military buildup began. The post-9-11 military population "bubble" is moving across the time line and is nearing its twenty-year retirement age. The effect of this will be an increased number of retirees. Instead of worrying about this initial reduction in income tax revenue, I think we should also consider how this steadily growing population of military retirees will increase tax revenues in Nebraska as more and more of those who served during our recent military buildup retire after putting in their 20 years. It's no secret, Nebraska competes with its neighbors. Iowa, Kansas do not tax military retirements at all. Missouri and Colorado have laws that provide some income tax relief to military retirees. Wyoming and South Dakota do not have an income tax. There are 13 states that either have no income tax or do not tax military retirement at all. Nebraska is surrounded by states that offer income tax relief to military retirees. Prudence demands that as we set more favorable conditions here in Nebraska, encouraging veterans to stay in Nebraska after they retire, is a good thing for our state and I think we are really missing out on the benefits with Nebraska, that Nebraska could enjoy by this growing population of retired veterans. For example, according to the Platte Institute, 3,500 Nebraskans moved to Iowa in 2014. That was the year that Iowa exempted Social Security and Military Retirement Pay from Iowa state income tax. Nebraska is only one of five states that tax both Social Security benefits and military retirement. It's hard to know how many of them were military retirees, but there was certainly an incentive for them to leave Nebraska for Iowa. Letting our veterans keep more of their military pensions will cause a modest reduction in income tax revenue, but I think the economic benefits of attracting highly-skilled, trained veterans with strong leadership qualities outweigh whatever tax dollar loss there is. Increasing the number of highly-trained Nebraskans in our work force could in turn help attract companies that rely on such workers. Our educational institutions, high-tech corporations, for example, need employees with skills many veterans possess. On top of that, military-friendly tax policies will demonstrate to veterans that our state is actively working to protect military bases from closure. In 2008, the One Hundred Legislature established the Base Alignment And Closure (BRAC) Task Force that studied the impact of closing Offutt Air Force Base and what it would have on Nebraska. The Task Force recommended tax relief for retirees, military retirees as one of their recommendations. We need to fully implement these recommendations. Many retired veterans work on the military installations as defense contractors or government employees, such as Offutt Air Force Base. If we pass this bill, they are much more likely to live in Nebraska instead of Iowa. Right now, most live in Iowa after they retired because Iowa's enhanced compensation package for veterans' benefits, including making military retirement pay 100 percent tax exempt, along with other incentives. There's a handout that lists the comparison on those. It's clear to me Nebraska needs to do a better job of competing among states wanting to attract and keep military retirees. Retired military veterans are some of the best-educated, best-trained, and youngest retirees there are. Active military members are eligible for retirement after 20 years of service. Most of them are in their 40's and have children in school where they retire. The majority go on

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to civilian jobs for post-retirement, turning their military training and skills into the private sector. Many find work on military installations where they retire as DOD employees. As a result, the pay that they receive is taxed as income in their post-retirement civilian jobs and then they pay taxes, both personal, property, excise, sales tax with everything they buy, and possibly even business taxes, boosting the economy of the state where they live. We are missing out on all of these opportunities right now. I've heard from a few critics who question whether or not veterans should be getting any type of preferential treatment. Let me be very clear on this point. We are singling out veterans for special treatment with this bill, and I believe it is altogether right and proper that we do so. They not only have earned and deserve this special treatment, but as I have explained, this is a very good thing for Nebraska. This income tax exemption is not only an obvious way to express gratitude to the Armed Forces and our Nebraska veterans for the service to their state and nation. This bill helps us to keep pace with the neighbors, stop missing out on opportunity to attract outstanding group of people that will grow and improve our state. The bill is not just a good idea for our military veterans, it is a good idea for Nebraska and I urge you to support it. Let me close by saying that we need two fiscal notes with this bill. I believe we are missing a fiscal note here. You can see the dubious fiscal note that came with this bill. What you do not see is the fiscal note that comes with the decision to not pass this bill and to keep and attract the military retiree veterans in our communities in Nebraska. You don't see what the cost is to our entire tax base by Nebraska continuing to lose on this issue. Make no mistakes, colleagues, the right question to ask isn't whether or not we want to compete with our neighboring states and attract our veterans. The fact is, we are competing with them and we are not winning. I urge you to support LB121. Thank you for your time. I will happy to answer any questions. [LB121]

SENATOR SMITH: Thank you, Senator Brewer, for your introduction on LB121. Do we have questions from the committee? I see none. Thank you, and I understand you will remain for closing? [LB121]

SENATOR BREWER: Yes, sir. [LB121]

SENATOR SMITH: Very good. We will now move to proponents of LB121, those wishing to testify in support of LB121. Welcome, Mr. Dupell. Good to see you. [LB121]

RON DUPELL: (Exhibits 4 and 5) You too, sir. Thank you very much. Chairman Smith, Honorable Senators, I am Ronald Dupell. That's R-o-n-a-l-d, last name Dupell, D-u-p-e-l-l. With me today is Steve Stevens, Colonel, United States Air Force, (Retired), past Commander of the 55th Wing at Offutt, and Dean Kenkel, Chief Warrant Officer 5, United States Army, (Retired). We represent the Veterans Coalition, which is an informal provider of information to veterans in Nebraska. I'm here to testify in support of Senator Brewer's LB121, specifically the exemption of

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military retirement income from Nebraska income tax. It is our contention that Nebraska should pass tax relief for all of its citizens and provide incentives to attract and retain military veterans and retirees in Nebraska. Passage of LB121 is not a panacea for taxation issues in Nebraska which inhibit work force growth. It should be a part of the Legislature's efforts to reduce taxation on all Nebraskans and an integral part of efforts to attract and retain military veterans and retirees. We urge the Revenue Committee to vote to present LB121 to the Legislature for open debate and a vote. It is time for the Legislature to act on this issue. This has been an issue that's been going on for decades. Despite good efforts by Nebraska to recognize veterans, it lags behind many other states and all surrounding states in providing benefits to veterans. According to WalletHub, Nebraska ranks 35th concerning economic environment for veterans. The real issue are how well Nebraska has used its access to military veterans and retirees in its efforts to improve development of its work force and to attract new businesses into Nebraska. According to the Platte Institute, our economic rivals, including Iowa, are showing that over the long haul greater numbers of Nebraskans are choosing to live, work, and invest in states that allow citizens to keep more of the money they earn. Because of Nebraska's low unemployment rate, its available work force, its slow population growth, greater efforts are needed to retain highly skilled military personnel as they separate from the military. That effort should be part of Nebraska's master plan to retain Offutt, improve work force development, and attract more businesses. There has not been a state level cohesive, consistent, and long-term effort to persuade veterans to remain in Nebraska. The loss of skilled people and capable leaders harms Nebraska's ability to grow its work force and each month and day that goes by, we dig a deeper hole for ourselves but the Veterans community is deciding to stay here. As shown by the dismantling of Strategic Air Command, all missions at Offutt are subject to decisions of the Air Force and the Base Realignment and Closure, known as the BRAC. Representative Adam Smith, Democrat of Washington, the top Democrat on the House Armed Services Committee, reintroduced a bill on January 27, 2017, that would establish another Base Realignment and Closure effort beginning in 2019. The move comes just two days after Senate Armed Services Committee Chairman John McCain, Republican of Arizona, called Congress' failure to consider another BRAC an act of cowardice. Offutt did not fair well in the last BRAC review. With the add of a new airborne refueling aircraft, the KC46, the Air Refueling Wing at Lincoln International Guard Base may also experience a review and may place it at risk of being decommissioned or relocated as the Air Force implements the KC46. The KC46 is scheduled to begin in 2019....excuse me, the drawdown of KC10 and KC135 units is scheduled to begin in 2019. Since 2013 in Nebraska, multiple legislative bills have been implemented to recognize veterans. Most noteworthy was the legislation providing 100 percent homestead exemption for disabled veterans. The new Nebraska veterans homes and the cemetery in Alliance are also noteworthy. Those actions are very important, but more is needed. In response to comments asking why should veterans be the only group to get an income tax cut, that is a reasonable question and, in fact, 38 other states and the District of Columbia had to answer that same question when they provided tax relief to veterans. Twenty-four of those states exempt all military retirement income. I suppose the real question

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should be, why has Nebraska not joined the vast majority of other states in providing meaningful tax relief on military retirement? Your support to legislate incentives for veterans to remain in Nebraska is vitally needed. We have been told that Nebraska cannot afford to provide benefits or incentives to veterans. It is our contention that Nebraska cannot afford to not do so. That is my testimony. Are there questions? [LB121]

