

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

[LB919 LB976 LB1084]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 8, 2018, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB976, LB1084, and LB919. 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: Good afternoon, everyone. Thank you for your patience and standing by. Welcome to the Revenue Committee public hearing. My name is Jim Smith and I'm the Chair of the committee. I represent the 14th Legislative District in Sarpy County. The committee will take up the bills in the order that's posted on the information 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 that's before us today. To best facilitate today's proceedings I ask that you abide by the following procedures: If you would, please, put your electronic devices, your phones and whatnot onto silent so as not to interfere or interrupt the person that's testifying before us today. I'm going to go through the way we're going to testify here in a moment, but if you're going to be testifying we would want you to move towards the front of the room so we can move you into the chair in quick order. The order of testimony will be the introducer of the bill, proponents, opponents, neutral, and then there will be a closing 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 materials that you would like to have distributed we will need 11 copies of any material. If you need help making those copies, if you would let our page know as soon as possible, that way we can have the copies ready for you so when you come up to testify you can have those distributed. When you do come up to the table to testify we will need you to both state and spell your name for the record so that the transcriber can make certain to get it accurately into the record. Let me see a show of the hands for our first bill, LB976, which deals with Beginning Farm Board (sic--Beginning Farmer Board) under the Beginning Farmer Tax Credit Act. How many people will be testifying on that particular bill? Okay. And so I'm going to assume that LB1084...how many will be testifying on that bill in one way or the other? Okay, a fair number of hands do; that's what I expected. All right, very good. So what we're going to do, when we come to the second bill...the first bill we're going to do it as normal, where we'll take proponents and opponents and neutral. On the second bill, when we've had a large number of people wanting to testify on previous bills in front of the committee we alternate between proponents and opponents. So once Senator Briese opens on that particular bill we're going to take five proponents. And so that's kind of a signal there that if you're wanting to be in that first five you may want to come towards the front of the room. After those first five proponents we're going to go to five opponents and then we're going to alternate back and forth until we get through with that. Then we'll take neutral testimony. And that seems to have worked well in the past so far this year and so we're going to do that again. If your

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

remarks were reflected in previous testimony or if you would like your position to be known but do not wish to testify, we do offer that you sign the white form at the back of the room as it will be included in the official record. And, again, the microphone, please speak directly into the microphone so we can capture your testimony accurately. We're going to use the light system, so we're going to use a three-minute time limit. The green light will be on for two minutes, then we'll turn to an amber color for one minute, so that would finish out the three minutes. Then it will turn to a red. If you have not finished your testimony, please wrap it up when that red light is on and bear with me as I will try to make certain we move along. I will try not to cut you off and let you finish your remarks, but just please be mindful of that. Staff with us today, to my right is legal counsel, Mary Jane Egr Edson. To my left is research analyst, Kay Bergquist. And to my left at the far end of the table is committee clerk, Krissa Delka. And Krissa, you will be handing off your green form to Krissa when you come up to testify. I'm going to allow the committee members here present to introduce themselves. I know Senator Burke Harr will be joining us a bit later.

SENATOR SCHUMACHER: Senator Paul Schumacher, that's District 22, Platte and parts of Colfax and Stanton Counties.

SENATOR BRASCH: Lydia Brasch, District 16, that is Burt County, Cuming County, and Washington County.

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

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

SENATOR SMITH: And Senator Groene and Senator Larson...I believe I saw Senator Larson here earlier, but they will be joining us as well. Our page today with us is Heather Bentley from Millard, Nebraska, she is a junior at UNL majoring in agricultural economics. A bit later we will be joined by a second page, Lee-Ann Sims. Lee-Ann is a student at UNL studying political science and she is from Lincoln, Nebraska. And our pages are with us today to assist you and to assist us, so we appreciate them being here. Also, be patient with us. Senators will come and go from the committee. We have responsibilities in other committees and so if you see us come and go it's not because it's not important to us that you're here with us today, it's just that we have obligations in other committees and we'll try to be back as quickly as we can. Also, please refrain from applause or other indications of support or opposition that may occur during the committee hearing, just to try to keep this a very settled testimony. So with that, we invite Senator Briese to open on LB976. Welcome, Senator Briese, to the Revenue Committee.

[LB976]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR BRIESE: Thank you, Chairman Smith. And good afternoon, Chairman and members of the committee. My name is Tom Briese, T-o-m B-r-i-e-s-e, and I represent the 41st District in the Nebraska Legislature. LB976 is a bill which would direct the Beginning Farmer Board to present a report to the Legislature and the Director of Agriculture by November 1, 2018, on the net worth qualifications of Nebraska's Beginning Farmer (Tax) Credit Act. This report could then be used by the Legislature in the future to guide them in ensuring that Nebraska is competitive with surrounding states and is looking forward when considering the industries which drive our state's economy. Bringing new folks into agriculture is a priority for many in the industry. According to the Census of Agriculture conducted by the USDA in 2012, the last year for which data is available, the average age of a principal ag operator in the United States was 58 years old. And based on trends, that number will likely be above 60 for the 2017 census. And in 2012, more farmers fell into the 55 to 64 year old age group than any other. The second largest grouping was 45 to 54 years old. There are a lot of stories of folks out there who would like to retire and hand the farm off to one of their adult children or even sell the farm. But low commodity prices, high start-up costs, and property taxes, which consume huge amounts of farm revenues are all factors keeping younger folks from deciding to move back to the farm. It's increasingly rare for someone without a farm background in their family history or in their family to get into agriculture. Even a young person who has a relatively robust savings for their age group would find it next to impossible to start farming if he or she inherited a small family farm without also receiving a substantial amount of equipment and funds with which to purchase seed, feed, fertilizer, and pest control measures for the first year of operations. Many states, including Nebraska, have introduced programs to help make the barriers to entry into agriculture a bit less discouraging, including tax credits for beginning farmers. In 1999, Nebraska's Beginning Farmer Tax Credit Act helped to address this. And at that time the net worth limit for the program was set at \$100,000, but then tied to the Consumer Price Index. However, in the intervening years, a turbulent U.S. economy and new technological advances have meant that costs in agriculture have not risen commensurate with the CPI and the limit on the program today stands at around \$200,000. For reference, a similar program in Iowa has a net worth limit of over \$665,000 and in Minnesota it's around \$800,000. A low interest loan program in South Dakota targeted at beginning farmers caps out at \$400,000. And while there's no data to evidence this, since no agency tracks the number of people who inquire at the Beginning Farmer Tax Credit and then fail to apply once they learn of the net worth cap, there are a lot of anecdotal stories out there to support that. Many groups in the ag community understand the importance of what the Beginning Farmer Tax Credit is trying to do, but feel as though the intent is being hamstrung by what amounts to an arbitrarily low cutoff. I believe that all government programs need to be revisited from time to time to ensure that they are still accomplishing their intended goals. And I think it's time to revisit the efficiency or the efficacy of this one. Now, LB976 has no fiscal note and because the issues currently facing the Legislature are so complex I believe that this would be a good year to simply investigate the affects this low limit is having on the program and that the Legislature could look in future years into gradually increasing the limits

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

on this program to a goal end point that this report could provide us with. By advancing this legislation, the Legislature could take a real step to show our commitment to keeping agriculture thriving in our state for many generations to come. I would ask for your support and I thank you and I welcome your questions. [LB976]

SENATOR SMITH: Thank you, Senator Briese, for your opening on LB976. Questions from the committee. Senator Schumacher. [LB976]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Senator Briese, for bringing this. Isn't one of the big reasons for retiring, not putting the farm on the market and making it available to new market entrants is that if they do and it sells they have to pay a capital gains tax? If they die with the land, they pretty much have a tax-free transfer to their heirs? [LB976]

SENATOR BRIESE: I would say that's fairly accurate. [LB976]

SENATOR SCHUMACHER: Thank you. [LB976]

SENATOR SMITH: Senator Friesen. [LB976]

SENATOR FRIESEN: Thank you, Chairman Smith. It may surprise you, but I'm really not in favor of the Beginning Farmer Tax Credit. Do you feel that there are landlords out there that take advantage of the system and manipulate it in order to gain advantage from that beginning farmer? [LB976]

SENATOR BRIESE: I don't have any knowledge of that, but I wouldn't doubt that that could occur. I believe landlords are entitled to what, a 10 percent credit of the rental value or what they cash rent a farm for...15 percent of the cash value of a share rental arrangement. And so it is a...it certainly is an incentive for landlords to try to utilize this program. But according to the terms of the statute they can't do that with related individuals, is my understanding. And so I'm not sure. [LB976]

SENATOR FRIESEN: I think recently that it was opened up to related individuals and that's why the budget has increased. So my next question was going to be is, do you think we should look at going back to the way it was originally intended is to help those young guys that wanted to farm that didn't have an opportunity and were partnering with an unrelated owner in order to get them established? [LB976]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR BRIESE: I would think that would be worth looking at. [LB976]

SENATOR FRIESEN: I appreciate that. Thank you. [LB976]

SENATOR SMITH: Remaining question from the committee for Senator Briese. I see none. Thank you, Senator Briese. [LB976]

SENATOR BRIESE: Thank you. [LB976]

SENATOR SMITH: We now invite proponents of LB976, those wishing to testify in support of LB976. Welcome. [LB976]

KRISTEN HASSEBROOK: Thank you. Good afternoon, members of the Revenue Committee. My name is Kristen Hassebrook, K-r-i-s-t-e-n H-a-s-s-e-b-r-o-o-k, and I'm the executive director of an organization called We Support Agriculture, which is a coalition of ag commodity groups in the state. We asked Senator Briese to bring this bill because we felt like the time was now to take a look at the net worth limit in the Beginning Farmer Tax Credit Act. Today the costs and barriers to entry into agriculture are extremely high and one of them is the high cost of investing in land and capital and machinery. And when the program expects you to farm full time you need to be able to make significant investments. And so it seemed like a double-edged sword to say, you need to be doing this full time, make these huge investments, but you're potentially not eligible for the program if your net worth limit kicks over \$200,000. And when we looked at surrounding states and other programs in Nebraska even, the NIFA program, that have significantly higher net worth limits, we felt like now is the time to encourage the board and the Department of Agriculture to put a little study into the issue and see if it is something that's maybe a little bit arbitrarily low. But we support the bill and would encourage you to support it as well. And I'd be happy to answer any questions. [LB976]

SENATOR SMITH: (Exhibits 1, 2) Thank you, Ms. Hassebrook. Questions from the committee. I see none. Thank you. Next proponent for LB976. We do have letters that were submitted for the record in support of LB976 from Galen Frenzen, representing Nebraska Cattlemen; and from Steve Nelson, representing Nebraska Farm Bureau Federation. Do we have anyone wishing to testify in opposition to LB976, opponents of LB976? Seeing none, do we have anyone wishing to testify in a...is this neutral or...neutral? Okay, those wishing to testify in a neutral capacity. Welcome. [LB976]

BRADLEY LUBBEN: Good afternoon. Chairman Smith and members of the Revenue Committee, I am Dr. Bradley Lubben, that's B-r-a-d-l-e-y L-u-b-b-e-n, I'm vice chair of the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

Nebraska Beginning Farmer Board and I'm here to testify in a neutral capacity on LB976. The board is responsible for administering the Beginning Farmer Tax Credit Act. We approve or deny applications based upon applicants meeting criteria set forth in the act. We review and evaluate all eligible applications without prejudice or bias in accordance to the guidelines set forth in the act and we seek to carry out the intent of the act as to the best of our abilities. Relevant to LB976, the current net worth limit would be evaluated as part of the request study outlined in the proposed legislation. The information requested for the study is accessible and attainable by the board. The board has previously denied applications from beginning farmers and ranchers whose net worth exceeds \$200,000, as is currently prescribed by statute. The information gathering and preparation to report would be performed under the board's administrative duties, requiring no administrative costs. Thank you for your time. I would be glad to answer any questions. [LB976]

SENATOR SMITH: Thank you Mr. Lubben, for your testimony. Questions. Senator Friesen. [LB976]

SENATOR FRIESEN: Thank you, Chairman Smith. So does the act the way it's implemented now, I mean, I could take advantage of that and rent land to my son and take advantage of the tax credit program? [LB976]

BRADLEY LUBBEN: The act as it was originally introduced restricted this credit to nonrelated parties. Further legislation did expand that opportunity for related parties. But as the act currently requires and as we require in our applications, there has to be a specific transition plan also included as part of the application that demonstrates at least the intention and the potential to transfer that property in the agreement...to transfer that property to the beginning farmer over time. [LB976]

SENATOR FRIESEN: It can't be a legally binding document, though, can it? [LB976]

BRADLEY LUBBEN: Any transition plan is not legally binding unless it's a will at death. So what it is committed to is not a legal document per se. [LB976]

SENATOR FRIESEN: What was the participation rate like before the changes were made to rent ground to a relative? [LB976]

BRADLEY LUBBEN: Right. While I don't have the numbers with me--we can certainly make that part of the study--but while there was substantial interest in the program before the study or before the terms were changed to allow related parties, there has been substantial increase in the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

participation since that time. There are a number of related parties, certainly, that are approved as part of the current program. [LB976]

SENATOR FRIESEN: Do you know the budget impact at this time? [LB976]

BRADLEY LUBBEN: The budget impact of the current program, if I remember correctly, is about \$1.5 million per year in tax credits. It's in that range of \$1 million to \$2 million. The potential change of any...the potential impact of any change to the net worth requirement might similarly be...we don't know, but that might somewhere be in the \$1 million to several million dollar range. [LB976]

SENATOR FRIESEN: Okay, thank you. [LB976]

BRADLEY LUBBEN: You bet. [LB976]

SENATOR SMITH: Senator Schumacher. [LB976]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony. I thought that we had testimony at a hearing within the last two or three weeks that talked in terms of \$8 million. Is that way off? Is that not accurate? [LB976]

BRADLEY LUBBEN: I don't know a number...we don't have a number that we have estimated in terms of what an increase in the net worth requirement... [LB976]

SENATOR SCHUMACHER: No, but that's what it was costing us now. So is that number off? [LB976]

BRADLEY LUBBEN: I would have to request the opportunity to get back to you and confirm that number. I don't remember it being \$8 million, unless that's been the total accumulated over time. [LB976]

SENATOR SCHUMACHER: For some reason that sticks in my mind. So we're talking \$200,000 of net worth for a young farmer and that's too low? [LB976]

BRADLEY LUBBEN: Correct, yes. Two hundred thousand dollars of net worth, while it sounds like substantial wealth... [LB976]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: Well, it is, isn't it? [LB976]

BRADLEY LUBBEN: It sounds like...it certainly is wealth, and it's \$200,000 worth. [LB976]

SENATOR SCHUMACHER: And \$200,000 compared to a young lawyer or a young doctor or a young dentist. [LB976]

BRADLEY LUBBEN: Right. [LB976]

SENATOR SCHUMACHER: I mean, people...the majority of the people in the state who are working people have a hard time committing to \$200,000. [LB976]

BRADLEY LUBBEN: Right. If the goal of the program is to allow young individuals or beginning farmers and ranchers the opportunity to participate in this profession and you look at the size and scale of the agricultural profession and the full-time operations across the state, then \$200,000 is a really small financial position for a full-time farmer or rancher. So the size of the wealth is one question. The sort of ability to operate effectively is a related but different question. [LB976]

SENATOR SCHUMACHER: We don't do this kind of subsidy for any other industry. [LB976]

BRADLEY LUBBEN: That is a question for you as policymakers. [LB976]

SENATOR SCHUMACHER: Okay. And I guess the general trend is more and more to bigger and bigger farms. Do you see anything reversing that trend? [LB976]

BRADLEY LUBBEN: We do actually see in the most recent census of agriculture data from 2012, we did actually see a reversal of the long-time trend of fewer and fewer farm options in the state. So we have more beginning farms and ranchers. [LB976]

SENATOR SCHUMACHER: Right, but these are itty-bitty farms. They're not (inaudible) farms. [LB976]

BRADLEY LUBBEN: Right. We tend to have a "bi-mobile" distribution of small, part-time or niche operations and large sort of commercial-scale commodity production systems. [LB976]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: On one end it's almost a hobby farm and the other end, it's a real farm. And...no further questions. [LB976]

BRADLEY LUBBEN: Thank you. [LB976]

SENATOR SMITH: I see no further questions from the committee. Thank you, Mr. Lubben for your testimony. [LB976]

BRADLEY LUBBEN: Thank you for the time to be here. [LB976]

SENATOR SMITH: Others wishing to testify in a neutral capacity on LB976. Seeing none, we invite Senator Briese back to close on LB976. [LB976]

SENATOR BRIESE: Thank you, Chairman, committee members. Briefly, Senator Schumacher, you mentioned the \$200,000 limit seems fairly substantial but then also we have to notice what the other states are doing. They've recognized...one state is at \$600-some, one is at \$400-some and as Dr. Lubben mentioned, \$200,000 doesn't get them started too well, but anyway. And, Senator Friesen, your comment about the related and I went back and looked at statute. Of course, you're right again, but I didn't realize that. Anyway, that's...to me that's an issue maybe for another day. I think it's still important and wise to look at the limits we're talking about here. And we can address these other issues with something else someday perhaps, but anyway, thank you for your time. [LB976]