SENATOR SMITH: Thank you, Mr. Dupell, for your testimony. Do we have questions from the committee? I see none, thank you. [LB121]

RON DUPELL: Thank you. [LB121]

SENATOR SMITH: Next proponent of LB121. Welcome. [LB121]

LARRY GERLT: (Exhibit 6) Thank you. Larry Gerlt, L-a-r-r-y G-e-r-l-t. I'm here as the Senior Vice Commander of the Veterans of Foreign Wars to testify on behalf of LB121. I fully understand how difficult it is to justify and afford decreasing state revenue in austere budget times, but the question is, how can we afford not to? As previously mentioned, 28 states do not tax military retired pay. You must be aware that as of 2014, Iowa no longer taxes military retirement pay and Social Security. They totally phased it out. Governor Ricketts has often spoken of the value of the military expertise he has availed himself of. We, all veterans and not just retirees, bring a unique set of values to the work place. As a group, we have the dedication to duty that we bring to our civilian jobs each and every day, not just when we feel like it, unlike many of our civilian counterparts. Additionally, we do not do just enough to keep our bosses happy. We do the best we can each and every day just as we did in the military. To complete a career in the military, you had to become part of the quality force doing more than less. Now, we, the military veterans and retirees are a quality work force. When I retired from the military, Iowa also taxed military retired pay and Social Security. So, as a born and bred Nebraskan, the choice was easy as I have family here in the Omaha area of where to live. Now, while my wife still works at Ralston Public Schools about a half a mile from our house, when she retires in a couple of years, I will have to seriously consider moving across the river to get those tax breaks. My retirement pay and that of most veterans is only about \$20,000 per year, but I lose 5 percent of that to Nebraska. It may not sound like much to you, but that may be the crucial difference between seeing my daughter and three grandchildren in Phoenix each year for Christmas. As it is for me, so it is for most veterans. Aside from getting closer to a level playing field of Iowa, why else should you exempt military retiree pay? How many of you have served on active duty? How many of you are aware of the unique stresses and sacrifices we've made? I was stationed at ten bases for a 24-year career. My family was uprooted every 2.4 years. My children lost their friends and had to make new friends every 2.4 year. My wife had to find a new job every 2.4 years. We had to learn foreign languages and customs while in Turkey and Germany. We moved

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from Charleston, South Carolina, in November to the Canadian Border, going from 70 degrees to minus 20. That makes it colder. (Laughter) Have any of you ever been woken up at 2 a.m., grabbed a mobility bag, said goodbye to your family and not knowing is this it, am I'm stepping into harm's way, or is it just another exercise. More importantly, your wife not knowing until you walk back in the door one, two, three or even more days later. Military life brings stresses to the military family on repeated, recurring basis that civilians only face a few times in their life, such as moving across the country for a new job, or never, such as war games and deployments. Our divorce rate is among the highest group in the nation, right up there with law officers. Or how about just the fact, that if I failed to go to work, I didn't face being counseled or losing my job, I faced years in Fort Leavenworth prison. As it is for me, so it is for all of our veterans, especially our military retirees. Our state motto here in Nebraska is the good life. Help deliver this promise to our military retirees. Make it a truly veteran friendly state. Please pass the bill that provides tax relief and a better quality of life for our military retirees, and just as importantly, helps Nebraska gain a larger, high-quality work force with needed skills, training, and dedication by retaining additional military retirees. Help stop the flow of retirees across the river to Iowa. The additional income taxes they pay between military retirement in their 40's, and work force retirement in their 60's will more than make up for the pennies you're pinching from us today. Nebraska simply cannot afford not to pass this bill. Thank you. [LB121]

SENATOR SMITH: Thank you for your testimony. Do we have questions from the committee? I see none, thank you. Welcome. [LB121]

GREG HOLLOWAY: Thank you, Senator Smith, members of the committee. My name is Greg Holloway, G-r-e-g H-o-l-l-o-w-a-y, and I'm not like some of the other ones here, I was just a Buck Sergeant, but I'm representing the Nebraska Veterans Council which, in fact, that we represent right at 60,000-some-odd veterans in the state of Nebraska through the Nebraska Veterans Council. We look after the legislative issues. This is a legislative issue that the Nebraska Veterans Council has approved to be a worthy cause for the veterans in the state of Nebraska, one of the reasons that I'm here. I'll keep it pretty short. When I was...had the opportunity to be medically retired from the military in 1969 as results of injuries in combat, but I opted to go ahead and skip the medical retirement and apply for service-connected disabilities instead because it was a better benefit to me in the long run because service-connected disabilities are not taxable. So if I had been medically retired, then I would have had to worry about the taxes on the income. So I had that option. Many that are just retired from the military don't have those options to take advantage of, so. This is a good thing. We need to expedite this and at least get it out of committee so you debate it on the floor and see if we can get this issue resolved. Thank you. [LB121]

SENATOR SMITH: All right. Thank you, Mr. Holloway. Do we have questions from the committee? Senator Groene. [LB121]

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SENATOR GROENE: You said 60,000 veterans. There's more than that in the state of Nebraska, isn't there? [LB121]

GREG HOLLOWAY: Yes, there is. More than 60,000, but there's 60,000 veterans that are members of the organizations that we represent, the Veterans of Foreign Wars, the Disabled American Veterans, the American Legion. I wish we had all 140,000 veterans, approximately 140,000, I think. That's pretty close. I wish we had that many veterans that would join our organizations. We'd be a lot easier to be solvent, so we understand finances, so. [LB121]

SENATOR GROENE: How many of those veterans receive retirement? [LB121]

RON DUPELL: 14,000 veterans. [LB121]

GREG HOLLOWAY: See, there's people that can answer that. I can answer a lot of technical questions on what causes service-connected disability, but those numbers I don't have. I'm glad you answered. [LB121]

SENATOR GROENE: Somebody can answer me. [LB121]

GREG HOLLOWAY: Somebody can answer that that's more knowledgeable about those numbers than I am. Thank you, sir. Thank you, ladies. [LB121]

SENATOR SMITH: Thank you, Mr. Holloway, for your testimony. Appreciate it very much. And I know we see you around here from time to time. Appreciate you keeping us posted on veterans issues. [LB121]

GREG HOLLOWAY: You're more than welcome. I'm keeping my promise. This is not one of my bills asking for money. (Laughter) But I'm supporting it. [LB121]

SENATOR SMITH: Very good. And I know there were some facts and figures that answered Senator Groene's question, so if someone has that you would like to get on to the record, that would be helpful to us. Welcome. [LB121]

PAT JONES: (Exhibit 7) I'm Pat Jones from Bellevue, Nebraska, P-a-t J-o-n-e-s. Senators, as I said, I'm Pat Jones. I retired from Offutt Air Force Base, started a small computer company and was a partner in a security company. I presently serve as First Vice Chairman of Nebraska's largest credit union, SAC Federal Credit Union, and on several other boards. I retired in

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Nebraska primarily because my wife who had followed me all around the world, was in the reach of her own retirement, and our two kids had enrolled at Big Red, UNL. Being a resident of Texas, it was a tough decision for tax reasons. But I knew efforts were being made for retiree tax relief. But, the real fact is, is that tax relief is a win-win for Nebraska. Nebraska surely could use more highly educated, experienced, proven leaders, workers, especially people with good levels of spendable income, not dependent on the state, and who are not costing the state Medicaid or any other social program costs. This request, I want to make clear, is not based on something owed to us. It simply makes sense for Nebraska. States all around, as you have heard, Nebraska, give military retirees significant relief to retain or to recruit them because military retirees are very well-educated, technology literate, and are proven assets for their states. Those states realize military retirees provide significant spendable income also to help their economy. Those states also realize that military retirees don't cost their states anything. What would it cost Nebraska? The fiscal report that's attached to this, you only get part of the answer. DOD information shows that 14,000 military retirees in Nebraska receive over \$30 million a month. Think about that. Your fiscal note reflects income tax receipts for 2017, 2018, if I read it right, of \$4,175,000. My Nebraska tax will be about \$6,000 part of that. However, your fiscal data does not have any estimates of lost opportunity costs. What spendable income is associated with that tax that you get from me and other military retirees? If Nebraska loses my \$6,000 of taxes because I move back to Texas, Nebraska also loses the over \$100,000 spendable income that we spend now here. The common multiplier used in such considerations, such as the economic impact of Offutt Air Force Base on Nebraska, is 2.5. I'm not sure how they come up with that, but that's what's considered acceptable. It shows that the lost opportunity cost of losing my \$8,000 of income for Nebraska is more like \$250,000. When military people retire, they are moved free to their home of record, if they want to move. Above I pointed out that we stayed so my wife could finish earning her retirement. Now that her retirement is made, we are considering moving to Texas for income tax reasons. I want to mention, too, that our two kids are part of the brain-drain problem for Nebraska. Both are highly educated and both making six-digit salaries in Texas. We have contributed to the good life here in Nebraska. I served on the school board for 16 years. I'm serving on the credit union board, church, Offutt Advisory Council, and service club memberships and boards. But the extra income from Texas, no income policy makes it very attractive to move closer to our family. Nebraska would lose my expenditures and get no payback from my wife's school retirement check either. There are many military retirees with the same option. I was working on a list to provide such a list to you, but I can't get their taxable income...they don't really want to give it to me, but I could give you a list of names of several. I can give you a couple right off the top. Colonel Bill Christensen that lived in Plattsmouth, full Colonel, retiree. His wife is a school administrator, retired. Decided to move to Texas. That is a significant loss for Nebraska. It's a win-win for Nebraska. Until this bill surfaced, I didn't see the previous bills that I testified once on because my state senator got defeated and another one didn't introduce it, I haven't talked to him. I thought it was a dead issue. So we just spent, last fall, \$13,000 residing and remodeling our home and we're getting...we're already scheduled to

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spend \$2,000 more on landscaping so that our house will sell quickly. I have a top-notch real estate person that promises me it will go within a week. We don't want to move. We like Nebraska, but it's hard to justify losing that \$6,000 paycheck when my state and the people I vote for can't see the logic in that multiplier of losing not only my \$6,000 if I move, but to losing all my spendable money too. And they don't seem to think about that, that means you and other senators. We'd like to stay in Nebraska. I'm asking you to think of that bill as a win-win for Nebraska. Yes, it helps the military retiree, but in the long run it's really helping Nebraska. Thank you. [LB121]

SENATOR SMITH: Thank you, Mr. Jones. Questions for Mr. Jones from the committee? I see none. Welcome. [LB121]

DAN DONOVAN: (Exhibit 8) Good afternoon, Senator Smith and members of the Revenue Committee. My name is Colonel (Retired), Dan Donovan. It's spelled D-o-n-o-v-a-n, and I am currently president of the Heartland of America Chapter of the Military Officers Association of America, abbreviated MOAA. Our mission is to support a strong national defense and to advocate for the earned entitlements of military members, veterans, active, retired, Guard, Reserve, their survivors, and their families. I have been a Papillion resident for almost 35 years. The Air Force brought me to Nebraska in 1982. I retired from the Air Force in 1988, and then worked for two great Omaha companies, First Data Resources for five years, and TD Ameritrade for 12 years. Since I retired in 2007, and since 2008, I have been a volunteer counselor at SCORE, who was formerly known as the Service Corps of Retired Executives. It's a resource partner to the Small Business Administration. I became chairman of the Omaha SCORE Chapter in 2009 for two years and then in 2011 I assumed my current position with MOAA. And numbers from MOAA, we have more than 2,400 MOAA members in Nebraska and approximately 270 of them, which comes from across the state...or 270 of them are chapter members. You've already heard our Nebraska income taxes are higher than all the surrounding states and all...either all exempt, all or a part of their retired military pay. For quality of life reasons, family considerations, education and others, some of us chose to remain here. For many more the balance went the other way and they decided to leave the state. And the taxation was just too great. And you've heard testimony in this room from retiring military members who have stated that when their time to retire comes, they're going to leave the state right away. I have heard classmates, coworkers and friends, and neighbors, tell me the same thing over my time here in Nebraska. In fact, in the past couple of years I lost two key members of our chapter board, one to move to Missouri, the other to move to Texas. I believe the real beneficiary of LB121 would be the state's as you would see an increase in economic activity as a result of retaining separating and retiring veterans. It would also go far, in my opinion, to help relieve the brain-drain that we hear so much about. In my civilian career at First Data and Ameritrade, I had the opportunity to hire people and I did hire veterans and they worked out...80 percent of them worked out beautifully. There was ten or 15 percent, they were a little bit marginal. But

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generally, they're technologically savvy, they know how to work hard as part of a team, and they know how to get things done. They know what their objective is, how to do the necessary planning, make necessary adjustments, execute a plan. Veterans are resilient, adept at building and leading teams. They're comfortable with diversity and they like to handle uncertainty. So I would conclude by saying, retaining retired military is in Nebraska's best economic interest. And I do encourage you to advance this bill and that concludes my testimony, Senator. [LB121]

SENATOR SMITH: Thank you, Mr. Donovan. Questions for Mr. Donovan? I appreciate you mentioning and pointing out your work with SCORE and I know that's helped a lot of small businesses in our state. Do you have an idea of the number of veterans that go on to become small business owners and create jobs in our state? [LB121]

DAN DONOVAN: I do not have the exact numbers, no. But I do know that the ones I have mentored or counseled generally work out well. And not only is it the veteran themselves, but it's the veteran's family. I've had one true success. I mean, a real good success and it's a company that started out in Papillion. They're now out farther on 370. It's the traveling nurse business. And what it was, was two sons of veterans got together. They both had experience with different companies, they got together, formed their own, and they started this business and they had to move from their small place in Papillion to La Vista and now out to...up by the, what's the 88 tactical area out there, east on 370. So there are definite benefits in keeping veterans and their families here. [LB121]

SENATOR SMITH: Very good, Mr. Donovan. Thank you for your testimony. [LB121]

DAN DONOVAN: Thank you, sir. [LB121]

SENATOR SMITH: Next proponent of LB121. General Cohen, good to see you. [LB121]

PAUL COHEN: (Exhibit 9) Thank you, Senators, it's my pleasure. Thank you very much for enabling us to make this presentation. Members of the Revenue Committee, my name is Paul, P-a-u-l, Cohen, C-o-h-e-n. I'm a resident of Omaha and I'm here today as past 2nd Vice Chair of the national Military Officers Association of America, and its 390,000 members. And as the legislative chair working for Colonel Donovan, from whom you just heard, with Heartland of America Chapter. I'm a former Assistant Adjutant General for Air in the Nebraska Air National Guard and retired Brigadier General of the United States Air Force. I am obliged to say that I do not represent, nor do my views necessarily reflect those of any federal organization or agency of which I may currently be a member. Thank you for letting me get that in the record. I appreciate the opportunity to speak to LB121, and thank Senator Brewer for its introduction. I had great testimony, but I'm not going to do most of it because you've heard it. MOAA has been at the

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forefront of this legislation for nearly 14 years. We began the conversation sometime ago and over the years we've counseled committees similar to yours on the economic benefit of this legislation, not necessarily because it's an earned benefit, though you can certainly make that case. Other states, as you've heard, recognize the positive impact of adding military retirees to their pool of well-educated, well-trained, highly motivated, capable workers. Many states, as you've heard, have a long list of incentives in addition to tax relief to attract and retain this cohort. They've figured out that the investment by the state pays off in a broader tax base, increased competitive advantage when seeking businesses to expand, open in, or move to their state, among other benefits. Nebraska is not alone in recognizing this. This body passed legislation about three or four years ago that gives a military pay exemption. We did not support it, though well-intentioned as it was. Our concern was that the law was limited in scope and sent a very mixed message of welcome and that has proven to be correct. As you know, the current legislation provides for 40 percent maximum exclusion for a period of seven years, or a lesser exemption for life beginning at age 67. It also excludes retirees already in the state prior to the established start date, ignoring the contribution they have made to the economy and fabric of the state, and invites them, frankly, to leave, and more than a few have done so. The perceived signal is, settle in Nebraska for seven years and then seek an opportunity somewhere else. The law is far less attractive than provisions in other states, as is noted on the various studies, maps, and charts presented to transitioning military members considering their next career. Since its inception in 2014, the first operative year of the legislation, the increase in military retirees in our state is currently reported by DOD sources as zero percent over the last two years, compared to 1 to 2 percent gain in our neighboring states that already had existing exemptions on the books, far more beneficial than the ones that we have. Last summer I was privileged to address the Retiree Appreciation Day in Des Moines. Later, I met a newly retired Air Force Senior Master Sergeant. He had job offers from two major insurance companies, one in Omaha and one in Des Moines. He did the math. The offers were materially the same in every respect except their location. He chose Des Moines. It saved him nearly \$6,000 in taxation on his military retired pay. You've heard similar stories. You have the power to change it. We have seen recent stories about Nebraska population decline and have addressed it here over 12 years ago when we first brought the matter to the Legislature. It is about economic development, an improvement within our state. It's a way to achieve some of the goals you have concerning the growth of economic activity in the state. LB121 meets the goals we established shortly after enactment of the current law. It will be increasingly competitive, it's easy to understand and administer, and it encourages military retirees to remain contributing members of our state during and subsequent to a second career. Thank you for the opportunity to appear before you. I urge your support of LB121. I'm available to answer any questions you may have now, or as you deliberate this measure. [LB121]