SENATOR SMITH: Very good. Further questions for Senator Briese? Seeing none. And that concludes our hearing on LB976. We now invite Senator Briese to open on LB1084. [LB976 LB1084]

SENATOR BRIESE: (Exhibits 1, 2) Thank you, Chairman Smith. And good afternoon, Chairman and members of the Revenue Committee. My name is Tom Briese, T-o-m B-r-i-e-s-e, and I represent the 41st District. I'm here today to present to you LB1084. LB1084 is an effort to provide property tax relief for hardworking Nebraskans while at the same time reinforcing our commitment to providing an education that will prepare our young folks for the jobs and careers of the 21st century. This bill represents the culmination of a collaborative effort on the part of a wide range of stakeholders and you will hear from many of these stakeholders today. Nebraskans from one end of the state to the other are demanding property tax relief. We have young farm families choking on red ink, partly caused by the third highest ag property taxes in the country. We have young urban families kept out of the housing market by the seventh highest residential property taxes in the country. The average Nebraskan pays 70 percent more in property taxes

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

than state, local, and motor vehicle sales taxes and 50 percent more in property taxes than individual and corporate income taxes. It's no wonder Nebraskans are demanding property tax relief and it's clear that they deserve it. And that's what LB1084 does, it provides property tax relief for Nebraskans. But at the same time, it reaffirms the state's commitment to funding K-12 education. And when we're 49th in the country in the percentage of K-12 education funded by the state, that's important. So how does it do this? First, it generates new revenue from sales, excise, and income tax sources. Second, it directs this revenue to K-12 education and roughly triples the amount in the Property Tax Credit Fund. Third, it places a soft limit on K-12 property tax askings. Finally, it calls for a comprehensive review of K-12 funding in Nebraska. I'll describe these components in greater detail, but first let me say that although I like the package as presented, there are some aspects--in particular, some of the revenue sources--that I don't envision as being part of the final product. I intend to alter or eliminate some aspects of the bill and I'm sure there will be some further give and take. And I'll talk later about an oversight in the bill regarding the tax asking cap. I've handed out proposed language for a small amendment that I'll refer to later on. But first, let's look at the revenue components. It will raise revenue from several sources. The bill would expand our sales tax base by eliminating a host of sales tax exemptions and exclusions. Essentially, all of these were included in my LB312 from last year, a few from LB312 were omitted to arrive at this list and a few were added. And note that many of these items are service transactions. The data from ten years ago suggests that Nebraska taxes only about 77 of the 168 services taxed in at least some other states. There are reasons why we should look to collect sales taxes on additional services. First, many would suggest that we are becoming a service-based economy. In the last several decades the percent of household consumption attributable to the acquisition of services has increased dramatically. Since the '30s, goods transactions have dropped from two-thirds of our economy to about one-third of our economy. This shift has contributed to a contraction of our sales tax base. And as one considers regressivity issues, we must also consider that services tend to be consumed at a higher rate by the more affluent among us. The ideal sales tax is a one-time tax on a retail consumer transaction. Care should be taken to avoid business-to-business transaction. Why, you might ask. Taxing business transactions can lead to a loss of competitiveness, it can also lead to pyramiding, a scenario where goods are effectively taxed multiple times leading to an effective tax rate much higher than the stated sales tax rate. This pyramiding also leads to a lack of transparency, as the effective tax ultimately paid by the consumer on a finished product is really difficult to ascertain. It should be noted that the majority of these exemptions and exclusions that I brought forth in this bill are consumer-related transactions. And I have an exhibit here that maybe we'll hand out, Edward, that shows how many other states or essentially shows what South Dakota and Iowa do with these particular transactions. LB1084 will also increase the state sales tax rate by .5 percent, bringing our state rate to 6 percent. Eleven other states have a 6 percent rate, while ten other states are even higher than that. I do note that in a survey across the 41st District last fall, a substantial majority of respondents supported an even higher increase of 1 cent to 6.5 percent to be used for property tax relief. And I've seen similar survey results from Reform for Nebraska

indicating overwhelming support for a sales tax rate increase to be directed toward property tax relief. Many on-line sellers without a physical presence in Nebraska do not collect sales tax on items sold to our residents. Opponents of this collection typically cite the Quill decision by the U.S. Supreme Court. LB1084 also directs that any revenue derived by the state from sales taxation of Internet sales after the date on which submission of those sales taxes on Internet sales is allowed by Congress or controlling judicial directive is directed to the revenue portion of this bill. Nebraska currently has a tobacco excise tax of 64 cents per pack, which is about 40th in the country. The national average, as of April 1, 2017, is \$1.69 a pack. LB1084 would increase Nebraska's tax by \$1, bring our rate to \$1.64, still slightly less than the national average. A survey conducted last spring suggests that nearly three-fourths of all Nebraskans support raising the tobacco tax to address state budget issues. I would submit that the approval percentage would be even higher if the dollars are used to address property taxes. And this bill is not intended to alter behavior of our citizens. However, it should be noted that estimates suggest tobacco use costs Nebraskans \$795 million in healthcare bills and \$162 million in Medicaid costs. It should also be recognized that research suggests even only a 10 percent price increase in cigarettes can decrease incidence of smoking by 4 percent to 5 percent or more. So from a fiscal conservative's point of view, I think those are numbers worth considering. Under Nebraska Revised Statute, Section 77-2716(4) a subchapter S or limited liability company can exclude from adjusted gross income, income not derived from Nebraska sources. So income that is not apportionable to Nebraska is not assessed here and goes untaxed, unlike, for example, wage income or sole proprietor income or partnership income from other states, it ends up being taxed. This exclusion is essentially a special interest loophole benefiting only a small fraction of Nebraska taxpayers. It would appear this exclusion is almost unique to Nebraska. I believe there's approximately three other states that have something very similar, if maybe not identical. And as UNL Assistant Professor of Law, Adam Thimmesch, testified to this committee last year, removal of this exclusion--and I'll quote--would move Nebraska to the approach that the vast majority of states use by eliminating this tax-induced distortion in the law that is aimed specifically at a limited subset of Nebraska taxpayers. And there will be folks here I'm sure today--and I think we received a letter on this earlier--who oppose the elimination of this exclusion. But we have to ask ourselves, does it make sense to offer a special interest loophole hardly found elsewhere when we're trying to fund a reduction of our nearly nation-leading property taxes? I believe the entire amount should be included in state income and then a credit given for taxes paid on that income in other states. LB1084 also would repeal what's called the special capital gains exclusion, which originated in LB775 and is found in Nebraska Revised Statute, Section 77-2715.09. Capital gains are typically included as taxable income for most Nebraskans. However, under Section 2715.09, capital gain by an individual from the sale or exchange of corporate stock, extraordinary dividends, or employee stock options acquired on account of employment with that corporation can be excluded from taxable income. To qualify, the employee must have acquired the stock while employed or on account of employment, along with a few other criteria. It was expanded in '07 and 2013 to include employee stock options and extraordinary dividends. It's my

understanding that no other state offers this type of exemption. The elements of this exclusion are a special interest carve out that benefits only a small fraction of Nebraskans. And, again, does it make sense to offer loopholes like these, unique to Nebraska, when we're looking for revenue to offset some of the highest property taxes in the country? The bill as written would also provide for a 2.5 percent surtax on the Nebraska income tax liability of those individuals having a federal AGI of from \$500,000 to \$1 million and a 5 percent surtax on the tax liability of those with incomes over \$1 million. So, for example, an individual with an AGI of \$500,000 might be required to pay a surtax in the area of \$750, give or take. It depends on your calculations, but that's what I ball parked it at. And I would submit that the property tax relief enjoyed by such a high income earner will far outweigh a \$750 surtax as given in this example. And this surtax can help counter some of the regressivity arguments over the sales tax increases. And, as such, I believe these surtax provisions are a fair and reasonable request of our highest income earners. The bill would also repeal the Nebraska Job Creation and Mainstreet Revitalization Act found at Section 77-2901 to 77-2912 of the Nebraska (Revised) Statutes. This act provides for historic tax credits equal to 20 percent of eligible expenditures incurred for improvements of qualifying historically significant real property. The credits may be used to offset income tax, insurance premium tax, financial institution tax, and so forth and are limited to a \$1 million tax credit for project. The total act credits are limited to \$15 million per year. The New Markets Job Growth and Investment Act is found at Nebraska (Revised) Statute, Section 77-1101 to 77-1119. That act allows individuals and various entities to claim nonrefundable, nontransferable tax credits for an investment in a qualified community development entity. LB1084 would repeal that act. And under that act, credits here are for qualifying investments and qualified low-income community business. It's intended to make new capital available to low income areas. However, this credit is tied to federal New Markets Tax Credit and it's typically combined with other federal and state tax credits. There have been questions raised about whether these subsidies are unnecessarily duplicative and whether sometimes they unjustly enrich investors. And with any tax incentive, causation is always a question. And to me, it's always a key when you're talking tax incentives. And the overlap with other programs and the complexity of this program make one have to question whether taxpayers are getting their money's worth under that program. And as I said, LB1084 would repeal it. Many types of tangible personal property are subject to property tax in Nebraska. The purpose of the Property Tax Relief Act of 2015 exempts from property tax the first \$10,000 of valuation of tangible personal property in each tax district in which a personal property tax return is required to be filed. The state then reimburses each county for the loss of revenue from these exemptions. This bill would eliminate that personal property tax exemption. This bill would also reinstate the alternative minimum tax. The alternative minimum tax is designed to ensure that high-income households pay a minimum level of tax by eliminating several deductions otherwise enjoyed by average taxpayers. Nebraska hasn't utilized the alternative minimum tax since January 2014. This bill would reinstate the alternative minimum tax in Nebraska Revised Statute, Section 77-2715. Under this change, one would calculate the alternative minimum tax by substituting

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

Nebraska taxable income for federal taxable income, calculating what the federal alternative minimum tax would be and applying Nebraska results to the rate. And it's a difficult computation that I wouldn't want to describe in a whole lot greater detail than what I just did. And those are basically the revenue components. And I'd like to comment on the fiscal note if you've had a time to study that. We analyzed...I was a little confused by it. Not a whole lot of detail in there as to how they arrived at their numbers. I wish they would have had more time to have broken that down a little better so I could see what each category was generating. But we did an analysis of the 2016 and 2017 Tax Expenditure Reports and we arrive at considerably higher sales tax revenue than what the fiscal note does. So at some point, I'd like to inquire of the Fiscal Office as to the calculations they used. And I also note that it doesn't look like they included an estimate for Internet sales tax. But on the other hand, Internet sales tax, that's kind of up in the air yet until we get legal authority to go with it. But that should take care of the revenue components of this bill. So what does this bill do with that revenue? And I'll address that now. The bill first funds the reinstatement of the allocated income tax component of our state aid formula. In 1990, LB1059 sought to achieve among other things property tax relief for Nebraskans by shifting the burden of K-12 education from local to state revenue sources. To do so would have attempted to utilize a level of income in a district as a means of determining wealth or resources of that district. As a result, one component of LB1059 was a 20 percent income tax rebate sent directly to each school district. In 1996, LB1050 capped this income tax rebate at the '90 to '93 level of \$102 million. But today, Nebraska Revised Statute, Section 79-1005.01 provides that the allocated income tax rebated back to schools is at a rate of 2.23 percent. This bill would increase that amount to 20 percent as originally intended in TEEOSA to provide property tax relief for taxpayers. Second thing LB1084 would do is to reinstate some of the cuts to TEEOSA found in last session's LB409. Prior to LB409, Section 77-3446 provided a base limitation or budget limitation applicable to school districts to be 2.5 percent. LB409 changed this to 1.5 percent for school years '17-18 and '18-19. This change in the rate reduces the cost growth factor which is used in the formula for purposes of calculating state aid from its current 5 percent to 4 percent for fiscal year '18 and 3 percent for fiscal year '19. This change to the need side of the equation reduces the amount of state aid provided as basic funding. The bill will increase the base limitation to 2.5 percent for fiscal year '18-19 and for '17-18 for purposes of calculating the cost growth factor and consequently will impact the cost growth factor. Also, prior to LB409 the local effort rate on the resource side of the TEEOSA formula was a buck. LB409 increased it to \$1.203. This increase reduced the amount of state aid flowing to schools because the formula assumes that because of this increase a district has more resources. The bill will lower the local effort rate, decreasing resources in the formula and thereby increasing state aid. LB409 changed the calculation of net option funding to provide that the number of net option students is to be multiplied by 95.5 percent instead of 100 percent of the statewide average basic funding per formula student. The bill will reverse this so as to provide 100 percent of the basic funding. Beyond that, finally, LB1084 requires that an amount equal to the revenue raised by this bill over and above what is necessary to reinstate the 20 percent allocated income tax and the cuts of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

LB409 are to be placed in the Property Tax Credit Fund. This amount is in addition to any amount otherwise placed in that fund. And this bill directs this revenue towards the Property Tax Credit Fund because I believe the Property Tax Credit Fund is a fair, effective, and easy to understand means of distributing property tax relief. Furthermore, it's a mechanism that is already in place and has proven its effectiveness in providing property tax relief. But that is not to say that other means of distributing this revenue could not be used. Another thing the bill does in an effort to ensure that increases in state aid can yield long-term property tax relief, LB1084 places a soft property tax asking cap on K-12 districts in Nebraska. It's designed to limit property tax asking increases, but at the same time protect the ability of our schools to educate our young people. So how does it work? It begins by calculating a school district's property tax request authority. This amount is initially determined by increasing the district's previous year's property tax request by the highest of 2.5 percent, the Consumer Price Index, the growth in enrollment, the growth in LEP students as a percentage of total enrollment or the growth in poverty students as a percentage of total enrollment. Unfortunately, language in the bill as written suggests we are looking at the percentage in enrollment poverty and LEP and I think the Bill Drafters pointed that out. And that was my oversight there. The intent is to look at the higher of 2.5 percent, Consumer Price Index, student population increase or actual poverty increase or LEP increase as a percent of total enrollment. And that should be what that amendment I sent around to you should take care of that. That's my preferred language on that. It could be tweaked a little bit, but that I think addresses that issue. The amount there as determined by those adjustments is then decreased by the amount of the net increase in nonproperty tax revenue sources or increased by the amount of the net decrease in nonproperty tax revenue sources to the district. And that provision is put in place to help ensure that injections of state aid or increases of state aid can yield property tax relief for our taxpayers. And in determining the amount of increase or decrease in these other revenue sources, any category that can't be determined as of August 1 will be assumed to be a constant from the prior year. And the amount arrived at is then submitted to the Department of Education to be certified. But this property tax request can be increased over the property tax request authority by an amount approved by a majority of the voters at a special election. It can also be increased by an affirmative vote of 75 percent of the school board. And as written, the bill limits the increase of a board vote to 7 percent for our smallest school districts, 6 percent for the next size school district, 5 (percent) for the next, and 4 percent for the largest school district. Unused property tax authority can be carried over. And this will be allowed to prevent the use-it-or-lose-it approach. And the district will be required to file documents with NDE regarding property tax request authority and unused authority by September 20. Any failure to submit such documents or if the department determines the school is not complying with the Property Tax Request Limitation Act, TEEOSA aid can be withheld for six months. If not corrected within six months, a reverse to the General Fund. This mechanism, the property tax asking cap, while perhaps not perfect I believe strikes a balance between the need for property tax relief and the needs of our schools for adequate funding. And as such, I believe it's a key component of what we're trying to do here. The final component of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

the bill is to require the Department of Education to oversee a comprehensive review of the financing of public elementary and secondary education in Nebraska. A preliminary draft of the review shall be submitted to the Legislature by December 31, 2018. The review shall include an examination of methods which would provide equitable educational opportunities and offer alternatives to heavy reliance on property taxes, financing issues as they relate to school performance, costs and resources necessary to meet diverse and growing needs, methods used by other states to fund infrastructure, and other issues related to school finance. And why would we include a study component to this bill? Because on average 60 percent of property taxes in Nebraska go towards funding K-12 education; in some districts it might be 80 percent. We're essentially last in the country in the percentage of K-12 education funded by the state, essentially first in our reliance on property taxes to fund schools. I believe a study like this could help move us off center in our efforts to look at education funding in Nebraska and find long-term, sustainable solutions to some of these issues. And I neglected to mention this earlier, but I do note that the bill expresses an intent on the Legislature to appropriate \$200,000 directed towards this study. And we had a discussion of this issue the other night, the other evening in Education. And there was testimony there suggesting that they could conduct a study like this, with consultants, for very little if any fiscal note involved. And as you'll hear from the testimony following me, there is broad-based, bipartisan support for what we're trying to do here. But more importantly, I believe that Nebraskans themselves will overwhelmingly support this approach to property tax relief. It provides immediate and sustainable relief. It's a responsible approach. It doesn't kick the can down the road. It provides support for K-12 education. And it provides a soft tax asking cap. I anticipate there will be some opposition testimony. There will be those who want to preserve tax breaks and exemptions and I welcome their testimony, that's what we're here for. And there will be those trying to villainize this as a tax shift. But you have to ask yourself, doesn't any tax reform, any change in our tax structure entail a shift, either directly or indirectly? And there will be some who try to call it a tax increase, but note that the overwhelming majority of the dollars that we're talking about raising here will go directly back to our property taxpayers, directly or indirectly. Raising money to go into the General Fund is a tax increase. This is not a tax increase. And as the naysayers and special interests try to pick this apart you have to ask yourself, how else are we going to deliver property tax relief to hardworking Nebraskans in a responsible way? And I'd welcome any questions and I'll certainly be around for closing for questions. [LB1084]