SENATOR SMITH: Thank you, Mr. Cohen, for your testimony. Do we have questions?
[LB121]

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SENATOR GROENE: I have one. [LB121]

SENATOR SMITH: Senator Groene. [LB121]

SENATOR GROENE: Thank you, Chairman. I've never been in the military. My brother was in Vietnam. I was too young. We have a crisis with income taxes, taxation in this state. It's too high for everybody. Property taxes. The momentum is pushing to do something about it. If you were the General and 14,000 of your best soldiers, most articulate, most well-respected, would you give them a steak and send them home when we're just about ready to charge the wall, or would you try to keep the forces together to make sure everybody gets income tax cuts? [LB121]

PAUL COHEN: That's very much akin, Senator, to which one of your children do you love the best? (Laughter) [LB121]

SENATOR GROENE: I'm for tax cut, you see where I'm... [LB121]

PAUL COHEN: I do, I do. Certainly when we look at the tax situation in Nebraska, and I've got to be a little careful here that I don't tread on my current job, when you look at the current tax situation in the state, yeah, we have some issues that we need to solve. And quite frankly, an overall tax decrease of some percentage, and I have lost track of the number that you're currently considering, does not reflect competitively into this particular cohort. So the question really is, if these 14,000 of my best soldiers are in this state, and I want to keep them and grow that number that I need to do something to incentivize them to stay and bring others in as well, and the competition for that group continues to grow. It's no secret. That's a ready-made work force that can come to work and do the things that you want them to do in your economy. So the answer to the question is much like you have to face every day. The answer is yes, I would do whatever I need to do and can afford to do. It's important to keep the best and the brightest I have and attract more of them. [LB121]

SENATOR GROENE: Thank you. [LB121]

SENATOR SMITH: I see no further questions. Thank you, Mr. Cohen. [LB121]

PAUL COHEN: Thank you, Senator. [LB121]

SENATOR SMITH: Next proponent of LB121. Welcome. [LB121]

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DANIEL PAXTON: (Exhibit 10) My name is Dan Paxton, D-a-n P-a-x-t-o-n. Thank you for listening to us all. Appreciate the opportunity to come to speak to you. I'm not going to repeat a lot of what you've already heard. They are more eloquent than I could ever be. But I would talk about the veteran, the retiree that lives on the shoestring budget. He's the guy that's going to worry about, do I have enough today, or this month to make my heating bill? Do I have enough to make my phone bill? Some of my fellow veterans do live on a shoestring budget. And some of my fellow veterans that...my fellow brothers and sisters in arms, they're making the decisions right now as they're coming up on their retirement, they want to know, well, do I stay in Nebraska, or do I go someplace else that has the benefits whether it's either housing relief, retirement not being taxed, things of that nature. This room right now is filled with combat veterans. Combat veterans, raise your hands. We all have one thing in common. We love Nebraska. I retired...I enlisted when I was 17 years old and I spent the next, almost 26 years in the military. I paid income...I paid state income tax when I wasn't even in the state. For eight years of active duty I paid income tax, state income tax when I lived in Germany. So it's not that we don't love Nebraska, but if we leave Nebraska, all of our spending money goes away too. Like was previously stated, a lot of us have got secondary jobs. Well, if we retire and we go to a state that doesn't tax our retirement, now you don't get that state income tax off of that job. You don't get that spending money off of that job. So I would ask that you please think of that. Barring any other questions, that concludes my testimony. [LB121]

SENATOR SMITH: Thank you, Mr. Paxton. Questions from the committee? I see none, thank you. Continuing with proponents of LB121. Welcome. [LB121]

CHARLES LEWIS: (Exhibit 11) My name is Charles D. Lewis, C-h-a-r-l-e-s L-e-w-i-s. Committee members, I'm a retired Navy Commander. Retired in 2000 after 23 years of service. I'm presently employed with the United States Citizenship Immigration Services and I'll probably retire in six to seven years from there. I'm looking for ways to stretch my retirement dollar already. I'm getting ready to research what states can help me do just that. This bill would be an incentive for me to consider staying here in Nebraska. I have three sons, two of them are presently serving in the Navy. Chris, who is here with us today, on leave, and his younger brother, Chase, grew up here in Nebraska, and went to the university, and when they entered the Navy, they changed their residencies to other states for tax purposes. I've discussed it with them, they would consider returning to Lincoln after they retired from service and both of them pointed out quickly that there were a lot of other states that do not tax military retirees paychecks. But if Nebraska were to do the same, they would consider it because it's a great place to have a family and bring up kids. When individuals in the military retire, they don't just stop working. They take on other jobs and pay taxes. They contribute their time and their expertise to our communities in a multitude of ways. I hope this bill goes through. I have a great home here in Lincoln and I'm going to miss it and my great neighbors if I choose to leave. [LB121]

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SENATOR SMITH: Thank you, Mr. Lewis, for your testimony. What was your mission in the Navy? [LB121]

CHARLES LEWIS: Flew a F14, sir. [LB121]

SENATOR SMITH: Fantastic. Fantastic. And your sons? [LB121]

CHARLES LEWIS: One's a helicopter pilot. In fact, he's going from MA60s down to T-6s in Corpus. And the other one flies F-18 Growlers out of Whitney. [LB121]

SENATOR SMITH: All pilots. Very good. [LB121]

CHARLES LEWIS: Yes, sir. [LB121]

SENATOR SMITH: (Exhibits 12-29) Thank you for your testimony today. Next proponent of LB121, proponent. We do have a number of letters for the record, and let me read those off to you: Richard Doolittle representing Papillion, Nebraska; James Smith, Omaha, Nebraska. I like that name. Jerome Stolinski, Bellevue, Nebraska; Gary Hahn, Omaha, Nebraska; Dean Kenkel, Omaha, Nebraska; Mark Olson, Bellevue, Nebraska; Jose Santos-DeJesus, Gretna, Nebraska; Ron Dupell, Nebraska Veterans Coalition; Ronald Halsted, North Platte, Nebraska; Rodney Bosserdet, Papillion, Nebraska; Mayor Douglas Kindig, city of La Vista; David Salak, the American Legion; Ryan McIntosh, National Guard Association of Nebraska; Mayor Rita Sanders, city of Bellevue; Ron Winchell, Scottsbluff, Nebraska; John Agee, La Vista, Nebraska; Bryon Line, Omaha, Nebraska, and David Brown, the Greater Omaha Chamber. With that we will close proponents. We move to opponents, those wishing to testify in opposition to LB121. Seeing none, anyone wishing to testify in the neutral capacity on LB121, neutral? [LB121]

LARRY GERLT: May I address the committee? [LB121]

SENATOR SMITH: In a neutral? [LB121]

LARRY GERLT: As a neutral statement, if you would. [LB121]

SENATOR SMITH: Okay, please come up to the table and you're going to have to give us your name again for the record. [LB121]

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LARRY GERLT: Larry Gerlt, L-a-r-r-y G-e-r-l-t. I would just mention...now I lost my train of thought. Oh, the question was asked, how many veterans in Nebraska, approximately 140,000; how many retirees, approximately 20,000, a little bit more than that. Thank you. [LB121]

SENATOR SMITH: Thank you for getting that on the record, Mr. Gerlt. All right. Very good. All right. Senator Brewer, you're invited to close on LB121. [LB121]

SENATOR BREWER: I would like to start by thanking all the veterans that came here today to show their support. I feel like I probably need to address Senator Groene's question, why would we want to single those fourteen...20,000, whatever that number is, out. I think it's important that you understand a little about the sacrifice that they made and I think to do that, let's ask a question of the group that's here, and this is just a small slice, but of those in the room that were wounded in combat or are on some type of disability, raise your hand. All right. I can't speak for them. I can't tell their story, but let me share a little of mine and then maybe you'll understand why I'm so passionate. I served for 36 years. Now, that 36 years was more than I needed to but when I got ready to retire, it was about when 9/11 happened and that wasn't the time to retire. The country needed us and that was one...as I spoke about earlier, there was a lot of them who made the decision to enlist. But what happened over the next 15 years is that many of us went away for multiple tours and that was the commonplace. It was rare to do just one tour. And when you make that commitment, that means 24/7/365. That means sleeping on a cot, living in a tent, eating dust, but even more than that, every day as you drove to work, the chance of a suicide bomber, an IED, or someone who just wanted to kill Americans, can show up and ruin your day. Six times I've been shot and once I've been blown up. In December 16 of 2011, an RPG landed near me and that started a two-year adventure in being rebuilt. Much of that was at Madonna here, multiple surgeries. But to take us and put us in the same category as everyone else, I struggle with because the injuries that you sustain, no matter where you serve or what you do, you deal with for the rest of your life. So I guess I'm still of the opinion that there is a benefit added to Nebraska even if you do tax exempt retirement pay because of the contribution made. So with that, I would just take any more questions. [LB121]

SENATOR SMITH: Thank you, Mr. Brewer. Senator Groene. [LB121]

SENATOR GROENE: Good friend, Colonel. You know, I meant no disrespect. [LB121]

SENATOR BREWER: No, no, and I understand that. [LB121]

SENATOR GROENE: I was looking at the whole battle of trying to get tax.... [LB121]

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SENATOR BREWER: And I understand the challenge you have. And if you didn't do that... [LB121]

SENATOR GROENE: If I had the guarantee you'd show up with the fight when the rest of us are trying to get tax cuts and didn't just go home, I'd...but you won't. Then I would really (inaudible) to it, but. [LB121]

SENATOR BREWER: Well, again I would hope... [LB121]

SENATOR GROENE: I don't like dividing and conquering where we send somebody off, give them a tax break and then the rest of us are in the minority and we don't have a chance of getting it. That's all I'm saying. [LB121]

SENATOR BREWER: Well, I understand, I guess my point to that would be that if we bring and we keep more military retirees, I think that impact in the home spot, in the boost to the economy, would offset that cost. [LB121]

SENATOR GROENE: Get everyone of you to run for school board, NRD, or something and slash the budgets (inaudible) stay here. That would be your next service. (Laughter) [LB121]

SENATOR SMITH: Senator Groene is going to rope you into something there, folks. But thank you, Senator Brewer, for introducing LB121. Thank you for your service to our country and for all those that joined you today. Thank you all for your service to our country. Thank you. [LB121]

SENATOR BREWER: Thank you, sir. [LB121]

SENATOR SMITH: And that closes our hearing on LB121. We're going to give a moment to let the room transition and then we're going to start our next hearing on LB169. We need to begin our next hearing so I'm going to ask folks that want to visit maybe to move out to the hallway so we can move on with the next hearing. Senator Wayne, thank you for your patience as we kind of transition the room between hearings, and Senator Justin Wayne is here to introduce LB169 that relates to exempting Social Security benefits and retirement income from income taxation. Welcome, Senator Wayne. [LB121]

SENATOR WAYNE: (Exhibit 1) Thank you. Good afternoon, Chairman Smith and members of the Revenue Committee. Everybody left when I got here, so I'm not sure how to take that, but we'll go on. (Laughter) My name is Justin Wayne, J-u-s-t-i-n W-a-y-n-e, and I represent the 13th

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District in Nebraska which is north Omaha and northeast Douglas County. As you know, the purpose of LB169 is for broad tax relief for Social Security in all retirees and that includes pension and any type of retirement income. This bill will eliminate the burdensome that our state puts on retirees and senior citizens and, hopefully, keep them here in Nebraska. I had a script written but this morning I read Senator Lindstrom's bill and his bill seems to be a more modest way of getting this done. My bill was, we're going to go big the first time out and eliminate it all, which gave me a huge fiscal note. So I thank Senator Harr for teaching me about fiscal notes and know what this means. (Laughter) We'll get back to that, but there are plenty of measures that we're going through this year regarding tax relief and we're having different conversations about income tax, property tax. On the corporate side, we're looking at new ways to do the Advantage Act, but one thing that seems to continue to be left out of the big overall conversation, although since 2007 similar bills have been almost introduced like this every year, is our retirees and our senior citizens. And since 2011 this has been introduced over 20 times, or similar measures, both by conservatives, progressives, liberals, Republicans, Democrats, and what I say today is, my bill is the bill that can heal all wounds and we can change the Legislature if we're able to pass this today. I just thought that was a joke, but nobody laughed. (Laughter) So without giving the background because this has been introduced so many times, I won't talk about the 1984 when the federal government in the state of Nebraska started taxing and go through all of that. This is just a simple bill that I think we need to do so that retirement income can flourish throughout our community. When you look at the fiscal note, what I really look at is not as a negative, but the amount of money that we can inject into our society. This can help main streets all across the cities, rural areas throughout the entire state. And the reason I think it's important is because the map that I handed out, which I haven't figured out where the color printer is, but I'm still looking for that...shows that Nebraska is one of the five states who still tax Social Security. And we're actually one of the four states who don't offer any type of incentive regarding Social Security and other retirement forms. And the fact of the matter is, we're losing too many retirees, I believe, which is a brain-drain on our society because that wisdom and that money I think is needed to make sure that we can grow our economy and grow Nebraska. And we are considered every year one of the worst or the highest tax states for retiree. So there's something simple...when doing my research on this and actually my old high school teacher, Roger Rea. I'm just taking it from his testimony years ago is that's there's three basic words where you talk about, when we talk about why this bill is important. The first one is fairness. And is it fair to continue to tax unearned income for retirees when other states, particularly one right across the river from Omaha, does not. The second one is equity. Is our current Nebraska tax policy equitable for the Nebraska citizens, particularly our retirees when everywhere else they get a better break, they can move somewhere and have more dollars in their pocket. And the last one is economic impact. Retiree dollars are still green and our infrastructure needs it, not just our infrastructure from highways and those kind of things, like gas tax, but all sales tax can benefit from more dollars going into our retirees. Many of them are still in cities, states, rural areas...in our state, in rural areas around Nebraska which that influx of over 300 million could benefit us. Now, again, I

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won't make my introduction super long because I know this has been an issue that has come before this committee multiple times. I just think it's time that we start having a full conversation about retirees and pension reform as far as it relates to making sure we put more dollars back into our senior citizens and our retirees in the state of Nebraska. Thank you for your time. I'll entertain any questions. [LB169]

SENATOR SMITH: Thank you, Senator Wayne, for your opening on LB169. Do we have questions from the committee? Senator Groene and then Senator Friesen. [LB169]

SENATOR GROENE: Would you consider starting this in 2022? Moving it forward, that's when I turn 66 and a half. [LB169]

SENATOR WAYNE: Yes, I will consider anything the committee wants to amend to get this moving forward. And I'll tell you why this is personal, sir. My mom and dad retired two years ago and my mom continued to get conversations from her sister who lives in Iowa saying, well, you just need to move across the river. It is a true...and with technology with families being able to interact via phone and videoconference, the need to stay close to family does not always prevail over, I need some extra dollars to take care of prescriptions, to take care of mortgages and those kind of things. And she still stays in the district that I'm representing and born and raised in, but it's a serious conversation and that's what brought it to my attention and so that's why I introduced the bill. It's a serious issue. [LB169]

SENATOR GROENE: When did Iowa do it? [LB169]

SENATOR WAYNE: Iowa phased it in starting in 2011, I believe...'13. [LB169]

SENATOR GROENE: How did they offset the loss of revenue? [LB169]

SENATOR WAYNE: Well, they phased it in over a five-year period, more like Senator Lindstrom's approach. And they made some cuts and found other revenue streams. [LB169]

SENATOR GROENE: Did they raise sales taxes too, I mean...? [LB169]

SENATOR WAYNE: No, not directly related to that, no. [LB169]

SENATOR GROENE: Thanks. [LB169]

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SENATOR SMITH: Senator Friesen. [LB169]

SENATOR FRIESEN: Thank you, Chairman Smith. Well, it's good to see you here, Senator Wayne. Just wanted you to know that you don't have the largest fiscal note yet. (Laughter) I've got you beat by a long ways. Don't give up. I mean, I agree, it's a good cause and we should be doing more and your comment about tax fairness across all sectors, we need to look at that more than we have because there's some areas where we could do a lot better. [LB169]