SENATOR SMITH: Thank you, Senator Briese. Questions for Senator Briese. Senator Schumacher. [LB1084]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you, Senator Briese. As I look through your sources of revenue, which are...look like almost principally sales tax additions, is that correct? [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR BRIESE: I wouldn't go principally, but probably the majority are. [LB1084]

SENATOR SCHUMACHER: And so the lion's share of your new revenue is coming from one form or another of sales tax? [LB1084]

SENATOR BRIESE: Probably. I'd have to look at that fiscal note. It's...at one time I would have agreed with you, but after seeing that fiscal note, I don't know if I agree wholeheartedly with you. It might be close to 50-50, but... [LB1084]

SENATOR SCHUMACHER: But you'd throw in there the \$84 million for the subchapter S? [LB1084]

SENATOR BRIESE: Yes. [LB1084]

SENATOR SCHUMACHER: On the other side? [LB1084]

SENATOR BRIESE: Yes. [LB1084]

SENATOR SCHUMACHER: Okay, but as far as the taxes, as I look through what might produce the most revenue, they all seem to hit the middle and lower class the heaviest. Hair care, I mean, the middle class and the lower class have as many haircuts...many more haircuts than the rich. Single family residence maintenance and painting and repair, there's a lot more lower- and middle-class single-family residence that need maintenance and repair than the rich. Parking lot services, parking lot services if you're a working person and you've got to feed the meter or you've got to pay, that's lower and middle class. When you sell your houses, I would say most of the houses sold in the state, lower and middle class. Contracted labor in remodeling a house, again, most of the houses, lower and middle class. Trade-in allowances for motor vehicles, most of the vehicles, lower and middle class. Meals at school, I would say that's probably lower and middle class. Sporting events, YMCA, soft drinks, candy, all of that, far more volume and price going to the lower and middle class. Now, you take that burden, new burden on the lower and middle class and what does the bulk of it go to? Distributed according to land wealth, with the wealthy property owner getting more than the nonwealthy property owner, and that's a fundamental shift of the system. Am I reading that right? Am I watching that money move through the system right? [LB1084]

SENATOR BRIESE: Well, I don't know if I agree with your assessment there, Senator Schumacher. We're assuming that those sales tax exemptions...you're assuming that it hits low and middle-class disproportionately hard. And I don't know if I agree with that on those.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

Automobile trade-ins, I've heard the opposite argument that that will impact more affluent taxpayers more than the low and middle class. Note that we aren't talking about groceries here. Note that we aren't talking about healthcare and education here. And note that subchapter S exclusion targets essentially high-income taxpayers. Special capital gains exclusion is enjoyed predominantly by high-income taxpayers. Note that the surtaxes we're talking about, obviously target high-income taxpayers. And so they were trying to strike some balance here and that's part of the reason we have some of the surtax in there, the sub S, the special capital gains, some of that, to strike a balance. And so we're trying to strike a balance there but I also don't necessarily agree with you on your assertion that the sales tax exemptions that we're talking about here disproportionately impact the low-income folks. [LB1084]

SENATOR SCHUMACHER: And the distribution is according to land wealth. [LB1084]

SENATOR BRIESE: Property tax...you know, we're talking property tax relief for all Nebraskans here and property tax relief will benefit every Nebraskan. Whether you're a homeowner or whether you are a renter, you will benefit from property tax relief. [LB1084]

SENATOR SCHUMACHER: But the larger your property holdings, the bigger your check. [LB1084]

SENATOR BRIESE: Probably some truth to that. [LB1084]

SENATOR SCHUMACHER: Okay. Now, let's go to one of our favorite topics, certainly one of mine, because it looks terribly, terribly unfair and no real good explanation till maybe yesterday for it and I'm not sure that was a good explanation, the \$84 million subchapter S exemption, which you rely on heavily in here as a source of revenue. The issue with that appears to be that when that was instituted back in the late..I think it was about 1990, 1980, with LB775 era, that it created a ecosystem. That perk went to attract certain industries, which built themselves around that perk and who are now, if you read between the lines of that memo saying, you mess with this and we're out of here or certainly our new growth is out of here. So whenever we try to be cute and create special deals and try to manipulate the tax system in response to a political concern or what we perceive economic, it can come back and bite us. So those things may not be on the table simply because of political reality. And so there's how we stack up. I will say one follow up before I consume too much time on this, do you happen to know whether or not the new markets program at the federal level got repealed or whether that survived the sausage maker in Washington? [LB1084]

SENATOR BRIESE: I can't answer that. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: Because the primary reason for the new market system was that we could bring in some federal money because we all want to eat out of the federal picnic basket, too. But I don't know if that... [LB1084]

SENATOR BRIESE: Yeah. I can't answer that. But in response to your comments on the Sub S and threats to move to migrate, I think suggestions of out migration are fairly speculative. But what's not speculative here is the property tax burden that's choking our young farmers and ranchers in Nebraska and which is driving our young homeowners out of the housing market or making them unable to afford their house payments. That's not speculative. [LB1084]

SENATOR SCHUMACHER: Thank you. [LB1084]

SENATOR SMITH: Other questions for Senator Briese. Senator Briese, I have a question for you related to the remote seller portion. You said in your testimony that it was dependent upon overturn of Quill. But, actually, in the bill it talks about the later date of July 1 of this year or with the overturn of Quill. If Quill is not overturned, then you're suggesting this would be effective July 1, 2018? [LB1084]

SENATOR BRIESE: The bill was drafted that way. Our intent was to piggyback on federal authorization to collect Internet sales tax. And so I'd have to think about that and decide how we want to come down on that. I maintain that we...the Colorado scheme was upheld by the Tenth Circuit Court of Appeals out there and I maintain that we could go with that sort of a scheme, where we can collect Internet sales tax or if they don't require them to collect the tax or if not, alternatively, you report back to us who you're selling to. [LB1084]

SENATOR SMITH: But we cannot enforce that. [LB1084]

SENATOR BRIESE: Well, I know that was a concern brought up last year on the floor, difficult to enforce. But I do see Colorado went that route, Tenth Circuit upheld it. To me, that would be a viable plan. But to avoid those constitutional arguments our intent was to draft this that we'll wait for federal authorization before we start collecting as per this bill. [LB1084]

SENATOR SMITH: Which is not a certainty. [LB1084]

SENATOR BRIESE: Right. Very true. And that's probably why it was left out of the fiscal note. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: And as it is drafted now, if Quill is not overturned there still is no certainty, because it would strictly be voluntary and it's questionable as to whether anyone would voluntarily remit that. [LB1084]

SENATOR BRIESE: Yes. Yeah, I would be tempted probably to change the bill to reflect what our original intent was and ensure that we have on the right side of the constitution if we go ahead and start collecting. [LB1084]

SENATOR SMITH: Other questions for Senator Briese? I see none. Thank you, Senator Briese, for your opening on LB1084. [LB1084]

SENATOR BRIESE: Thank you. [LB1084]

SENATOR SMITH: And we're going to take five proponents at this time. So, again, what I would maybe suggest is that we try to, as you testify, reserve maybe the closer rows or chairs so that we can cycle people in and out. So we're going to take the first five proponents before we go to opponents. Welcome. [LB1084]

BARB SKADEN: (Exhibit 3) Thank you. Good afternoon, Senators and members of the Revenue Committee. My name is Barb Skaden, B-a-r-b S-k-a-d-e-n, and I am the current president of the Board of Education for York Public Schools. And I am here on behalf of the 19-member schools of STANCE, representing well over 27,000 students and we're here to offer support of Senator Briese's LB1084. STANCE is one of the many organizations that belongs to Nebraskans United for Property Tax Reform and Education. We are extremely proud of the work that this impressive coalition has undertaken to address the state's property tax crisis. The last page of my handout shows the coalition members and the founding principles. In addition to serving on the Board of Education, I'm a retired teacher, a member of the York Planning Commission, and along with my husband we own a small business. But I'm really proud to say that we are the fourth generation owners of our family farm. So I assure you I come to you looking at this today from many different sides. STANCE supports Senator Briese's LB1084 because we have a property tax problem in Nebraska and this bill is the only one we are aware of that provides true reform while protecting key services like healthcare and K-12 education. It can be affordable and paid for now by eliminating loopholes and tax breaks for special interests. It broadens the sales tax base to tax more services. It comes with ways to provide our state with additional revenue that does not come from property taxes. This bill recognizes that both agriculture and education are critical to our state's economy. The way our schools are funded needs to change. It's time. We hope you will vigorously support Senator Briese's LB1084, which actually offers sensible options for reducing property taxes. It's a concern that we hear very, very often from our stakeholders. Thank you all for your service to Nebraska. Thank you for listening

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

to me. As a member of Nebraska's second house, I appreciate the opportunity to speak at a public hearing. [LB1084]

SENATOR SMITH: Thank you, Ms. Skaden. Questions from the committee. I see...oh, Senator Schumacher. [LB1084]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony. Fundamentally in the bill, the local school districts spend the money and make the decisions and the state picks up a good part of the tab. How much state control would you find acceptable in exchange for that to happen? Certainly, if the state is going to pay a bigger chunk of the bill it's going to want to put some management decisions in the state's hands and not let local government spend and state government pay. [LB1084]

BARB SKADEN: And by the state are you referring to the Department of Ed? [LB1084]

SENATOR SCHUMACHER: I'm referring to the income and sales tax sources, what comes through the General Fund here. You're spending, you're making the decisions, you're putting the bond issues on the ballot, you're hiring the teachers, granting the raises and we're, at the state income and sales tax level, are picking up the tab. [LB1084]

BARB SKADEN: Well, I don't know what your list of oversight would be. You know, are you saying you're going to say, well, the teachers can only make so much or I mean what are you...I guess I'd have to know exactly what you would be referring to for oversight. But we do have regulations that we have to follow for money that we get from federal. We have regulations for those grants. We have regulations for state grants. We have state standards from the Department of Ed that we need to follow. We do have regulatory provisions. [LB1084]

SENATOR SCHUMACHER: But generally in our system the way we control spending is the board that makes a spending decision and responds to the people is the board that is responsible for picking up a lot of the tax burden. [LB1084]

BARB SKADEN: That's correct. [LB1084]

SENATOR SCHUMACHER: This is a shift. And so you've got the credit card, we get the bill. [LB1084]

BARB SKADEN: Bill? I don't know that it's the entire bill. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: No, but a big chunk of it. [LB1084]

BARB SKADEN: I'm hoping so. [LB1084]

SENATOR SCHUMACHER: Thank you. [LB1084]

SENATOR SMITH: Senator Friesen. Hold, please. We have some questions here. [LB1084]

SENATOR FRIESEN: Thank you, Chairman Smith. [LB1084]

SENATOR SMITH: Hold on, please. We have some questions here. Senator Friesen. [LB1084]

BARB SKADEN: Oh, I'm sorry, Senator Friesen. [LB1084]

SENATOR FRIESEN: My question was, I guess, does the school ever track what percentage of your costs are because of state mandates that we've pushed down upon the school system, whether it's through the Department of Education or...have you tracked those costs, what they would be if... [LB1084]

BARB SKADEN: I'm not certain that our district has done that. I know that has been done by some statewide organizations like NSEA, but as far as the district is concerned, I would have to get back to you on that. [LB1084]

SENATOR FRIESEN: Because we pass lots of different laws and we push regulations down upon schools all the time. So when it comes to salaries I know school boards approve the salaries. But what is the determining factor there when you're talking about salaries which are, what are they, probably 80 percent of your cost of running a school? [LB1084]

BARB SKADEN: They are and the determining factor is pretty much how much money we have. And we haven't raised at our district...we haven't raised...we're at 0 percent increase for the last two years. And so this year I'm on the negotiations committee for the teachers and we didn't have much. I mean, it's pretty much based on what we have. The teachers this year will get a \$250 raise. We've cut six teachers. So, yeah, it's about the only place we can cut is to cut programs and teachers. [LB1084]

SENATOR FRIESEN: In the past when you've negotiated teacher salaries, what does the CIR play as a role? [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

BARB SKADEN: Really, nothing. We don't... [LB1084]

SENATOR FRIESEN: Because you didn't have the funds or... [LB1084]

BARB SKADEN: CIR? We don't...they might be a threat, but it doesn't play a major role, at least in our district. [LB1084]

SENATOR FRIESEN: Okay, thank you. [LB1084]

SENATOR SMITH: Remaining questions. I see none. Thank you for your testimony. [LB1084]

BARB SKADEN: Yeah. [LB1084]

SENATOR SMITH: Next proponent of LB1084. Welcome. [LB1084]

AL JUHNKE: (Exhibit 4) Thank you, Mr. Chair and members of the Revenue Committee. My name is Al Juhnke, A-l J-u-h-n-k-e, I'm the executive director of the Nebraska Pork Producers Association. I'm here today representing the Nebraska Agriculture Leaders Working Group to testify in support of LB1084, Senator Briese's property tax relief and education funding bill. The Ag Leaders Working Group is made up of several ag organizations, including Nebraska Cattlemen, Nebraska Corn Growers Association, Nebraska Farm Bureau, Nebraska Pork Producers Association, Nebraska Soybean Association, and the Nebraska Dairy Association. In December of 2016, our elected ag leaders put together a joint position statement on property taxes. Included in this statement was several general principles that we all agreed to. We agreed that our three-legged stool of property, income, and sales taxes needs to be better balanced. This bill does that. We agreed that property tax relief must include all property types: agriculture, residential, and commercial. This bill does that. We agreed that tax reform should encourage fiscal responsibility and may need to include new tax sources or the modification of existing revenue sources to be used to reduce our property tax burdens. This bill does that. We agreed that property tax reform must ensure adequate funding for high quality education for our Nebraska students, but needs to reduce the reliance on property taxes for this education funding. This bill does that. And we agreed that any tax reform must provide for fiscal restraint in government spending, including budget growth limitations. And this bill does that. We also recognize that to truly reform our property tax system we need to address the way schools are funded in our state. Overreliance on local property taxes rather than state resources has been a large contributor to our current program. Many of us have been working jointly with a number of Nebraska education groups who are here today regarding this issue. We appreciate the inclusion of the education study language by Senator Briese in his bill. The need for property tax relief is an

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

urgent one for our Nebraska farmers and ranchers. The current ag economy is stressing our farm incomes and eroding equity that has been built up in our operations. We cannot wait any longer and are willing to work with anyone and everyone when it comes to timely property tax relief. That's why you've seen our group in this committee supporting previous bills and you may see us weighing in on future legislation. Again, we'd like to thank the bill's author, Senator Briese, his bill's coauthors, and so many of you senators who have taken time to work on a variety of ways to provide property tax relief. Nebraskans need substantial property tax relief and this legislation gets us moving in that direction. Finally, I would remind the committee that the six ag groups that I represent here today with this testimony represent tens of thousands of farmers and ranchers from every corner and every county of this state. And we all encourage the committee to advance LB1084. Thank you for your time and I'm more than happy to answer your questions. [LB1084]

SENATOR SMITH: Thank you, Mr. Juhnke. Questions from the committee. Senator Brasch. [LB1084]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, Mr. Juhnke, for coming forward. You're the executive director of the Nebraska Pork Producers Association. I'm familiar with that and thank you for your work. I am not that familiar with the Agriculture Leaders Working Group. Is it an organization? Is it...like, do you have a president, vice president, treasurer? You know, are you a 501(c)(3)? Are you temporary, permanent? I'm the Ag Chairperson, so I'm also very interested in what this ag group is. Can you tell us a little more, because I don't think a lot of my constituents are familiar with it or they've asked. [LB1084]

AL JUHNKE: You bet. Mr. Chair and Senator Brasch, it's a...basically the Ag Leaders Working Group was formed a couple of years ago. Six of our ag groups--some of the larger ag groups in our state, which I listed in the testimony--realize that in agriculture we're losing numbers. And you, as Ag Chair, know that better than anyone. [LB1084]

SENATOR BRASCH: Absolutely. [LB1084]

AL JUHNKE: And so for our voices to be the most meaningful, we thought if there are issues where we can agree and come in hand in hand testifying, that that strength will help us with some of those issues. We don't do that on very many issues. We probably pick out some of the more important issues of the day and for the last year property taxes has been our number one issue. So rather than all of us working individually, we formed this ad hoc group--it's not a registered group or anything else, we don't raise money--it's all the officers of those organizations and then the professional staff, like me, usually sit in at every meeting and come to an agreement on where we need to be on these issues of the day. Again, property tax has been so

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

important and we thought that's the way to do it. So I appreciate the question and we appreciate your work as Ag Chair, too. [LB1084]

SENATOR BRASCH: Okay. Okay, thank you. That helps me understand, because I didn't know if you were like a registered lobbyist with this group, do you collect...there are no funds behind it other than what's coming out of your individual groups. [LB1084]

AL JUHNKE: Mr. Chair and Senator, that's correct. [LB1084]

SENATOR BRASCH: Correct. All right. That's my only question. Thank you. [LB1084]

SENATOR SMITH: I see no remaining questions. Thank you, Mr. Juhnke, for your testimony. [LB1084]

AL JUHNKE: Thank you, Mr. Chair and members of the committee. [LB1084]

SENATOR SMITH: Next proponent of LB1084. Welcome. [LB1084]

LARRY SCHERER: (Exhibit 5) Thank you. Good afternoon, Chairman Smith and members of the Revenue Committee. For the record, my name is Larry Scherer, L-a-r-r-y S-c-h-e-r-e-r, and I'm here representing the Nebraska State Education Association in support of this bill. NSEA was part of the group called Nebraskans United for Property Tax Reform and school funding for several months and as you can guess there were a lot of ideas discussed. We really appreciate Senator Briese introducing this package. And the main reason is, in terms of schools and school funding and our constituency, reducing property taxes, it's essential that it be that there will be replacement revenues to do it and not just reduce and see what happens later. And that's why we're in opposition to LB829. Not because of the property tax part of it, it's because the replacement revenue is speculative. So I want to talk to you a little bit about the state aid parts of the bill. And first of all, the restoration of the income tax allocation. There's a little add-on to your handout here that explains how that works. Essentially, when everybody does their taxes they put their school district number on there. The department...and that gets a total income tax liability for every school district in the state. And they send...the Tax Commissioner sends that over to the Department of Education. The Department of Education then takes that percentage, which is now 2.23 percent as Senator Briese mentioned--it started out at 20 percent--and multiplies that by the tax liability of each school district. And that's how much allocated income funding goes to that school district...each school district in the state. Up until last year there was a minimum levy adjustment where some of that could be taken away or all of it and that's no longer in existence. So basically the next step then is, how does this fit in with the rest of the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

formula? That amount, as you can see on the second page here, is now \$42 million that goes out through the allocated income. There's also \$850 million that goes out in equalization and then a net option funding, which is where a school district has more option students coming in than going out, and the state pays for those. Then the total is just under a billion, so it's a lot of money. On the equalization side of it, when a school district is receiving equalization aid you subtract that net option funding out. The state's not going to pay twice for the same services, essentially. So that's an important thing to keep in mind. Over the years, when there was 20 percent there were...almost everybody received a substantial amount of state aid. When it was dropped down and down, now there's roughly two-thirds of the school districts don't receive any of that \$850 million. I'm not going to make it. With...I will just finish out on allocated income tax. Why did it go away? There were a number of reasons, but number one, there was perceived to be so much money coming in that it could be disequalizing. In other words, you'd have more income tax revenue coming in than the district needed. And there's so much of the...there's 20 percent income tax increase with LB1059, so there wouldn't be any money left for funding of the equalization part of it, so it went away. And I have included some language in there from the original purpose of this and what it was supposed to do and then why it's diminished. One of the things there's still a concern about I think is, what happens if there's too much income tax? Well, I'll just finish out there. You can cap that at actual need, so you're not giving out more than is needed. So with that, there are...I'm sorry. I'll stop. I know you're waving your hand. I'm just getting going good. [LB1084]

SENATOR SMITH: Thank you, Mr. Scherer, for your testimony. Senator Harr. [LB1084]

SENATOR HARR: Thank you. Just a quick question. You stated two-thirds of the school districts do not receive equalization. [LB1084]

LARRY SCHERER: Equalization aid. [LB1084]

SENATOR HARR: What percentage of the students receive equalization aid? [LB1084]

LARRY SCHERER: Oh, that would probably be 70 percent, roughly. [LB1084]

SENATOR HARR: And ten years ago, what percentage of the students received equalization aid? [LB1084]

LARRY SCHERER: Oh, probably closer to 85 percent. In the early years all but a dozen or so school districts, so at that point in time it was over 90 percent. So, yeah, it's a declining number,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

but it's smaller districts, although there are some very large ones now that don't receive any equalization aid as well. [LB1084]

SENATOR HARR: Okay. Thank you. [LB1084]

SENATOR SMITH: Other questions for Mr. Scherer. I see none. Thank you for your testimony. [LB1084]

LARRY SCHERER: Thank you. [LB1084]

SENATOR SMITH: Next proponent. Welcome. [LB1084]

DAVE WELSCH: (Exhibit 6) Thank you. My name is Dave Welsch, D-a-v-e W-e-l-s-c-h. Good afternoon, Senators. I'm here to testify in support of LB1084 and to ask you to move it out of committee and onto the floor of the Legislature. Again, my name is Dave Welsch, I've been a self-employed farmer south of Milford since 1978. I began farming while still attending UNL and graduated with an ag education degree. I currently serve as president of Milford Public Schools Board of Education. I've served on the board for 20 years. Prior to that I served on a Class I school district in Saline County for seven years. So for the past 40 years, I've served my local community and the state with a strong interest in involvement in both agriculture and education. I believe that this 40 years of experience provides me with a unique perspective as we consider LB1084 today. LB1084 is a once-in-a-generation opportunity, and let me explain this bold statement. Back in the mid-'60s, two generations ago, the state ended it's statewide property tax. And about at that same time it began collecting both sales and income tax. These were all bold moves for generating income for the state. In 1990, one generation ago, the Legislature enacted TEEOSA. A major component of this legislation was equalization aid to help equalize financial support for all students across Nebraska. Senator Scott Moore, who cosponsored that legislation, presented opening remarks at the hearing. He began his comments by stating his belief that this piece of legislation has the potential to be probably the biggest piece of legislation we passed in this Legislature in the last 20 years and probably in the next 20 years after that. This legislation became a once-in-a-generation opportunity. Today, 28 years later, the 49 senators of the Nebraska Legislature have the same once-in-a-generation opportunity in LB1084. We all know that there are problems with overreliance on property taxes and the way schools are financed. Senator Briese's LB1084 addresses both of these concerns. The citizens of Nebraska are often referred to as the second house of the Legislature. That second house has come together in the past year to help draft LB1084. And the diversity of these citizens and their willingness to work together for the common good is nothing but amazing. Three major farm organizations, Farm Bureau, Farmers Union, and the Grange have all worked together on this bill. Six ag groups have worked together on this bill. The State Teachers Association, along with the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

administrator and several school associations have worked together on this bill. As you well know, these groups don't normally work together on legislation. But for the good of all Nebraska they have come together to create a solution to the property tax and school funding concerns of our state. Is LB1084 perfect? No. It's my personal belief that education should be funded more with income tax. And the reason, because as people have more education generally there's a direct correlation to their lifetime income. While there are exceptions to that rule, it happens over and over again. A lot of people will not like this legislation or will lobby against it. Many of the exemptions which are proposed to be repealed in LB1084 were enacted over the last ten years through aggressive lobbying efforts. I encourage you to stand firm to take advantage of this once-in-a-generation opportunity to improve the balance of educational funding. Please vote to advance LB1084 to the full Legislature. As a senator, this is your once-in-a-generation opportunity to greatly improve the future of Nebraska. [LB1084]

SENATOR SMITH: Thank you, Mr. Welsch. [LB1084]

DAVE WELSCH: Thank you. I'll take any questions. [LB1084]

SENATOR SMITH: All right. Do we have questions from the committee? Senator Harr. [LB1084]

SENATOR HARR: Are you familiar with our Governor? [LB1084]

DAVE WELSCH: Yes, I am. [LB1084]

SENATOR HARR: What is your stance on or what do you think his stance would be on raising taxes? [LB1084]

DAVE WELSCH: It's very clear that he says, no new taxes. And if you take my situation as a property owner and payer of taxes within my school district, in the last five...well, from about 2010 to 2015, my taxes increased by \$10,000. They nearly doubled. Nobody was crying "no new taxes" for me back then. There obviously has been a major tax shift in this state and everybody knows that. And now is the time to rebalance and try to...you know, we always talk about that three-legged stool. I'm not sure if we'll ever get those three legs equal. But there's already been a tax shift. There's been a tax increase and people need to recognize that and now we need to make some changes in how we fund this state and education to try to bring that back into balance. [LB1084]

SENATOR HARR: Okay. Thank you. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: Senator Groene. [LB1084]

SENATOR GROENE: Do you know who the Governor was in 1960s when they did that tax? [LB1084]

DAVE WELSCH: Oh, was it Tiemann? [LB1084]

SENATOR GROENE: Do you know where Tiemann died, lived? [LB1084]

DAVE WELSCH: What year he died? [LB1084]

SENATOR GROENE: No. He ended up in Texas. He got ran out of state and became a Texan. (Inaudible) taxes are really low. [LB1084]

DAVE WELSCH: Yeah. It was a big change back then and not an easy change for the state. [LB1084]

SENATOR GROENE: And he couldn't run for office again, which wouldn't bother me but...I mean just a point,... [LB1084]

DAVE WELSCH: Yeah. [LB1084]

SENATOR GROENE: ...a political point. [LB1084]

DAVE WELSCH: Yeah, I was about seven years old then so I didn't quite understand all the political actions then, so. [LB1084]

SENATOR GROENE: Me neither, but I learned history in school, though. [LB1084]

DAVE WELSCH: Yeah. Appreciate that. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: Senator Brasch. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR BRASCH: Thank you, Chairman Smith. And thank you for coming forward today. You have compelling testimony. And you're an educator, are you? [LB1084]

DAVE WELSCH: I've been a full-time farmer since... [LB1084]

SENATOR BRASCH: I see the shirt there. [LB1084]

DAVE WELSCH: Yes. I'm president of Milford Public Schools Board of Education. [LB1084]

SENATOR BRASCH: It looks somebody is being paged, too, or something. [LB1084]

DAVE WELSCH: Okay. [LB1084]

SENATOR BRASCH: My question, when you talked about, you know, the excessive growth in taxes, I've been in the Legislature eight years and I don't believe we've had a significant tax increase. I haven't voted for any. We had one to help our Roads Department out. So where did the disproportionate huge growth come from? Where...how do you explain that? The state population grew very slowly but our taxes appear and physically grew exponentially. [LB1084]

DAVE WELSCH: On property taxes specifically? [LB1084]

SENATOR BRASCH: Exactly. Yes. So if the state didn't...are you saying the state of Nebraska, the Legislature, did that? Where did that happen? [LB1084]

DAVE WELSCH: Okay. Let me explain. In Milford Public Schools, we've been an equalized district since the enactment of TEEOSA. [LB1084]

SENATOR BRASCH: Okay. And it's the TEEOSA? Are you saying TEEOSA is what caused a growth in property taxes? [LB1084]

DAVE WELSCH: Yes. [LB1084]

SENATOR BRASCH: Okay. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

DAVE WELSCH: The formula that is in place takes the resources available to a local district and takes it times a common minimum levy to determine resources from property taxes, along with other resources available to the school district. [LB1084]

SENATOR BRASCH: And so to repair TEEOSA then we raise sales taxes. Is that the logic here, is that we tax our consumables and things like that? We're adding more tax to an increased tax. Where does the pressure get relieved? I don't quite see that happening. [LB1084]

DAVE WELSCH: LB1084 brings a lot of property tax relief. You don't get... [LB1084]

SENATOR BRASCH: And those taxes will just come rolling down when we increase this other? [LB1084]

DAVE WELSCH: You mean the revenue to support that tax relief? [LB1084]

SENATOR BRASCH: Yep. [LB1084]

DAVE WELSCH: It's clearly outlined in LB1084. And I don't agree with all of LB1084. I don't believe that we should put that much emphasis on the sales tax leg of our three-legged stool. [LB1084]

SENATOR BRASCH: And you don't believe that spending will just increase if money increases? [LB1084]

DAVE WELSCH: I...we're... [LB1084]

SENATOR BRASCH: That's my...I think what we've seen historically is when it's good years spending tends to... [LB1084]

DAVE WELSCH: Right. [LB1084]

SENATOR BRASCH: ...increase, whether it's the school board or other boards. [LB1084]

DAVE WELSCH: Right. [LB1084]

SENATOR BRASCH: So I'm just curious, you know, if you're... [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

DAVE WELSCH: Yeah, that's...and that's why some people do not like levy lids within the legislation. We currently have levy lids. They're not new rules that will be passed down in LB1084. We already have levy lids within state government that's passed down to our local taxing authorities and so that helps control spending to some degree. We also have spending lids within our budgets that we have to comply with. For Milford Public Schools, in the last three years our average General Fund expenditures have increased by a negative .62 percent. I think we've done a pretty good job. In the last eight years, if you throw out the high and the low, our average increase has been 1.98 percent. I think that's pretty much within cost-of-living increase over that eight-year period. So we have a lot of responsible school boards out there that are not going to...I don't think we're going to see a huge cash flow coming into school districts in there. [LB1084]

SENATOR BRASCH: So do you see other taxing entities outside your school board that may have created an escalated tax burden perhaps? It sounds like everything has been done right at your level but you've see significant tax increase. Right? [LB1084]

DAVE WELSCH: The reason we have a tax increase is because our ag land valuations have doubled and our equalization aid has shrunk considerably. It's gone from approximate... [LB1084]

SENATOR BRASCH: But they doubled because of an asking somewhere, somehow at... [LB1084]

DAVE WELSCH: Of course. The school district applies a levy to the valuation. [LB1084]

SENATOR BRASCH: But not from the state of Nebraska, correct? Property taxes... [LB1084]

DAVE WELSCH: No, the role that the state plays is in the equalization formula through TEEOSA. Our taxes, I believe in 2010, our equalization aid, excuse me, was \$1.99 million, almost \$2 million that our district received. [LB1084]

SENATOR BRASCH: Okay. [LB1084]

DAVE WELSCH: In this current year or the next year it will be below \$400,000. So we've lost \$1.5 million in equalization aid. Therefore, we have to make that up if we want to pay our teachers and provide quality education for our students. The only way for us to do that was to levy for it. And on top of that, up until this last year, the TEEOSA formula did not allow us to lower our levy below the minimum levy. It was a state law. So we were levying at 95 cents to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

protect the anywhere from a half million to two million dollars equalization aid. If we didn't levy 95 cents we would have lost all of that aid. [LB1084]

SENATOR BRASCH: And those were for apparent needs above and beyond the needs of the schools in education, because you were within a reasonable limit, correct? Is what you said the average of was, of spending and growth, under 2 percent? [LB1084]

DAVE WELSCH: Our general fund expenditures have always been restrained within our district. [LB1084]

SENATOR BRASCH: Right. [LB1084]

DAVE WELSCH: That there's a dollar amount that's needed to pay for each student for education and our budget is well within the state guidelines on that. And the other... [LB1084]

SENATOR BRASCH: And you are a proponent of this bill but not entirely, is what I think I just heard you say. [LB1084]

DAVE WELSCH: I doubt if anybody in this room is entirely in support of this bill. It's a huge bill. It's a large change for how our state is going to bring property tax relief and fund education. And I hope it will reach the floor of the Legislature where other great minds can take a look at this and tweak it some and create a long-term solution for the state. [LB1084]

SENATOR BRASCH: You've had great testimony. It's just you're... [LB1084]

DAVE WELSCH: Thank you. [LB1084]

SENATOR BRASCH: ...the conversation I heard was interesting where you were moving forward yet wanting to hold some of it back. So I have no other questions. Thank you. [LB1084]

DAVE WELSCH: Okay. Thank you. [LB1084]

SENATOR SMITH: Senator Friesen, then Senator Groene. [LB1084]

SENATOR FRIESEN: Thank you, Chairman Smith. Over and over I've heard that property tax is a local problem and it's local spending that are causing the problem. Would you say that property taxes are a very local way of taxing? [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

DAVE WELSCH: Yes, they are. [LB1084]

SENATOR FRIESEN: And so when I say that in the state constitution it's the state's responsibility to fund the free instruction of K through 12, do you think the state is fulfilling its obligation? [LB1084]

DAVE WELSCH: I think it's beginning to fail greatly in the last five or six years because of the way our economy has changed, the way ag land valuation has changed. The formula that was passed in 1990 is not as effective in equalizing the burden across district lines. It's become very imbalanced again. [LB1084]