SENATOR WAYNE: And the reality is that since 1984, Nebraska has had a windfall from the Social Security tax that we place on it, and what I mean by that is, federally it was used to stabilize Social Security. Nebraska including four other states has used it as a generator of operating income for the state and we do need to have...we offer other tax breaks over the last 20 years to many people, but we haven't really gave our seniors and our retirees that ability. So it was because of your fiscal note that I was happy coming in here because I knew I had a chance. [LB169]

SENATOR FRIESEN: Thank you. [LB169]

SENATOR SMITH: Senator Schumacher. [LB169]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you for bringing this bill to us. One of the retirement forms of income that I don't seem to see in here and I'm kind of curious why you left it out is in the agricultural sector a lot of the retirement programs are, you buy a farm, you pay the farm off, and then you live off the rent in your old age. I didn't see where farm rent by folks who are over 66 years old is included in your list of exemptions. Is there any reason why that's excluded? [LB169]

SENATOR WAYNE: That was simply drafting error and I will be amenable to that. [LB169]

SENATOR SCHUMACHER: Oops, there went the fiscal note. (Laughter) Thank you. [LB169]

SENATOR SMITH: I see no further questions. Senator Wayne, you're going to remain here to close? [LB169]

SENATOR WAYNE: Yes, I will. [LB169]

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SENATOR SMITH: Very good. Thank you for opening on LB169. We're now going to move to proponents of LB169. Welcome. [LB169]

ROGER REA: (Exhibit 2) Thank you. Senator Smith and members of the committee, for the record I'm Roger Rea, R-o-g-e-r R-e-a. I live in Omaha and I'm the president of the Nebraska State Education Association-Retired, an organization of approximately 5,000 retired school teachers. NSEA-Retired is an affiliate of the Nebraska State Education Association. LB169 which would eliminate income tax, state income tax from all retirement incomes, would accomplish much to make Nebraska more retiree friendly. Several states recruit retirees with the lure of either no state income tax or no income tax on retirement incomes. LB169 would place Nebraska on equal footing with states like North Carolina which advertises heavily in retiree publications about having no tax on retirement incomes in an effort to encourage retirees to move to North Carolina. The reason the states want to attract retirees to a state are many. Retirees provide a dependable source of income that can be spent in the cities and towns where the retirees move to. Retirees can be attracted without additional expense infrastructure to build. In short, their retirement incomes are viewed as new money that the state would not have if the retiree lived elsewhere. As an illustration of how valuable retirement incomes are in Nebraska, I provided you a copy of Pensionomics 2016, a publication of the National Institute on Retirement Security, or NIRS. NIRS is an independent research organization and this report shows in 2014, state and local pensions provided more than one billion dollars in total economic output in Nebraska. The pension income supported 7,455 jobs and paid workers on those jobs \$318 million in wages and salaries. You can see the impact of state and local pensions on various industries in Nebraska on the back side of that page. We know that about 10 percent of retirees leave Nebraska at or near retirement age which removes a substantial amount of money from the state economy. If a worker moves out of the state, his or her job stays in the state and can be filled by a new worker. The wages that were paid to the worker who moved away, will now be paid to a worker who lives in Nebraska, so the wages stay in the state when a worker leaves. Well, when a retiree moves out of the state, they take their entire income, including Social Security, Medicare benefits and pension dollars with them. That money is not replaced because no retiree moves in to fill the void. If LB169 were in place, fewer people would decide to move to other states when they retire. I feel that you have seen the U.S. census map and data that shows the out-migration of retirees and how that impacts the state. Nebraska is aging, especially in the rural areas. Medicare is a major payer for healthcare benefits and much of that money funds the hospitals and medical providers in rural areas of the state. While LB169 would accomplish a very laudable goal, I looked at the fiscal note and considering the current budget problems of the state, have come to the conclusion it may not be practicable at this point. But let us not forget, that this retiree represents an important economic resource in Nebraska. The income the retirees have from Social Security, pensions, savings and investments, as well as the money that follows them in the form of Medicare benefits, represents a huge economic interest for the state. The reason for this economic interest is very simple. Retirees spend their retirement

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incomes where they live. They support their local grocery stores, restaurants, clothing stores, doctors and pharmacies, to name just a few of the businesses. Social Security and pensions are intended to keep our elderly and disabled citizens out of poverty. They were never intended to be a source of revenue for the states. I ask you to support the concepts of LB169. Let's work together to make Nebraska more retiree friendly. I would be happy to answer any questions you might have. [LB169]

SENATOR SMITH: Thank you, Mr. Rea, for your testimony. Do we have questions for Mr. Rea? Oh, I'm sorry, Senator Brasch. [LB169]

SENATOR BRASCH: Thank you, Chairman Smith, and I want to thank you for your thorough presentation. Are you the gentleman that kept asking where this conference room was? [LB169]

ROGER REA: No. [LB169]

SENATOR BRASCH: Oh, you're not. Someone had asked twice so I hope they found their way here today. Okay. But thank you, it's a good chart. Appreciate it. [LB169]

ROGER REA: Thank you. [LB169]

SENATOR SMITH: Very good. Thank you again for your testimony. Next proponent of LB169. Seeing none, we move to opponents, those wishing to testify in opposition to LB169. Welcome, Ms. Fry. [LB169]

RENEE FRY: (Exhibits 3 and 4) Thank you. Good afternoon, Chairman Smith, and members of the Revenue Committee. My name is Renee Fry and I'm the executive director of OpenSky Policy Institute. I'm here today to testify in opposition to LB169. Ensuring that seniors aren't overtaxed is a laudable goal that Nebraskans can agree on. While we appreciate Senator Wayne's intent, seniors who would receive additional tax reductions under the Social Security income provision of this bill make more money than the median household income in Nebraska, which made \$54,996 in 2015. Those seniors making less than the median household income already have their Social Security income fully exempted from taxation. A September 2016 paper published in the Public Finance Review finds that the economic status of seniors has greatly improved in recent years, calling into question the argument for providing retirement income tax breaks for equity reasons. While many retirement income tax breaks have been enacted across the country with the intention of protecting seniors that live on fixed incomes, the authors find that these policies come at a high cost to the states and accrue to a demographic group whose economic status now often exceeds that of the general adult population. In fact, some states with

retirement tax preferences, such as Georgia, Michigan, and North Carolina, have rolled them back due to their increasing fiscal impact. The assertion is often made that exempting Social Security or other types of pensions is necessary to recruit new residents or keep them from leaving the state. Academic research fails to find any such correlation between migration and taxes. A June 2012 paper published in the National Tax Journal finds that state-to-state movement among the elderly was quite stable from 1970 to 2000 despite changes in state tax laws favoring the elderly. In other words, state tax policies towards the elderly have changed substantially while elderly migration patterns have not. LB169 carries a high price tag and will become more costly as Nebraskans age. I've handed out a couple of slides prepared by UNO for the Legislative Planning Committee. You can see that the number of Nebraskans aged 65 and older is projected to increase by over 90 percent from 2010 to 2050, while the group of 18- to 64-year-olds only grows by 12 percent. As a result, the ratio of those over the age of 65 to those aged 18 to 64 will double over the following decades. Consequently, the revenue loss from exempting Social Security will grow significantly at the same time that there are more seniors relative to the number of Nebraskans in the work force supporting them, and these growing costs will only increasingly impair our ability to invest in other services that are important to seniors such as healthcare. The 2013 Tax Modernization Committee report notes, many states that have exempted retirement income have been and will continue to pull back from this exemption due to demographic changes in their populations. Demographic analysis indicates that the growing population of retired taxpayers and their exempt retirement income will put increasingly difficult pressure on state budgets to maintain such exemptions. Finally, individuals who earn wage income, including seniors, will see no benefit from the exemptions proposed under the bill. Yet, as the cost of this exemption increases, LB169 will ultimately shift the tax burden to working Nebraska taxpayers to pay for the vital services provided by the state. As these exemptions put more on pressure on the Nebraska budget, how will we make up the growing loss of revenue? Do we cut such areas as healthcare that are important to seniors? Do we cut education funding which is essential to our future work force and economy? Or do we increase taxes on those under the age of 65? I would like to note one other point. There were comments made in the previous testimony about Iowa and exemptions in Iowa. I will tell you that the number cited were migration to Iowa. They didn't talk about net migration and actually if you look at those numbers and consider migration in, we've actually gained residents on net. So I just wanted to clarify that that is only out-migration, that does not consider in-migration. With that, thank you for your time. I'd be happy to answer any questions. [LB169]

SENATOR SMITH: Senator Groene. [LB169]

SENATOR GROENE: Sarcasm. Would you support a new amendment to our state Constitution that we don't have to balance our budget, and they can spend and cut taxes like the federal government and everybody is happy? (Laughter) [LB169]

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RENEE FRY: I haven't given that any thought before. [LB169]

SENATOR GROENE: Well, I'm about ready to go there. Who cares about the next generation? (Laughter) Thank you. No, I'm on your side on that. [LB169]

SENATOR SMITH: Ms. Fry, did you hand out this paper on the Dependency Ratio Summarize that...can you just highlight that for me? What is the takeaway...for me on that? [LB169]

RENEE FRY: Yes, so currently, well, in 2010 your ratio of over 65 to working ages 18 to 64 was you had one senior to every working person 18 to 64. That will double so that you will have two seniors to every working person by 2050. [LB169]

SENATOR SMITH: Okay. All right. Very Good. Further questions? I see none, thank you for your testimony. [LB169]

RENEE FRY: Thank you. [LB169]

SENATOR SMITH: Next opponent to LB169. Welcome. [LB169]

MARK INTERMILL: (Exhibit 5) Thank you. Good afternoon, Senator Smith, and members of the Revenue Committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP and this bill presents us with a great dilemma. I agree with everything Senator Wayne said. I agree with the need for fairness in terms of taxation of seniors. In normal circumstances, or if we had a revenue situation that was strong, I would probably have been a proponent of this bill. Unfortunately, we don't. As I look at the revenue situation it's as dire as I've ever seen it in the 27 years that I've been in Nebraska. So reluctantly, we have to oppose this bill. That's not to say that it doesn't have some merit, that the underlying concept doesn't have merit and we appreciate Senator Wayne raising the issue and bringing it to you. So, it was with great reluctance that I have to oppose LB169. Thank you. [LB169]

SENATOR SMITH: Thank you, Mr. Intermill, for your testimony. Questions from the committee? I see none, next opponent of LB169. Seeing none, we move to those wishing to testify in a neutral capacity on LB169, neutral. Seeing none, Senator Wayne, you're invited to close on LB169. [LB169]

SENATOR WAYNE: Thank you, Chairman Smith. This will be really quick. I know I sat down and had a happy tone and a joking mood, but we understand this is a serious issue. I just didn't want to after I read the transcripts of Senator Schumacher talking, and previous Senator, Speaker

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Hadley, and Senator Harr to asking questions from 2013 all the way...well, some people all the way back to 2007, and I look at the makeup of the committee. Many people were here and been around this conversation, so I didn't want to go all the way through all that. So the approach that I'm taking this year is that I'm the bad cop in this situation, and Senator Lindstrom is the good cop. And so, I say that to say that every year that I will be down here I'll be bringing something similar like this because I think it needs to stay on the forefront of dealing with our senior citizens and our retirees. And the seriousness of the situation I think is real and I think we have to figure out how to provide relief directly to them. There's a lot of talk about property tax relief and income relief. From the property side of it, we seen in Omaha, at least this year, our property assessments went up tremendously to a point where the Douglas County Board and the Douglas County assessor are going back and forth. So regardless of what we do here at the state level on property tax relief, there's still some local, whether a school board or local taxes that are always going to be there, and I figure out, I believe that this is a way that we can directly impact those retirees and that's why I think it's important. Thank you, and hopefully you'll move this forward and make a lot of amendments to get the fiscal note down for me. [LB169]

SENATOR SMITH: Thank you, Mr. Wayne. Any further questions from the committee? I see none, I think Senator Lindstrom owes you one. The next time, you get to be a good cop. (Laughter) [LB169]

SENATOR WAYNE: Thank you. [LB169]

SENATOR SMITH: That closes our hearing on LB169 and we move to LB453 to be introduced by Senator Lindstrom. It relates to changing provisions relating to income tax adjustments for Social Security benefits. Welcome. [LB169]

SENATOR LINDSTROM: Thank you, Chairman Smith and members of the Revenue Committee. My name is Brett Lindstrom, B-r-e-t-t L-i-n-d-s-t-r-o-m, representing District 18 in northwest Omaha. I'm bringing you today LB453 for your consideration. As you may know, I have fought for the repeal of the Social Security tax on income on behalf of my constituents and all Nebraska retirees each year that I've been here in the Legislature. I understand that the price tag on this issue has been quite high in years past and LB3...excuse me, LB453 is a combination of ideas that I put together in the past in order to provide this relief to our retirees while being mindful of the potential loss of revenue to the state. LB453 greatly reduces the tax on Social Security income over the next five years at a time...and at the same time, it indexes our income brackets to adjust for inflation. The range for those married, filing jointly with the adjusted gross income, or AGI, of less than \$75,000, will end up paying no tax on Social Security income by the year 2022. And on the higher end, those with an income of \$95,000 or more would receive no reduction in Social Security income for tax purposes. For those filing single, head of

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household or married, filing separately, those with an AGI of less than \$60,000 will end up paying no tax on their Social Security income by 2022, and those with incomes of \$80,000 or more will receive no reduction in tax on Social Security income. The need to eliminate the tax of Social Security is very prevalent. This is a definite...there is a definite out-migration of retirees in our state. My office has received countless calls from retirees who are frustrated with our tax situation and are moving to nearby states because they still have family here and want to stay relatively close. There's not a cost of living...there was not a cost of living adjustment this year which has made an already tough situation tougher, especially for those retirees on a fixed income. And that is another component that I added to this bill that wasn't in previous years, was a cost of living adjustment. As Senator Wayne stated before, I've done this a few times so I was able to get the fiscal note low, still relatively in the million mark...millions of mark. In the first year, it was about \$109 million, so we're at about a fourth of where we were at for the first time. So I understand the growing pains that come along with that. But like he mentioned, this is important. In my private...back in Omaha where I work, I deal with a lot of retirees and see this as being an issue particularly with fixed income rates where they're at, interest rates where they at. So this is a need and I understand there's a lot of different...sitting on this side of the table this year has been an eye-opener, to say the least, with different groups coming in and asking for relief. There needs to be something done this year despite what we have going on, on the budget side and whatever that looks like, I hope that we come together on a comprehensive package this year that can be implemented. And so with that, I'll stop there and answer any questions if you have any. [LB453]

SENATOR SMITH: Thank you, Senator Lindstrom, for your opening on LB453. Questions for Senator Lindstrom? I see none. [LB453]

SENATOR LINDSTROM: Thank you. [LB453]

SENATOR SMITH: We move to proponents, those wishing to testify in support of LB453. Welcome. [LB453]

ROGER REA: Thank you. Senator Smith and members of the committee, for the record, I am Roger Rea, R-o-g-e-r R-e-a. I live in Omaha and am the president of NSEA-Retired, an organization of approximately 5,000 retired school employees. NSEA-Retired, again is an affiliate of the Nebraska State Education Association. Several ideas for lowering the state income tax on Social Security benefits have been advanced over the last few years. Beginning January 1st of 2015, the threshold income required before Nebraska residents pay state income tax on Social Security benefit was increased from \$25,000 to \$43,000 for single filers, and from \$32,000 to \$58,000 for married couples filing jointly. I'm here today in support of LB453 which would further increase that threshold income roughly what it would have it been had inflation