SENATOR FRIESEN: So the majority of your funding comes from those local levied taxes, correct? [LB1084]

DAVE WELSCH: Yeah. And some school districts it almost all comes from that. [LB1084]

SENATOR FRIESEN: I'm talking in your school district and especially there really the state does not provide much. [LB1084]

DAVE WELSCH: Right. Our equalization aid probably under the current formula will probably disappear within the next one or two years. We still have some option funding state aid that we get and some other aspects of the formula. [LB1084]

SENATOR FRIESEN: So do you feel comfortable that the state is fulfilling its obligation? [LB1084]

DAVE WELSCH: For our district it is not. [LB1084]

SENATOR FRIESEN: Thank you. [LB1084]

SENATOR SMITH: Senator Groene. [LB1084]

SENATOR GROENE: Thank you, Chairman. Didn't mean to bother you but appreciate that you actually got a school board member that definitely understands the TEEOSA formula. (Laugh) [LB1084]

DAVE WELSCH: There's only 19 components to it, so it's not that hard. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR GROENE: I'm getting around to know it, too. But what's your average farm per acre property taxes in your district? Would you say most of your land is good dryland, right? Well, a lot of irrigated, too. [LB1084]

DAVE WELSCH: Yeah, there's a fair amount of irrigated within our school district. I haven't really crunched those numbers but you're probably looking... [LB1084]

SENATOR GROENE: You (inaudible). [LB1084]

DAVE WELSCH: ...from \$50 to \$100 per acre. [LB1084]

SENATOR GROENE: So on your farm how much would that lower it, this bill, lower your property tax burden per acre? Just you got an idea? I'm sure you've crunched those numbers a little bit. You seem to be a numbers guy. [LB1084]

DAVE WELSCH: Yeah, I am a numbers guy. I appreciate that. I looked up this for the 2017 taxing year. Our ag land credit through the tax refund program or Property Tax Credit Program is, round numbers, we received a credit of about \$1,500, and that I believe that that's funded at a \$250 million level, roughly, right now. [LB1084]

SENATOR GROENE: Two twenty-four? [LB1084]

DAVE WELSCH: Yeah. I believe in this legislation that's hoping to add at least \$500 million to that, so you basically triple it. So I'm assuming my \$1,400 credit may grow to \$4,500. [LB1084]

SENATOR GROENE: So that's the main relief you're going to get through this is the Property Tax Credit Fund? [LB1084]

DAVE WELSCH: That would be one major part. There's also the 20 percent allocated income tax that would flow back to our district. That actually might offset our equalization aid... [LB1084]

SENATOR GROENE: That's what I was going to say. [LB1084]

DAVE WELSCH: ...because it would be another revenue. But I think the reason that that's in there is for those districts that don't get equalization aid. At least they're able to get back a portion of their income taxes that they're paying and can use it for local education. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR GROENE: The other question I had is, is your enrollment stagnant or going down a little bit? Is that part of the reason of your increased budget, because of enrollment? [LB1084]

DAVE WELSCH: Well, our budget hasn't increased. Our expenditures have been static for the last three years. [LB1084]

SENATOR GROENE: But it could be related to the formula in that your enrollment is on the downward side. [LB1084]

DAVE WELSCH: Our enrollment is increasing--we just recently looked at that at a board retreat--for the last ten years. If you look at the most recent five years, our kindergarten enrollment is averaging about 60 students and then you go back five years previous to that, that enrollment was about 47 students on average. So we've got an increase of about 13 students. That's probably a half a classroom or almost a full classroom that we need to provide extra... [LB1084]

SENATOR GROENE: That's not helping you in the formula to get more state aid. It's just... [LB1084]

DAVE WELSCH: Oh, it slowly will come in but we're really losing on the equalization side because ag land valuations have gone up so dramatically. [LB1084]

SENATOR GROENE: And pressure from residents to keep the property taxes down. So it's hard to make it up with property taxes because of that pressure. [LB1084]

DAVE WELSCH: Yeah. To the Legislature's credit, you eliminated that minimum levy for us to retain our equalization aid this last year. [LB1084]

SENATOR GROENE: You're looking at the guy who put it in that bill. [LB1084]

DAVE WELSCH: Yeah. And our...appreciate that. And our levy went from 95 cents down to 81 cents this current year because we weren't restricted to levy that minimum amount. So we lowered it substantially. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: Senator Harr. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR HARR: Thank you, Mr. Chairman. You stated your budget has grown about 2 percent over the last five, ten years,... [LB1084]

DAVE WELSCH: Correct. [LB1084]

SENATOR HARR: ...eliminating the high and the low. What is the single largest driver of that increase? [LB1084]

DAVE WELSCH: I would say our salaries for our teachers and other staff. [LB1084]

SENATOR HARR: And healthcare an issue as well? [LB1084]

DAVE WELSCH: Yeah, it wasn't as dramatic as it was early on in my tenure as a school board member 10-20 years ago, but it's still a substantial part of the total package of compensation. [LB1084]

SENATOR HARR: Okay. All right. Thank you very much. Appreciate it. [LB1084]

SENATOR SMITH: I see no further questions. Thank you, Mr. Welsch, for your testimony. [LB1084]

DAVE WELSCH: Thank you. [LB1084]

SENATOR SMITH: We're going to take one more proponent before we swap over to opponents for a little bit. Next proponent. Welcome. [LB1084]

TIFFANY JOEKEL: (Exhibits 7, 8, and 9) Thank you, Chairman Smith, members of the committee. My name is Tiffany Joekel, T-i-f-f-a-n-y J-o-e-k-e-l, policy director at OpenSky Policy Institute. I have provided a number of handouts for the committee. One is a spreadsheet of the different components of the fiscal note to try to put it in one place to help you see all the pieces, so I'm happy to walk through that if you're interested; also some high-level notes on allocated income tax impact; and then a spreadsheet of district-by-district impact of allocated income tax. So I won't go over those unless you'd like me to. I have a few prepared comments I want to be sure to get in. We are here to testify today in support of LB1084 because it is the only fiscally responsible solution on the table that provides a path to meaningful property tax reform while protecting state budget priorities, like healthcare and K through 12 education. Many of the revenue "pay-fors" in LB1084 are sound public policy. It broadens the sales tax base to tax more

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

services currently going untaxed. This will treat services more like goods that are currently taxed. LB1084 is paid for by eliminating loopholes and tax breaks for special interests. It also increases taxes on wealthy Nebraskans who tend to pay a lower effective tax rate and who are also receiving fairly large federal tax cuts as a result of the Tax Cuts and Jobs Act. We are in support of LB1084. As we take a look at the big picture, it provides a significant influx of funding into the Property Tax Credit Fund in the short term to provide immediate property tax relief. It restores funding in TEEOSA for equalized districts. It increases the allocated income tax as originally envisioned in TEEOSA which will primarily accrue to nonequalized districts. The long-term piece for us is the school funding study that is included in this legislation. As we see it, the property tax credit is an initial way to provide relief, but in the long-term we believe the school funding study will provide a path to meaningful and sustainable reform of the way we fund K through 12 education. And then the bill pays for these investments. We do have concerns with some of the components of LB1084, as everyone that will probably come up here today. In particular, we are very concerned with the sales tax rate increase. It will fall hardest on low- and moderate-income Nebraskans who pay a higher percent of their income in sales tax. We also have some concerns about the property tax asking limitation in the bill. The fiscal note raises concerns about it. We don't need to belabor it. And school districts will have much more information about the challenges that it poses. But given that there are 240-some districts in the state, we're concerned it will affect them all differently. In conclusion, we want our state to have a strong economy. We recognize that both agriculture and education are critical to that economy, and so we support LB1084. We hope it is a path forward. We recognize that it will likely change should it move forward and we're happy to stay involved and provide analysis as it's discussed and different provisions are raised. So with that, I'm happy to answer any questions that you may have. [LB1084]

SENATOR SMITH: Thank you, Ms. Joekel. Questions? Senator Harr. [LB1084]

SENATOR HARR: Thank you. Do you know what the largest school district in the state is? [LB1084]

TIFFANY JOEKEL: I am fairly certain it's...well, geographically wise or student wise? (Laughter) [LB1084]

SENATOR HARR: Let's do students. [LB1084]

TIFFANY JOEKEL: Students. Omaha Public Schools. [LB1084]

SENATOR HARR: Okay. And based on this bill, how much increase in student aid would they receive? [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

TIFFANY JOEKEL: I'm thinking all the way through. So what would happen for OPS that's not included in any of my handouts is any cuts that they received as a result of LB409, which would have been the increase in the local effort rate, the decrease in the cost growth, they would have those restored. So I don't have the number for you but they...all equalized districts that received cuts under LB409 would receive the restoration of those cuts. They would not receive new money from the 10 percent...or the 20 percent allocated income tax because any new allocated income tax revenue they would receive would offset their equalization, breaking them even in that regard. [LB1084]

SENATOR HARR: So that's a long way of saying you don't know. [LB1084]

TIFFANY JOEKEL: I can know. I don't know at this moment. But they would receive new money as a result of restoring LB409. [LB1084]

SENATOR HARR: And what's the second largest school district? [LB1084]

TIFFANY JOEKEL: LPS. [LB1084]

SENATOR HARR: Okay. Lincoln Public Schools? [LB1084]

TIFFANY JOEKEL: Yeah. [LB1084]

SENATOR HARR: Same thing, you're not sure, you could probably get that information? [LB1084]

TIFFANY JOEKEL: I know I'm certain I can get that information. I just don't have it. [LB1084]

SENATOR HARR: Okay. [LB1084]

TIFFANY JOEKEL: Believe it or not, in this massive file that is one thing I do not have with me is what they would receive specifically as a result of LB409 restoration. [LB1084]

SENATOR HARR: And were you involved in any part of negotiating what taxes, as we call broadening the base, which ones were broadened and which ones weren't? [LB1084]

TIFFANY JOEKEL: Sure, we were involved. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR HARR: Okay. [LB1084]

TIFFANY JOEKEL: Uh-huh. [LB1084]

SENATOR HARR: Because I look at them and it's somewhat curious in that it would appear to me that the largest percentage of property taxes would go to...relief would go to our friends in agriculture. Would you agree with that? [LB1084]

TIFFANY JOEKEL: Well, it would go through the Property Tax Credit Fund currently, which is not...ag is not the largest beneficiary of that. They receive a greater percentage per \$100,000 valuation, but... [LB1084]

SENATOR HARR: Right. [LB1084]

TIFFANY JOEKEL: ...in aggregate. [LB1084]

SENATOR HARR: So if I...and it's based on 75 percent... [LB1084]

TIFFANY JOEKEL: Yeah. [LB1084]

SENATOR HARR: So probably a large portion does go to ag. [LB1084]

TIFFANY JOEKEL: Okay. [LB1084]

SENATOR HARR: Is that fair? [LB1084]

TIFFANY JOEKEL: Maybe. [LB1084]

SENATOR HARR: Okay. And yet when I look at this broadening of the base, which is a fancy term for elimination of tax exemptions, I don't see a lot of ag tax exemptions being eliminated. I see a lot of business tax exemptions being eliminated. Was there a reason for that within the bill? [LB1084]

TIFFANY JOEKEL: I would be curious what business tax exemptions you're referring to. I think in... [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR HARR: Well, then let me rephrase that question. [LB1084]

TIFFANY JOEKEL: Sure. [LB1084]

SENATOR HARR: What ag tax exemptions have been eliminated? [LB1084]

TIFFANY JOEKEL: The primary one as far as...that's in the bill, I believe, is the personal property tax exemption would benefit ag and I believe that's repealed. As far as sales tax exemptions, I don't think there are any included. I think in general the bill made an effort to try to avoid sales tax exemptions that would be considered business inputs. So to the extent that ag exemptions are considered business inputs, so they're excluded. [LB1084]

SENATOR HARR: Okay. Thank you. [LB1084]

TIFFANY JOEKEL: Sure. [LB1084]

SENATOR SMITH: Senator Groene. [LB1084]

SENATOR GROENE: Seems to me the sales tax increases are all on consumption, consumer consumption, and most ag sales taxes that are exempt are for production, just like a manufacturer doesn't get the metal taxed or the welding rods that he uses to build his final product, right? So... [LB1084]

TIFFANY JOEKEL: Yeah. [LB1084]

SENATOR GROENE: ...looks like you focused on consumption. [LB1084]

TIFFANY JOEKEL: Well, to be fair, I think you know I don't want to own this list of exemptions that were repealed. I would say in general we have some challenges with some of them as well. We were not, by any means, calling the shots. We tried to provide information, relying heavily on Department of Revenue resources and the Tax Expenditure Report, so I don't want to act as if I'm owning the revenue sources. But I think in general we would recommend, OpenSky would recommend that you try to avoid production inputs, business inputs. [LB1084]

SENATOR GROENE: Is groceries in here? [LB1084]

TIFFANY JOEKEL: No. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR GROENE: Why not? They're consumptive. [LB1084]

TIFFANY JOEKEL: Sure. I think you'd have to ask Senator Briese why he chose not to. I think generally that is a necessity that, you know, becomes very regressive when you tax groceries. [LB1084]

SENATOR GROENE: You got water in here. [LB1084]

TIFFANY JOEKEL: Again, not my bill, but (laugh) but I am here supporting it. So, yes, to be fair, bottled water is included. You know, again, if OpenSky were kings and queens of the world... [LB1084]

SENATOR GROENE: All right. Thank you. [LB1084]

TIFFANY JOEKEL: ...we may include some different ones. But you got...we had to put something on the table and this is a discussion that we think is worth having. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

TIFFANY JOEKEL: Sure. [LB1084]

SENATOR SMITH: Remaining questions from the committee? I see none. Thank you, Ms. Joekel. [LB1084]

TIFFANY JOEKEL: Thank you. [LB1084]

SENATOR SMITH: We now move to opponents of LB1084. First opponent, please. Welcome. [LB1084]

KATHY SIEFKEN: (Exhibit 10) Chairman Smith and members of the committee, my name is Kathy Siefken, K-a-t-h-y S-i-e-f-k-e-n. I am the executive director and lobbyist for the Nebraska Grocery Industry Association. The handouts that you are receiving explain how our members would be impacted by the loss of a sales tax exemption on candy, soft drinks, and water. Nebraska adopted the Streamlined Sales Tax definitions and we are required to use those definitions to remain compliant with Streamlined. This allows for the collection of Internet sales tax when Nebraska moves in that direction. As a state, we simply cannot afford to be out of compliance with Streamlined. Having said that, the definitions in Streamlined are cumbersome,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

at best. I've outlined the definitions of candy, soft drinks, and water in the handout and would encourage you to ask questions regarding those handouts. Pictures are worth a thousand words and I thought it would be easier for you to immediately understand the impact. The price tag to subscribe to a service that will categorize those products that would be taxed is approximately \$25,000 per year, each and every year. Our members simply cannot absorb that cost. And I am hoping that someone else will be able to address the impact on consumers. We are also opposed to the increase of \$1 per pack in cigarette excise taxes. This is an unstable source of revenue that decreases every year because people quit smoking and the number of new smokers is declining, hence, a decline in taxes that are collected. We have over 2,800 retailers who are licensed to sell tobacco across Nebraska. Tobacco and related products make up about 30 percent of annual gross sales for convenience stores and this bill would harm each and every one of those businesses. I've attached a map that shows our neighboring states. And the exception of...and with the exception of Iowa and Minnesota, we're pretty much all on the same playing field with similar taxes. This bill would change that and turn Nebraska into a high tax state in comparison to those that we compete with in surrounding states. In 91 percent of the states that increased cigarette taxes in recent years, actual income was lower than projected. And I'm hoping that we as a state will learn from those people that have already made that error. In 2007, when Iowa raised cigarette taxes by \$10 per carton, the volume in Iowa went down 50 percent in their border stores and their interior stores in Iowa were down 34 percent. After the first five weeks, Nebraska's 539 border stores showed a 40 percent gain in cigarette sales. Smokers don't always stop smoking but they do find a cheaper place to purchase their products. My point is that it doesn't make any difference if the tax is on fuel, food, or tobacco, consumers will respond by searching out cheaper places to purchase these products leaving Nebraska with fewer collected taxes. If you have any questions, I would be happy to answer. [LB1084]

SENATOR SMITH: Thank you, Ms. Siefken. A clarification for maybe some of the folks that are here that...and this could be the first time they're hearing about Streamlined. Streamlined is 20-something states that participate in adopting a group of uniform definitions on sales tax, sales taxes. And as a result, there's some benefits that come from that and one of those is that there's a group of participants, remote seller participants, that voluntarily remit Internet sales taxes to states that participate in the Streamlined process. Nebraska being one of those, that's probably in the neighborhood of \$20 (million) to \$30 million a year that we receive voluntarily. What you were saying in your testimony is, because in this bill we do...we vary from the uniform definitions, we would be in violation and, therefore, would not be receiving those receipts. So we would have lost receipts from that. Is that correct? [LB1084]