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adjustment been applied to the threshold income that was originally started back in the 1980s. LB453 would also phase the tax in over range of incomes to eliminate what I call the cliff effect. The cliff effect refers to the fact that the taxpayer's income exceeds the threshold by just one dollar, all of their Social Security benefit is subject to state income tax. LB453 addresses that critical problem in a way that it's fair to the taxpayer. LB453 also indexes the threshold income for inflation. This provision is similar to the tax reform bill that passed a few years ago that indexed the threshold incomes for all income tax brackets to inflation but did not adjust anything for retirees. Finally, LB453 phases the tax relief in over a five-year time period to help minimize the cost loss of tax revenue in any one year. Social Security pumps more than \$7.2 billion into Nebraska economy every year. Every dollar of Social Security income generates a \$1.80 in economic output. Almost 320,000 Nebraska residents receive Social Security payments. About 250,000 of them are 65 and retired, and the rest...the other 70,000 are either widows or widowers, people with disabilities, spouses, or children. Nothing would benefit...not all of them would benefit for the state tax relief proposed by LB453 but those who will benefit are those with the lowest incomes, the ones who need it the most. More than 40 percent of Nebraskans over 65 would have incomes below the poverty level if it were not for their Social Security benefit. One of the goals of providing tax relief is to increase the retention of citizens who are approaching retirement age and to keep their entire retirement income stream, including their Social Security benefit, their Medicare benefit, and their pension income from other sources. Nebraska is aging, especially in the rural areas. If a citizen who is close to retirement age leave the state, they take with them their Medicare benefits that help keep the rural hospitals and doctors in business, (inaudible) is a major payer for healthcare benefits and much of that money goes to hospitals and medical providers in rural areas of the state. Retirees represent a huge economic resource for Nebraska. The income that retirees have from Social Security, pensions and saving investments, as well as the money that comes to them in the form of Medicare benefits, represents a powerful economic engine for the state. We know the retirees spend their retirement income where they live. They support their local businesses. Social Security and pensions are intended to keep our elderly and disabled citizens out of poverty. They were never intended to be a source of revenue for the states. I strongly encourage you to make Nebraska more retiree friendly in order to slow and hopefully reverse the out-migration of Nebraskans at the time they retire. We've seen that success from the lightened tax policies in both attracting populations age 65 and older in both Iowa and Missouri. I ask you to advance LB453 to the floor of the Legislature to engage that debate with full Unicameral. Be happy to answer any questions. [LB453]

SENATOR FRIESEN: Thank you, Mr. Rea. Are there any questions from the committee? Seeing none, thank you for your testimony. Any other proponents? Good afternoon. [LB453]

MARK INTERMILL: (Exhibit 1) Good afternoon, Senator Friesen and members of the Revenue Committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of

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AARP in support of LB453. Just want to touch on the three components of LB453. The first I want to mention is the indexing factor. The reason we are in the situation that we're in is because Congress did not include an indexing factor in the Social Security amendments from 1983. They set the thresholds at \$25,000 and \$32,000 for the taxable...for taxation and benefits of Social Security, which is where they stand today. Twenty-five thousand dollars is worth a lot less today than it was in 1983. We think that indexing the thresholds that were established two years ago would be a good idea and if nothing else is done on this bill, that would be a good thing to do. Secondly, we would like to see the thresholds increase from \$43,000 and \$58,000 to \$60,000 and \$75,000 and the reason I think that would be warranted is because that's where the \$25,000 and \$32,000 would be if they had been indexed for inflation, actually a little bit...I think we actually would be up to \$77,000 on the married filing jointly. Back in 1983, Congress thought that if your income was below \$25,000 for a single person, \$32,000 for a couple, you should not have your Social Security benefits taxed. I would like just to see us maintain that exemption of taxation for an equivalent income today. And finally, I think the phase-out is important as well so that we don't have just a, as Mr. Rea alluded to, a cliff effect. And I included in the statement just an example of a couple that has \$57,999, one dollar below the threshold. If they had two dollars additional income that would put them over the threshold. And assuming they had about \$25,000 in Social Security benefits, they would pay about \$1,400 in taxes for that two dollars of income, which if my calculations are correct, is a marginal rate of 70,000 percent. So I think some sort of a phase-out would be helpful so that we don't run into situations where if you're just a little bit over the threshold, you wind up paying a significant amount more in taxes. We think that this is...it's time we need to do these things. And I'll tell the committee, if you pass this bill, I will never darken your door to talk about Social Security taxation again, mainly because I'm retiring in the fall, so. (Laughter) Be happy to answer any questions. [LB453]

SENATOR FRIESEN: Thank you, Mr. Intermill. Any questions from the committee? [LB453]

SENATOR GROENE: Where are you retiring to? [LB453]

MARK INTERMILL: I'm retiring to... [LB453]

SENATOR GROENE: I'm sorry. [LB453]

SENATOR FRIESEN: Senator Groene. [LB453]

SENATOR GROENE: Where are you going to retire to? [LB453]

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MARK INTERMILL: I'm retiring to a state that has an upper tax rate of 9.75 percent, but property taxes about half of the rate that I pay in Lincoln. Overall, I'm going to do better tax-wise. [LB453]

SENATOR GROENE: Thank you. [LB453]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions? Senator Schumacher. [LB453]

SENATOR SCHUMACHER: Thank you, Senator Friesen. And will the winters be warmer there? [LB453]

MARK INTERMILL: I hope so. [LB453]

SENATOR SCHUMACHER: Thank you. [LB453]

SENATOR FRIESEN: Thank you, Senator Schumacher. [LB453]

MARK INTERMILL: There's also the issue of a four-and-a-half-year-old granddaughter. [LB453]

SENATOR FRIESEN: That trumps pretty well everything, doesn't it? Seeing no other questions, thank you for your testimony. [LB453]

SENATOR GROENE: Should we give granddaughters a big tax break? (Laughter) [LB453]

MARK INTERMILL: If bringing granddaughters to Nebraska, you'd probably have a lot more... [LB453]

SENATOR GROENE: Well, we'd keep grandparents here. [LB453]

MARK INTERMILL: Yeah, absolutely. [LB453]

SENATOR GROENE: That's what I'm going to introduce next year. [LB453]

SENATOR FRIESEN: Any other proponents? Welcome. [LB453]

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JASON HAYES: Good afternoon, Senator Friesen, and members of the Revenue Committee. My name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the Nebraska State Education Association. I will be brief. The association supports LB453 and thanks Senator Lindstrom for introducing the bill. NSEA believes that Social Security and pension income are intended to keep our elderly and disabled citizens out of poverty. The association further believes these funds should not be used as a source of revenue for the state. And thank you, and we appreciate your consideration of the bill. [LB453]

SENATOR FRIESEN: Thank you, Mr. Hayes. Any questions from the committee? Seeing none, thank you for your testimony. [LB453]

JASON HAYES: Thank you. [LB453]

SENATOR FRIESEN: Any other proponents wish to testify? Seeing none, are there any opponents who wish to testify on LB453? Welcome. [LB453]

RENEE FRY: Thank you. Members of the Revenue Committee, my name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I want to begin with my sincere apologies to Senator Lindstrom. I missed this bill, was not preparing to testify on it because I didn't know it had been introduced. So I want to start with that apology. I want to indicate that we appreciate the pared-back efforts. Obviously, the fiscal note is much smaller, I appreciate that. It still does have pretty high incomes relative to the median income in Nebraska and so we would continue to have the same concerns that we shared in LB169. And with that, I'd be happy to answer questions. [LB453]

SENATOR FRIESEN: (Exhibits 2 and 3) Thank you, Ms. Fry. Any questions from the committee? Seeing none, thank you for your testimony. Any other opponents wish to testify? Seeing none, are there any wishing to testify in a neutral capacity? We have, I guess, some letters of proponents, from Dean Kenkel from Omaha and Barry Kennedy from State Chamber, and no others. So seeing no others wishing to testify, you wish to close, Senator Lindstrom. [LB453]

SENATOR LINDSTROM: Thank you, Vice Chairman Friesen and members of the committee. I'll keep this brief. I do want to point out the question was asked a couple of days ago about the NSEA supporting any tax bill, and I just want to say that I did find the one, so thank you. (Laughter) Also one statistic that I did want to point out. There was a Kiplinger statistics year over year and we did drop, not in a good way, from going from eighth worst states retiring to seventh. So we're not going the right direction whether that's some of the bills we heard before or this one. I do think that we do need to stop the bleeding and start moving the right direction. I believe this bill addresses that and the fiscal note, like was stated before, is over a five-year

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period, \$82,000 the first year, eventually does get into the \$35 million, but it does lead us in the right direction. And with that, I will answer any final questions you have. [LB453]

SENATOR FRIESEN: Any questions? Senator Groene. [LB453]

SENATOR GROENE: Thank you, Vice Chair. As a financial adviser, should I sell my house before I'm the last guy out of the state? [LB453]

SENATOR LINDSTROM: I see that as more of a buying opportunity if you're the last guy. You can probably buy it on the cheap. [LB453]

SENATOR GROENE: I already own one. Thank you. [LB453]

SENATOR LINDSTROM: Other houses, I should say. [LB453]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you, Senator Lindstrom. [LB453]

SENATOR LINDSTROM: Thank you. [LB453]

SENATOR FRIESEN: With that, we'll close the hearing on LB453 and we'll close the hearing for the day. [LB453]