KATHY SIEFKEN: Actually, what I'm saying is as a result of the definitions in Streamlined, the photos that I distributed are photos of products that we would have to read the label on every one of those products to determine if it is taxable or if it is not, and if it meets the definitions within

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

Streamlined for a taxable product. That is a very, very labor-intensive process and, hence, the cost of \$25,000 for a subscription to hire someone to do that. [LB1084]

SENATOR SMITH: Okay. Other questions from the committee? Seeing none, thank you, Ms. Siefken. [LB1084]

KATHY SIEFKEN: Thank you. [LB1084]

SENATOR SMITH: Next opponent of LB1084. Welcome. [LB1084]

STACY WATSON: Good afternoon, Chairman Smith, members of the Revenue Committee. My name is Stacy Watson, S-t-a-c-y W-a-t-s-o-n. I am here representing the Omaha, Lincoln, Nebraska Chambers; the Grow Nebraska Tax Coalition; and the Nebraska Bankers Association. And we are in opposition to the non-Nebraska S corp, LLC income and the Nebraska special capital gains exclusions that are being presented in this bill. Senator Schumacher was right that in 1987 the non-Nebraska S corp and LLC provision was passed, but why it was passed was really to create equalness between C corporations, which are taxed at the entity level and the new...the new entities at that time. You know, in the 1980s, S corps became in vogue. And so really, to create equality between how you tax a C corporation, which is taxed at the entity level, and how you tax the pass-through entities, which are taxed at the individual level. So they wanted to make sure that the taxation of the entities was the same so that you weren't penalizing anybody for their entity choice. Also, Iowa had recognized this and they had put a similar provision. It works a little bit differently, but you get to the same ending point where they're not taxing this out-of-state income either. So in recognizing that we needed to be competitive with our next-door neighbor, Iowa, or states that don't have income tax at all, like Wyoming and South Dakota, in 1987 we put this provision in place to keep C corps and S corps the same and to compete with Iowa. Now I think what we also need to recognize is that the federal legislation that's come through for 2018, if you were to repeal the non-Nebraska S corp and LLC exclusions, the federal legislation has now limited our state and local tax deduction to \$10,000. So now you're going to increase the individual tax by doing that but there's this limitation at the federal level of that \$10,000 in state and local tax. The other federal provision that's come into play is a 21 percent tax rate for C corps. So C corps used to have a higher tax rate; they don't. So I think that the revenue that you're hoping to generate from this provision, there's ways around it that the individual owners can partake in so that the state doesn't actually receive the intended revenue. We also note that when we bring individuals into the state, we do that and we show this provision to them to incentivize them to be here. We want them to locate their headquarters here. We want the individuals to be here. And so with this provision, that allows us to show them the incentives that we can provide. Even if we have a higher individual tax rate, we can show them how it's lowered by these provisions. And so we want those types. We don't want the brain drain

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

leaving. We don't want the younger people not coming here and setting up their business here. So we really believe that we request to remove these provisions from the bill so that they don't unfairly tax the individuals versus the C corporations as they currently exist. So I don't know if anybody has any specific questions. I try not to get too much into the weeds and kind of give you a high-level review of that provision. [LB1084]

SENATOR SMITH: Let's see. Thank you, Ms. Watson, for your testimony. Senator Friesen. [LB1084]

SENATOR FRIESEN: Thank you, Chairman Smith. You know, we had hearings on some of these tax exemptions last year and... [LB1084]

STACY WATSON: Yep. [LB1084]

SENATOR FRIESEN: ...nobody really came forward and talked about them, so I guess I'm curious as to how some of them work. And the subchapter S, I guess, gets my attention the most. So that income is from a business entity that's located outside the state of Nebraska and income is earned in that state and then it's brought back into the state of Nebraska? [LB1084]

STACY WATSON: Well, the business entity can be located here or outside the state. [LB1084]

SENATOR FRIESEN: Okay. [LB1084]

STACY WATSON: And so what basically...and then the S corp flows that income to me personally. So if I'm a C corp the tax stays at the entity level. The difference is, as an S corp, it comes to me personally. I can...you know, the business can be located here, it can be located any...outside the state. So what a C corp does now, and I think it's important to note that, is let's say 5 percent of our customers are located in Nebraska. A C corp will tax on the 5 percent of the customers that are located in Nebraska to Nebraska. So the S corp, as it's currently written now, if I have 5 percent of my customers in Nebraska, the individual will still pay tax on that 5 percent of the customers in Nebraska. It's basically the source of your income. Where should you pay your tax? It's where your sales are sourced. So the individual, whether they're located in the state or outside the state, but the Nebraska business that's done here will be...will have tax paid on it here based on the percentage of customers. [LB1084]

SENATOR FRIESEN: So if you had multiple locations and some of those were located in Florida, there would be no state income tax obligation on that money and if you brought it to Nebraska there would also be no state income tax obligation? [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

STACY WATSON: Right. So if it...right, there would be none for the C corp. The C corp now doesn't pay tax if it sells things to Florida. If you have a business interest as an S corp owner, you're not going to pay tax to Florida either. [LB1084]

SENATOR FRIESEN: So that's what you're talking about when you leveled the playing field. [LB1084]

STACY WATSON: That, yeah, that I'm talking about the parity between those two entities because that's, from my perspective, from just a good tax policy perspective, is that you don't want to penalize somebody because I chose to be an S corp versus a C corp. I don't want to drive the choice of tax entity because of the tax in my state. That should be up to the business owner themselves. [LB1084]

SENATOR FRIESEN: Okay. Thank you for that explanation. [LB1084]

STACY WATSON: Yep. [LB1084]

SENATOR SMITH: Senator Groene. [LB1084]

SENATOR GROENE: The way I understood it, the S corp is...you got the business here. And you send a salesman to Texas to do business with a customer. Texas has no income tax. You do your tax, you can say that that business was done in Texas, therefore, I pay...I file with Texas on that business. Is that correct? [LB1084]

STACY WATSON: Correct. So any...so whether you're a C corp or an S corp, if you do business in another state where you have someone who has nexus in that other state. [LB1084]

SENATOR GROENE: You don't have a physical presence in Texas. [LB1084]

STACY WATSON: You have to have nexus, so it doesn't necessarily require a physical presence. Each state has their own rules and, unfortunately, you picked Texas. [LB1084]

SENATOR GROENE: You send a team of engineers from Omaha down to Texas. You do a project down there. And you file... [LB1084]

STACY WATSON: Yeah, you file a gross emergence tax and you pay Texas tax down there. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR GROENE: And have zero. What this would do is say you've got to pay the taxes in Nebraska. [LB1084]

STACY WATSON: Right. It would take that for just, though, the S corp and LLC owner. The C corp tax wouldn't change. They still wouldn't pay a Texas tax, but... [LB1084]

SENATOR GROENE: So... [LB1084]

STACY WATSON: ...now you're penalizing the individual S corp and LLC owner. [LB1084]

SENATOR GROENE: So what you're saying, well, what I'm asking you is when they say you make all these changes and they've got a projection in 2021-22 of \$440--I'm using OpenSky's numbers because I have to trust those--\$449 million, all right, behavior changes. [LB1084]

STACY WATSON: Behavior would change. [LB1084]

SENATOR GROENE: People will change their C corp or move their headquarters... [LB1084]

STACY WATSON: Especially with the change in the federal tax rate moving down to 21 percent. [LB1084]

SENATOR GROENE: ...headquarters out. So people will get a haircut once every two months--I probably would--instead of once a month. [LB1084]

STACY WATSON: (Laugh) [LB1084]

SENATOR GROENE: So these projections are on a straight line. Behavior changes with taxation. [LB1084]

STACY WATSON: Correct. You would not be receiving those tax dollars because people are going to do their tax calculation and figure out, if I become a C corp I can pay less tax; the federal government has already given me a tax break. So I wouldn't expect the revenues projected out there to be maintained in the manner that they're prescribing. Behavior would change in order to...because basically it's become a disincentive to be an S corp or an LLC in the state of Nebraska. [LB1084]

SENATOR GROENE: Not all behavior. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

STACY WATSON: Right. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: Well, I was concerned that Senator Schumacher was going to miss your testimony, but I see he's arrived back, so... [LB1084]

STACY WATSON: (Laugh) I did give you credit for recognizing that the original bill was passed in 1987 as LB773. That was...you were right on the time frame, when S corps became in vogue. [LB1084]

SENATOR SMITH: So we're going to recognize Senator Schumacher. [LB1084]

STACY WATSON: Yes. [LB1084]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And sorry I missed the first part of your testimony. With the...one of the more controversial things is the subchapter S... [LB1084]

STACY WATSON: Yep. [LB1084]

SENATOR SCHUMACHER: ...exclusion, and I think from hearings we had last year it was...the testimony generally was other states do not have such an exclusion. Why not? I mean why do...why are they able to survive when we're not? [LB1084]

STACY WATSON: So there are three states. I know the professor had presented information that we were the only state. He would probably be correct in that we're the only state that do it...does it in this exact manner, but there are three other states that get you to the same result. Other states don't necessarily do this. I would say, one, because they don't have an income tax; two, their income taxes are lower; three, they have other things that are driving business to their communities, whether it be population based or the stock exchange or they have oceans and mountains. We don't have those things. Plus, they're not competing with the surrounding states that we're competing with. Iowa has it. Oklahoma has a similar provision. South Dakota, Wyoming, they don't have taxes. Especially at the borders it's very easy to pick up our residence and move it. And if I moved my individual resident, this tax provision is based on you repealing the individual tax on me. And if I moved to another state, you get no more money than you would have otherwise. My business doesn't have to change here. I don't actually have to pick up the brick and mortar of my business, which I think is important because I know people threaten that sometimes, but it's a lot harder to move your brick and mortar. But right now all I'd have to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

move is my individual residence to Iowa. I'll get a similar provision, or South Dakota, Wyoming. And especially with the federal state and local tax deduction being limited to that \$10,000, people are looking at those options anyway. So I think this encourages them to look at them a little bit harder. [LB1084]

SENATOR SCHUMACHER: We're talking about a subchapter S election, the \$84 million price tag. [LB1084]

STACY WATSON: Absolutely. [LB1084]

SENATOR SCHUMACHER: Okay. That represents almost \$1 billion in income, more than \$1 billion in income... [LB1084]

STACY WATSON: Absolutely. [LB1084]

SENATOR SCHUMACHER: ...that we exempt just because we don't have mountains and... [LB1084]

STACY WATSON: Well, and we wanted to make it equal to a C corp. I think we don't want to penalize people. [LB1084]

SENATOR SCHUMACHER: But wait a minute. On a C corp, when a C corp pays out a dividend, it's profit,... [LB1084]

STACY WATSON: Uh-huh. [LB1084]

SENATOR SCHUMACHER: ...I pay on that tax here, even if the C corp is based in Florida or in Texas. [LB1084]

STACY WATSON: If you're a resident, you are correct, you would pay on that. [LB1084]

SENATOR SCHUMACHER: Right. [LB1084]

STACY WATSON: But what we would do is we would, from a tax planning perspective, instead of paying you out a dividend that you would have to pay an additional 15 percent federal tax and 7 percent state tax, what people do is they raise their wages and so then you avoid the 15 percent tax. You have to pay an additional 2 percent. And if they move that individual out of that state

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

and they're working in that other state, you're not going to get the 7 percent or the dividend's tax, because that only goes to the state in which you're a resident. So it encourages...you know, I mean they don't have to pay them. [LB1084]

SENATOR SCHUMACHER: But if I invest in a C corporation in Florida,... [LB1084]

STACY WATSON: Uh-huh. [LB1084]

SENATOR SCHUMACHER: ...I pay on the dividend. [LB1084]

STACY WATSON: In Florida, as a resident of Florida. [LB1084]

SENATOR SCHUMACHER: No. [LB1084]

STACY WATSON: Are you a resident of Nebraska? [LB1084]

SENATOR SCHUMACHER: Right, resident of... [LB1084]

STACY WATSON: Yep, you would pay on the dividend here. It's based on your home state. [LB1084]

SENATOR SCHUMACHER: Right. If I invested in an S corp in Florida and get my distribution, I do not pay on it. [LB1084]

STACY WATSON: That is correct. [LB1084]

SENATOR SCHUMACHER: Okay. And that, if I go to work and buy myself a fishing boat in Florida, and make income in my, as a sole proprietor in Florida, on my fishing boat, but I'm a resident of Nebraska, I pay on that, right? [LB1084]

STACY WATSON: Not...most sole proprietors aren't sole proprietors. Most of them would be LLCs so they would be able to exclude it. [LB1084]

SENATOR SCHUMACHER: But let's...but a sole proprietor (inaudible). [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

STACY WATSON: Yes. If I...if I did not legally protect myself as an LLC, that would be correct. [LB1084]

SENATOR SCHUMACHER: Same thing with a law business, an accounting business if I do it as a sole. But if I do it in this trick with an LLC or a sub S, I beat the system. [LB1084]

STACY WATSON: Well, it's not a trick. It's set up to be a parity with the C. But I can't imagine anybody who, in their right mind, would choose not to be an LLC from just a legal perspective, not an accounting perspective. They just need to protect themselves. It's not a trick. It's kind of how the nation has built itself from an entity structure. [LB1084]

SENATOR SCHUMACHER: And that's part of the problem that we have with our tax system. People don't understand it. People don't understand why some ways of doing things gets you a break; some ways get you higher taxes. And this one, you know, it stands out as being something that's really unusual here, if only two other states do it. [LB1084]

STACY WATSON: Yeah, three others, three other states do it but the other states, some of them don't have income tax... [LB1084]

SENATOR SCHUMACHER: Right. [LB1084]

STACY WATSON: ...and some of them are half the cost of us. So you could have double the amount of income there and still pay the same amount of tax. [LB1084]

SENATOR SCHUMACHER: Right. But we have roads, we have schools that are howling, we've got farmers that are howling. Even though their wealth has doubled and tripled, they don't like the idea their taxes have doubled and tripled. So we've got a lot of people howling and we've got to look why we're doing some things differently and judge the risk. [LB1084]

STACY WATSON: Right, and I... [LB1084]

SENATOR SCHUMACHER: And what is the risk, how much...how much business will leave the state, as we say, subchapter S regulation? [LB1084]

STACY WATSON: I think your bigger risk is that they'll switch to C corps and you're not going to get the dollars you're expecting. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: We have a 7.81 percent C corp profit, or our tax on C corps. [LB1084]

STACY WATSON: But you still only get it based on the sales here. [LB1084]

SENATOR SCHUMACHER: Right. [LB1084]

STACY WATSON: So you're going to get a 1.5 percent tax increase but it's still only going to be the 5 percent of what's sold here. You're not getting 100 percent tax. [LB1084]

SENATOR SCHUMACHER: Right. [LB1084]

STACY WATSON: That's a huge...1 percent on 5 percent is much different than 7 percent on 100 percent. [LB1084]

SENATOR SCHUMACHER: So did we make a mistake four, five years ago when instead of doing it the way we did, if you have 50 percent of your sales here we taxed it all and we went out and changed our formula? Was that a financial boondoggle on our place? [LB1084]

STACY WATSON: Are you discussing the market base? [LB1084]

SENATOR SCHUMACHER: Yes. [LB1084]

STACY WATSON: Well, the market base didn't...doesn't affect anybody who's always sold widgets out. That only changed for the service industry so it's not exactly an equal tax concept. So the widget people of the world, the manufacturers of the world, they've always...this provision has been in place since 1987 and there's no 50 percent rule for the manufacturers of the world. The market base sourcing that you're talking about in 2014, that's a cost of performance issue. So we basically said if you're a service-based business and your cost of performance, it used to be for cost of performance, was 50 percent or greater here, then you paid 100 percent of the tax on your business here as a service provider. The problem with that is surrounding states, like Iowa and Minnesota, they say, no, it's where your customer is located. So we've actually had clients who put their headquarters here, 100 percent of their staff sits here. They paid 100 percent of tax on their Nebraska business, but they had clients in Iowa; 84 percent of their client base was in Iowa and they paid 184 percent state tax. So the market base sourcing is really for service providers. It didn't affect the widget industry at all. The widget industry would have been like this regardless of your change in 2014. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: But our service provider is supposedly the new economy.
[LB1084]

STACY WATSON: It is the new economy. [LB1084]

SENATOR SCHUMACHER: So we did reduce our revenues by what we did. [LB1084]

STACY WATSON: You did, but had you included a tax provision to tax out-of-state companies in it with an economic provision in this state, I think you would have raised revenues. But out of that bill, you guys left an economic tax provision that we could have been taxing out-of-state entities in the same way that other states tax us. So I don't understand why we'd go after the individuals who are residing and providing other things to our state. You know, they're providing income. They're providing, you know, family. They're giving property taxes. So I don't understand why we'd go out, you know, after individuals who are providing something to our community and not put a tax provision in place that should have been put in, in 2014 when you did market-based sourcing, that tax out-of-state business service providers into this state. That seems, in my mind, from a tax policy perspective, I'm not asking for a new tax; I'm asking for a fair tax. [LB1084]

SENATOR SCHUMACHER: But you suddenly got my interest (laughter) because we've been fishing for a new tax a long time. [LB1084]

STACY WATSON: I'm not asking, no, no, no, no, no, it's not a new tax. It's a fair tax system. I think at the end of the day we need a fair tax policy. [LB1084]

SENATOR SCHUMACHER: Okay. Explain to the...explain this again where we screwed up and didn't do this. [LB1084]

STACY WATSON: (Laugh) I don't want to say anybody screwed up. That's not why I'm here today. [LB1084]

SENATOR SCHUMACHER: Oh, well, I'll admit it. I would be surprised if we didn't screw up.
[LB1084]

STACY WATSON: (Laugh) What was left out of that bill was an economic tax provision, similar to what other states have--Iowa has it--that basically says if you provide services into our state you owe us tax on those services. You don't have to have physical presence in the state to pay us tax. You have to avail yourself of the economy in our state. And I know that on sales tax you

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

have all that, Quill and stuff, that says physical presence. Income tax doesn't say that. In fact, California does it this way. Iowa does it this way. A lot of states use I call it the Geoffrey rule, so the big Toys R Us giraffe rule, that says, you know, when your intangibles and your service are located in my state, you're clearly availing yourself of the people in my state; you should pay me some tax for that. We didn't attach that to the Nebraska market-based sourcing rules when it should have been. And so I feel like I'm not ask...not here to propose new taxes because I don't want the Governor or anybody mad at me. I live here. But I think that it's only a fair taxing system if we tax out-of-state companies the same way we tax our in-state companies. [LB1084]

SENATOR SCHUMACHER: Can you give me just a specific kind of business example of what you're talking about? [LB1084]

STACY WATSON: Sure. I'm McDonald's, right? [LB1084]

SENATOR SCHUMACHER: Okay. [LB1084]

STACY WATSON: So my McDonald's restaurant is going to pay tax on every burger they sell here because they're located here. But I pay a 10 percent royalty fee to some headquarters located out of the state. We don't get tax on that 10 percent, even though that royalty fee is completely related to the individuals in Nebraska who walk into a McDonald's and buy a hamburger. So I don't understand why we wouldn't reach out and tax that 10 percent royalty fee. [LB1084]

SENATOR GROENE: Could I ask one more quick question? [LB1084]

SENATOR SCHUMACHER: Thank you. [LB1084]

STACY WATSON: (Laugh) Are you sure you want to ask any more questions? They don't seem to be very quick answers. (Laugh) [LB1084]

SENATOR SMITH: Hold on just a moment. Senator Harr, did you have your hand up? Okay. Senator Groene. [LB1084]

SENATOR GROENE: So maybe I'm wrong, but if you're FedEx and your service in South Sioux City, you put your headquarters in South Dakota, where there's no income tax, and do your services here, we don't tax those services. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

STACY WATSON: No, we will because they're physically located here. That's the service provider,... [LB1084]

SENATOR GROENE: No, the trucks come... [LB1084]

STACY WATSON: ...the trucks are. [LB1084]

SENATOR GROENE: Oh, that's considered the location, the truck itself. [LB1084]

STACY WATSON: Uh-huh. There's a physical presence with the truck and the employees all in their uniform. So we are picking up that FedEx revenue. Now if for some reason they pay a royalty fee to wear their uniform, then that's the piece we're not picking up. So we're picking up the revenue they're getting from driving their trucks here but we'd...if they're...and I don't know FedEx's structure so I'm guessing... [LB1084]

SENATOR GROENE: Western Union, would they be paying? [LB1084]

STACY WATSON: They do have...usually I seem them like in Hy-Vee so my guess is, yeah, because they have a physical person sitting there, so. But again, it's that royalty fee for getting to put the McDonald's sign up or the Geoffrey the giraffe or maybe wearing my FedEx uniform that we're missing on. [LB1084]

SENATOR GROENE: For any franchise. [LB1084]

STACY WATSON: For any franchise, and numerous states tax this. This isn't unusual. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: Seeing no further questions, thank you, Ms. Watson. [LB1084]

STACY WATSON: Thanks. Have a great day. [LB1084]

SENATOR SMITH: Next opponent of LB1084. [LB1084]

GEORGE KUBAT: Not quick enough. The chair is pointed this way. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: All right, musical chairs. (Laughter) Got to move faster. [LB1084]

GEORGE KUBAT: Mr. Chairman,... [LB1084]

SENATOR SMITH: Welcome. [LB1084]

GEORGE KUBAT: ...members of the committee, my name is George Kubat, G-e-o-r-g-e K-u-b-a-t, and I'm speaking in connection with the sub S matters that have been the subject the last several minutes. I'm speaking for myself and the company that I am the owner of, Phillips Manufacturing Company in Omaha, Nebraska. And not to complicate it, we make widgets, (laughter) so it's easier to talk about. And 5 percent of our widgets are sold in Nebraska and 95 percent are sold in other states. And those states can have lower tax rates and maybe some states that have no tax rates and there may be some states in where we don't have nexus, for example, Florida. So the income that's being proposed here under the sub S would bring all of that back to Nebraska and be subject to Nebraska tax. Now the misconception, and there was a discussion about it last year which I did not know about the legislation that was being proposed, there are only three other states that have a sub S provision similar to what Nebraska is proposing to do here today, not that Nebraska is the exception. Nebraska is...currently the structure that we have is a general rule that's out there. Now if that income is brought back and taxed in Nebraska, and the changes that Ms. Watson referred to where no longer state and local income tax can be deducted, to a large extent because of the changes in federal law, it's going to create an environment where those, if the \$84 million is a correct number, which I have no idea what the right number might be, that those people who tend to be the ones that are paying the most tax, as Ms. Watson said, have the opportunity to move their residency to a place where they'll pay less tax. Would that be Iowa? Would they move to Florida? You would not only lose the tax base on the sub S that was going to come back but you'll also lose the other income that the person had: dividends, interest, salary. We'll not have that income. My biggest concern for the state of Nebraska, and I'm a lifelong resident, that businesses that would be looking to come to Nebraska won't come here and establish residency or manufacturing plants because of this adverse tax law that Nebraska would have. The long-term impact of it is to reject businesses that will go to other states that have a more favorable tax structure than Nebraska without having this type of sub S income retrieval into the state. With that, I'll conclude my widget comments and be glad to answer any questions. [LB1084]

SENATOR SMITH: Thank you, Mr. Kubat, for your testimony. Do we have questions from the committee? Senator Schumacher. [LB1084]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you for your testimony today. And I think you've assessed some of the predicament we're in quite accurately, and I

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

assume you were here earlier in the hearing when the people who say property taxes are through the roof and we're struggling with whether or not we should shovel some more on to the middle class families who need haircuts. So...but we still have our roads to pave. We've taken down our Cash Reserve from \$700 million to now the \$300 millions, so we're headed the wrong direction. We're at a point we're playing accounting games in order to come up with a balanced budget. If we...we know that our 6.8 percent, 6.84 percent high-bracket rate is on the high end of normal, we can't take it up much. If we don't do something like trying to chisel into the subchapter S election or some of these other preferences, how do we float the boat? [LB1084]

GEORGE KUBAT: I wish I had a magic answer to that, Senator. [LB1084]

SENATOR SCHUMACHER: I do, too. [LB1084]

GEORGE KUBAT: Clearly, a fourth leg would be great but there's legs that I know this state doesn't want to go to. But what I am saying about the sub S... [LB1084]

SENATOR SCHUMACHER: What would be those legs? [LB1084]

GEORGE KUBAT: There's legs that, you know, you can go over to Iowa and you can see a lot what's happening over there and there's a lot of revenue from Nebraska that ends up in places where the lights are on all night. (Laughter) [LB1084]

SENATOR SCHUMACHER: Hey, you're talking my language. (Laughter) [LB1084]

GEORGE KUBAT: We're a conservative state but the misassumption on the sub S is that the income is going to come here and it's not. It's going to dissuade businesses from coming to the state because of the tax burden that it would place on them, when they can go to other states that don't have the sub S reach out. And it's going to take some residents who live in this state, who might be paying significantly more state tax, and give them incentive, as well as what's happening with the federal law, to go to states where there isn't any salt and there isn't any S capture. It's just a reality of life. It's a misassumption. And there are only three states that currently have a law similar to what Nebraska is proposing. It's not that Nebraska is the exception. Nebraska is currently the rule. It's reality. [LB1084]

SENATOR SCHUMACHER: Thank you. [LB1084]

SENATOR SMITH: Remaining questions? I see none. Thank you, Mr. Kubat, for your testimony. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

GEORGE KUBAT: Thank you, gentlemen. [LB1084]

SENATOR SMITH: Well, I'll tell you what, if you're really fast you might get the next chair. So welcome. [LB1084]

JIM OTTO: Senator Smith, members of the committee, I'll be really fast. My name is Jim Otto, that's J-i-m O-t-t-o. As the president of the Nebraska Retail Federation, I appear today in opposition to LB1084. The reasons for our opposition have been very clearly stated. We agree with Ms. Siefken with the Grocers as far as the actual reasons for our opposition. And in the interest of time, I will not be repetitive, but we prefer to collect taxes that are already due before we tax more things. And I would like to commend Senator Briese on his forward thinking when it comes to taxing out-of-state sellers, collecting Nebraska sale...to...comes to getting out-of-state sellers to collect Nebraska sales tax. Many incorrectly assume that a positive decision by the U.S. Supreme Court, in fact if they would overturn Quill as you were discussing earlier, Senator, on that pending South Dakota case, that that will solve the sales tax collection problem that Nebraska and other states have without out-of-state on-line sellers. Reality is that each state will need to have a statute on the books defining who must collect in the state before out-of-state sellers will have to collect that state's sales tax. In lines 1 through 13 on page 33 of LB1084, Senator Briese includes that necessary clause with an appropriate enactment trigger. Senator Watermeier is also thinking forward as he has a similar clause in his proposed amendment to LB44. Including such a collection clause recognizes the need for the Legislature to act this session on defining in statute which out-of-state sellers are required to collect and not wait until the 2019 Session because waiting would delay collection for up to a year, which would mean the loss of tens of millions of sales tax dollars that are already owed. LB44 will also contain the necessary collection clause, so while we commend Senator Briese on his forward thinking, passing this bill is not necessary as long as we pass LB44. I'll be quiet. [LB1084]

SENATOR SMITH: Thank you, Mr. Otto. Questions? Mr. Otto, I'm struggling with that, though. I mean you...because I talked about it earlier with Ms. Siefken...or actually with Senator Briese. But it looks to me like the way that that clause is, is that this goes into effect regardless of whether Quill is overturned or not. I mean I understand what you're saying, but shouldn't that then be based on what the Supreme Court does and not making it effective regardless? [LB1084]

JIM OTTO: Well, when you asked that question, Senator, I was wondering myself. So I went back and I looked it up on my phone. This is what it says in the bill and I interpret that to mean only if Quill is overturned. It says: This subsection becomes operative on the latter of July 1, 2018, or the first day of the first calendar quarter after, after a controlling court decision or federal legislation abrogates the physical presence requirement of Quill. So I interpret that to mean... [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: Either way, okay. Sure. [LB1084]

JIM OTTO: Okay. [LB1084]

SENATOR SMITH: I get you. I get you. All right. Thank you. [LB1084]

JIM OTTO: Thank you. [LB1084]

SENATOR SMITH: Thank you for your testimony. Next opponent of LB1084. And then we're going to shift back over to proponents. [LB1084]

COBY MACH: Good afternoon, Mr. Chairman. Members of the committee my name is Coby Mach, C-o-b-y M-a-c-h, appearing on behalf of the Lincoln Independent Business Association. I, too, will edit my remarks. First of all, I do want to say we appreciate Senator Briese. We appreciate his desire to lower property taxes. However, we have concern about many areas of the bill, including increasing sales and use tax at a time when our retailers are in battle with on-line. We also have concern about taxing services like personal care, hair, music lessons, businesses that offer dance lessons, and the long list of services. Service is your labor and we already tax labor. The soft property tax asking cap component we also see does have many loopholes. We do support enforcement of the on-line sales tax collections and we would also support those funds going for property tax relief. And finally, when being introduced, the senator did use South Dakota as an example for eliminating some exemptions. We actually like using South Dakota as an example because they have a lower sales tax rate than we do in Nebraska overall and they have no income tax whatsoever. Thank you very much. I'd be happy to answer any questions. [LB1084]

SENATOR SMITH: Thank you, Mr. Mach. Questions? I see no questions. Thank you for your testimony. [LB1084]

COBY MACH: Thank you. [LB1084]

SENATOR SMITH: We're now going to go back to proponents and, please, proponents of LB1084. Welcome. [LB1084]

AMIE KOPCHO: (Exhibit 11) Greetings, Chairman, members of the Revenue Committee. My name is Amie Kopcho, A-m-i-e K-o-p-c-h-o. I am a publicly elected official, just like all of you. I am proudly serving my fourth year as a school board member for York Public Schools. This year I am serving as the vice president. It is as a school board member, a small business owner,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

and an active leader in my community that I am here to offer support for Senator Briese's LB1084. York Public Schools helped put together a large coalition last year by the name of Nebraskans United for Property Tax Reform and Education. This coalition has worked long, hard, and together on the importance of finding property tax relief for this state while also adequately funding our schools. The last page of my handout shows the founding principles and organizational members of Nebraskans United for Property Tax Reform and Education. It is wonderful to see agricultural and educational groups coming together on this important topic. LB1084 protects key investments like healthcare, roads, and K-12 education. Unlike other proposals on the table, LB1084 is paid for and affordable now. The "pay-fors" identified in this bill are sound public policy. As a state, we simply have to find ways to pay for services outside of local property tax revenue, and this bill does that. My favorite part of this bill is the call for much needed study to review the school funding formula in our state. This is long overdue. Too many of our schools are overreliant on local property taxes. Nebraska K-12 schools receive 49 percent of their funding from local property taxes, while the national average is 29 percent. Over 68 percent of our funding for York Public Schools comes from local property taxes. Nebraska K-12 schools receive 33 percent of their funding from state sources, while the national average is 47 percent. Less than 17 percent of our funding for York Public Schools comes from state sources. Our revenue from state equalization aid has dropped from \$2,214,826 in 2014-15 to just \$166,566 this fiscal year, causing an even larger overreliance on local property taxes. Since 2014-15, the total revenue we have had in our budget has decreased over \$720,000 despite a significant increase of more than \$1 million in local property taxes. Too often school spending gets the blame for high property taxes. The truth is we have high property taxes in Nebraska because of how schools are funded. YPS has had a 0 percent spending increase since 2014 and '15, and just an average annual spending increase of 1.3 percent since 2008 and '09. YPS has 6.5 fewer teachers and 16 fewer staff members than we did in 2007 despite seeing an increase in student enrollment. We strongly encourage you to support LB1084. Many educational and agricultural organizations have put a lot of time into this effort. It's time that we all work together, quit playing the blame game. We need to move past the divisive topic. Help move past the divisive topic of high property taxes. Thank you all for your service to Nebraska, and thank you for listening to me today. [LB1084]

SENATOR SMITH: Thank you for your testimony. Questions? Senator Groene. [LB1084]

SENATOR GROENE: Thank you, Chairman. You identified what we all know about how we fund our schools with property taxes. We all know it. I know as Education Chairman. I know what the problem is. We just can't get cooperation in the body. What good would a study do to tell me what I already know and what you already know? You threw the numbers out here. [LB1084]

AMIE KOPCHO: Well, I think... [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR GROENE: I mean I agree with you. I appreciate your... [LB1084]

AMIE KOPCHO: ...I think that's the whole thing is, you know, we're here to support the bill and these are the numbers that we have and these are the numbers that we're telling you, and if we all just could come together and do the work that it takes to... [LB1084]

SENATOR GROENE: No, you mentioned a study. [LB1084]

AMIE KOPCHO: ...study it and I don't... [LB1084]

SENATOR GROENE: We've studied this thing to death. [LB1084]

AMIE KOPCHO: We're here. I'm the educational side. Let's study it. (Laughter) But we need to work together to come up with some good sources and... [LB1084]

SENATOR GROENE: I understand York's problem and your size schools are in a bind, especially (inaudible)... [LB1084]

AMIE KOPCHO: We're in a big bind and... [LB1084]

SENATOR GROENE: ...with the quantity of it. [LB1084]

AMIE KOPCHO: I am, you know, I am in the title business and I deal with a lot of property owners. I mean I deal with property owners every day. Not only that, I'm an agricultural family as well. [LB1084]

SENATOR GROENE: So you don't think a property tax override vote would pass in York? (Laugh) I'm just (inaudible). [LB1084]

AMIE KOPCHO: Well, that's another topic. I'm here for Senator Briese's bill... [LB1084]

SENATOR GROENE: All right. Thank you. [LB1084]

AMIE KOPCHO: ...but we'll...that's another topic. [LB1084]

SENATOR SMITH: Senator Schumacher. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony. Basically, it put a snapshot of your school and your sources of financing. As I understand your testimony, the state TEEOSA aid dropped by about \$2,050,000. In...over what period was that? [LB1084]

AMIE KOPCHO: Well, just since...we're at \$720,000 of a deficit since 2014 and '15, so already. [LB1084]

SENATOR SCHUMACHER: So it dropped 2014...well, let's go back to before the land prices and wealth went crazy and to about 2010 (inaudible). [LB1084]

AMIE KOPCHO: Yep, I closed on the \$16,900. [LB1084]

SENATOR SCHUMACHER: What were you getting back then? [LB1084]

AMIE KOPCHO: We were...I don't have those numbers. I wasn't...yeah, I do not have those numbers but we'd be happy to get those numbers for you. [LB1084]

SENATOR SCHUMACHER: How much property taxes in that period, do you know that, went up? How much that you collected? How much was the York School system collecting in property taxes the 2010 time frame compared to now? [LB1084]

AMIE KOPCHO: Again, I would have to get that number for your directly. I would hate to make a mistake on that exact number. [LB1084]

SENATOR SCHUMACHER: How much did your budget go up each year? [LB1084]

AMIE KOPCHO: It hasn't, I mean unless... [LB1084]

SENATOR SCHUMACHER: You've had a flat budget? [LB1084]

AMIE KOPCHO: Yeah. I mean we have not raised our...we have had a less than 1.3 percent increase. [LB1084]

SENATOR SCHUMACHER: In your total spending. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

AMIE KOPCHO: Uh-huh. [LB1084]

SENATOR SCHUMACHER: Over what period? [LB1084]

AMIE KOPCHO: Since 2014-15...or since 2008 and '09 actually, so we've had...I mean...can't do it. We are responsible and I think that's part of what we're trying to show you as board members is that we are responsible to our...the rules that we have to follow. [LB1084]

SENATOR SCHUMACHER: Well, then how is it, if you're spending has basically been flat, where's all this increased property taxes that people are complaining about going if they aren't going to the schools? [LB1084]

AMIE KOPCHO: Have you looked at our York area and the lands? And that's...we're having to collect that money because we're not getting equalization from the state. [LB1084]

SENATOR SCHUMACHER: So we're talking about \$1 million extra that you had to collect in property taxes? [LB1084]

AMIE KOPCHO: You got to pay for it. We got to get our students through school. [LB1084]

SENATOR SCHUMACHER: Well, I'm just trying to figure out is what we're talking about, York County, \$1 million a year, that's what's being complained about? [LB1084]

AMIE KOPCHO: I don't have the exact number that we're complaining about, but we are needing equalization and we do not have that and we're relying too hard on our farmers and our property owners, and that's why we support Senator Briese's bill, so. [LB1084]

SENATOR SCHUMACHER: Thank you. [LB1084]

AMIE KOPCHO: Thank you. [LB1084]

SENATOR SMITH: Senator Harr. [LB1084]

SENATOR HARR: Thank you. And thanks for coming. So what I'm hearing is, from the school districts, we're responsible, we're not increasing our spending. And yet what I hear from our Governor is we're responsible, we increased our budget I think 1 percent last year. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR FRIESEN: Point seven. [LB1084]

SENATOR HARR: And so where is the problem? Is the problem we're not collecting enough money? Is the problem that our economy stinks? Or what is the problem that...because I don't think we can just raise taxes and I don't think we have a spending problem. So what is the problem? [LB1084]

AMIE KOPCHO: The formula doesn't work for all of our...all of the state. [LB1084]

SENATOR HARR: Doesn't work for you. So, but my question though, that doesn't really answer my question though because the question is, because it's not like state government has been growing or shrinking. We're about the same growth as you are. So what is the problem? What...how do we fix this problem? [LB1084]

AMIE KOPCHO: Again, I would tell you that's why we're here in support of Senator Brieese's LB1084. [LB1084]

SENATOR HARR: So raising taxes is the solution. [LB1084]

AMIE KOPCHO: We've got, you know, we've got to look at other ways. There are services, there are all kinds of things that we need to look at to... [LB1084]

SENATOR HARR: And I'm not... [LB1084]

AMIE KOPCHO: ...and exemptions that we need to...we need to revisit some exemptions. I'm not saying that I agree with everything either but there are things that are options here. That's what we're trying to get the conversation to you with, is that we need to have these conversations. There are options. [LB1084]

SENATOR HARR: Okay. And I'll just tell you this. You can convince us in here, but as important as anything is, is talking to the corner office... [LB1084]

AMIE KOPCHO: I totally agree. [LB1084]

SENATOR HARR: ...and letting our Governor know, hey, your mantra of lowering taxes and no new taxes on the state level is having an effect in our schools. And the policy we've been

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

covering for...been yelling at the state for the last 16-20 years, this is the economy. The chickens have come home to roost. [LB1084]

AMIE KOPCHO: They have. [LB1084]

SENATOR HARR: I think that's the message that should be being talked about up there. [LB1084]

AMIE KOPCHO: I do agree with you there, too. [LB1084]

SENATOR HARR: Thank you. [LB1084]

AMIE KOPCHO: Thank you. [LB1084]

SENATOR SMITH: I see no other questions. Thank you for your testimony. [LB1084]

AMIE KOPCHO: Thank you. [LB1084]

SENATOR SMITH: Next proponent of LB1084. Welcome. [LB1084]

JON HABBEN: (Exhibit 12) Thank you, Chairman Smith, members of the committee. My name is Jon, J-o-n, Habben, H-a-b-b-e-n, director, Nebraska Rural Community Schools Association. There's about...well, exactly, there's 196 districts that are members. So a lot of time when I send out requests for information, like any survey, you're hoping to get some. But I sent out pages 3 through 6, and I asked my legislative executive committees to respond to the Property Tax Limitation Act, the 2.5 percent base or the CPI and the rest of the details. And so what does this look like to you? Is this a major concern? Is this a problem? Is this a disaster? What does this look like to you? And 100 percent of the responses (laugh), I guess this is no surprise, 100 percent of the responses were, gosh, I wish this wasn't in there. Well, so it goes. Everybody worries about future spending, future issues, future problems, the future unknown. And so when you set a limitation in the spending or the property tax asking, essentially you're putting limits on. So how do you deal with this, whatever this unknown future is? But I will tell you I think when Senator Briese talked to the larger Nebraska, Nebraskans United, the point he was making is, you know, this has to go with it. This is something that, as a school district, you may not want to really have to buy into, but this is the kind of thing that has to go with it. And I want to tell you the schools will handle these kinds of limits because there really are attempts to be reasonable. And it's...you don't want them permanent, but you understand that somewhere along the line things are probably going to change. One more point I want to make about taxes going

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

up: If you're in rural and you're not one of the original nonequalized districts, you could have had a zero increase in your budget for several years in a row and your taxes still may have doubled, tripled, or quadrupled. And the answer is very simple: The TEEOSA aid that you got went away. And I think that's one of the most important keys to remember. That's why when we talk about including a 20 percent income tax rebate that restores something that was an original compromise for rural losing its original foundation aid, it's important. It's a very, very important deal. Thank you. [LB1084]

SENATOR FRIESEN: Thank you, Mr. Habben. [LB1084]

JON HABBEN: Yes. [LB1084]

SENATOR FRIESEN: Any questions from the committee? Seeing none, thank you for your testimony. [LB1084]

JON HABBEN: Thank you. [LB1084]

ANN HUNTER-PIRTLE: (Exhibit 13) Good afternoon, members of the committee. My name is Ann Hunter-Pirtle, A-n-n H-u-n-t-e-r-hyphen-P-i-r-t-l-e. I'm the executive director of Stand For Schools, a nonprofit dedicated to advancing public education in Nebraska. We want to thank Senator Briese for introducing this bill, as well as the extensive coalition of agriculture and education groups that worked to put it together, known as Nebraskans United. Stand For Schools supports LB1084, while imperfect, because we recognize the importance of both property tax reform and strong public education to our state's economy and future. For too long Nebraska has over relied on property taxpayers to fund critical programs and services, including our public schools. Our state has consistently ranked 49th in the nation for state-level investment in K-12 education, leaving local property taxpayers to make up the difference. It's time for the Legislature to step up and pay its fair share, and we appreciate that LB1084 fully restores funding to TEEOSA, something the state has only done three times in the last 16 years. Committee members know all too well that the state is facing a \$200 million budget shortfall. Other property tax relief proposals on the table this session mandate deep and lasting cuts to education and other services. Cuts are not a plan for Nebraska's future. Only LB1084 offers property tax relief while identifying new sources of revenue to protect and adequately fund our schools. LB1084 would generate much needed revenue through a number of means, including expanding our state's sales tax base and closing loopholes. As a result, this bill will not only direct hundreds of millions of dollars into the Property Tax Credit Fund but also restore all cuts to TEEOSA. We especially appreciate that the bill calls for a long overdue school finance study by the Department of Education--a necessary step toward understanding how we can equitably and sustainably provide the world-class education our children need and deserve. Relying

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

heavily on property taxes to fund education exacerbates income inequality between school districts and puts lower income students at a disadvantage. Finding a long-term solution that's sufficient to provide a quality education to every child, fair to taxpayers, equitable to students, and sustainable for the state is a difficult but necessary challenge. Our support does not come without reservations. We have concerns about the 2.5 percent property tax asking cap, which would be a hardship for many school districts. And in addition, while we appreciate full funding restored for TEEOSA, there are further investments outside the formula that the state should be making in education. Early childhood education, career education, mental and behavioral health, school nutrition, and special education are all areas where we need to do more. But LB1084 is by far the best option on the table this session to reduce property taxes while maintaining quality of life in Nebraska. The bill reaffirms our state's commitment to both our children and our agricultural producers and, by extension, our state's future. For these reasons, we support the bill and urge you to advance it to General File. Happy to take questions. [LB1084]

SENATOR SMITH: Thank you for your testimony. Questions from the committee? I see none. [LB1084]

ANN HUNTER-PIRTLE: Thank you. [LB1084]

SENATOR SMITH: Thank you. Next proponent of LB1084. Welcome. [LB1084]

AL DAVIS: (Exhibits 14 and 15) Good afternoon, Senator Smith and members of the Revenue Committee. I am Al Davis, A-l D-a-v-i-s, here today to represent the Independent Cattlemen of Nebraska. I want to thank Senator Briese for introducing LB1084. ICON's membership base resides in the Sandhills and the Panhandle of Nebraska. The economy of that area is tied to production agriculture and when the farm economy is down so is the economy of the cities, towns, and villages. Farming and ranching is a commodity business with little control over the prices received. What happens in Brazil affects the price of soybeans, cattle, and corn. Agriculture requires massive investment, and farmers and ranchers must be extremely cost conscious. Yet one of the largest expenditures a Nebraska producer encounters is one over which he has no control--his property tax bill. The handout I am passing out was derived from data compiled by the University of Nebraska's MarketWatch and published on their Facebook page on August 14, 2017. It is based on information published by USDA. It shows that the average Nebraska farm or ranch pays the top rate in the country at \$22,934, a whopping \$9,635 more in property taxes than second place California, and almost \$20,000 more than farmers in our neighboring state of Missouri. I am also providing documents from a landowner with land in Sedgwick County, Colorado, and Deuel County, Nebraska, to demonstrate the impact of property taxes on his operation, which is only a few miles apart. Grazing land in Colorado pays 50 cents per acre versus \$4.17 in Nebraska. Stocking rates are similar on both parcels with 20 acres

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

required to raise one calf. In other words, the Nebraska grazer takes home \$73 less on each animal sold due solely to property taxes. The committee has heard multiple testimony through the years about the benefits of reduced income and sales taxes, the need for additional development funds, the expansion of the turnback tax and TIF, and the need for tax credits and give-backs. Almost all of those seeking these changes argue that they are needed to make Nebraska competitive with other states, yet the state continues to ignore its leading tax problem--property taxes--as identified by the Tax Modernization Study of 2013. If we want Nebraska to grow, we must be competitive. Why would any capital-intensive, innovative, agricultural enterprise invest in ag in Nebraska when it can go 60 miles east of here and pay one half the rates they'd pay in Nebraska? And so we come to LB1084. The bill is the result of hours and hours of discussion, research, debate, and study. It is the result of a coalition of ag and education leaders who put aside any past differences to address the problem of education funding, which is the primary driver of Nebraska's high property taxes. Nebraska excludes 175 districts from the TEEOSA formula through a definition of wealth which excludes disposable income as an indicator of the ability to pay. Nebraska ranks 49th of 50 states in terms of support for public education, yet Nebraska continues to shove mandates down on local schools. ICON is proud to support Senator Briese and the coalition on the bill. The problem is urgent. We must remain competitive with other states and with the world. To accomplish that, we must have property tax reform. This requires a tax shift. It requires guts, it requires working across the aisles, and it requires vision. Thank you. [LB1084]

SENATOR SMITH: Thank you, Mr. Davis, for your testimony. Questions from the committee? Senator Harr. [LB1084]

SENATOR HARR: Thank you. Thanks for coming, Senator Davis. I appreciate it. It's good to have you back here... [LB1084]

AL DAVIS: Thank you. [LB1084]

SENATOR HARR: ...and in this committee. Do you know what the sales tax is in Sedgwick County, county sales tax? [LB1084]

AL DAVIS: I am not familiar with the sales tax rates of Colorado. I think they're higher than they are in Nebraska. [LB1084]

SENATOR HARR: Yeah. And that's what I'm getting at, which kind of feeds into you. But what your statement, they allow in Sedgwick County, because I got my little Google device, is 2 percent. Right? And we don't allow our counties to collect any sales tax. In addition, Julesburg

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

has a tax, an additional tax rate of 1 percent. So I think that feeds into what you're saying. [LB1084]

AL DAVIS: Actually, our counties can levy a tax but it has to be voted on. [LB1084]

SENATOR HARR: For a very limited purpose. [LB1084]

AL DAVIS: Very limited purposes, yes. [LB1084]

SENATOR HARR: Very limited, yeah. [LB1084]

AL DAVIS: But you know if we're going to be competitive in agriculture, we really need to be comparable to other states. We're just such an outlier, I think it's extremely difficult for people to continue in the business. [LB1084]

SENATOR HARR: Would you advocate allowing tax...counties to tax more broadly on sales tax? [LB1084]

AL DAVIS: Yes. [LB1084]

SENATOR HARR: Thank you. [LB1084]

AL DAVIS: Counties are not really the problem. It's school districts that are the big problem. And you know I'm getting off topic a little bit but I think it's disingenuous to blame so much spending on school districts. I think if you really look at the data you'll find school districts are pretty conservative in how they manage money. [LB1084]

SENATOR HARR: Thank you. [LB1084]

AL DAVIS: Thank you. [LB1084]

SENATOR SMITH: Other questions? I see none. Thank you... [LB1084]

AL DAVIS: Thank you. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: ...for your testimony. Next proponent, and then we're going to swap back over to opponents. Welcome. [LB1084]

BOONE HUFFMAN: (Exhibit 16) Thank you, Chairman and members of the Revenue Committee. My name is Boone Huffman, B-o-o-n-e H-u-f-f-m-a-n. I'm a Chadron School Board member and the chair of our legislative committee. Today I just come to present a personal story. My background: We ranch in Dawes County, also have ranches in McPherson County. Both those are, you know, western counties. These ranches were established in the 1800s and my kids are now the sixth generation of those ranches. As a school board member, we're faced with the rising costs in a situation with property taxes. They're sucking the life out of rural Nebraska right now. Our rural population are suffering due to the excessive property taxes. I'm here to present that real-life story and represent the rural families of western Nebraska. I'm not a paid lobbyist, like many have been up here before. I'm representing this about my life and the ones like me that live it each and every day. To make my message clear, I want to give a real-world example. Our operation now runs on what at one time only one or two generations ago was home to 13 different families. Those families at that time had 39 kids that once called Dawes County home. Today those homesteads are mainly empty or elderly parents that are now left waiting on what to do with those places. My wife and I, we did our best. We had five kids to try to repopulate the area, but we decided it just wasn't going to happen so we stopped there. Property taxes really are the main issue standing in the way of our youth returning to the family farm, and looking at my kids right now it really spooks me that they may not have the same opportunity that has happened before me. As taxpayers, we're obviously obligated. As a school board member, I am all on board helping fund our schools. I just don't think that 2 to 3 percent of the population should be left to do that. Our Constitution of Nebraska makes it clear that it's the state's obligation to pay for the bulk of public education. In the past, legislative bodies have done an inadequate job of doing that as TEEOSA has been under fire with these rising land values over the last five to ten years that were not expected in that formula. Another real-world example is my in-laws in Thomas County. They ranch up there and it now takes them 70 steers to pay the same taxes that it used to take them 20 steers to pay for just years ago. Their ranch cannot support any more cattle. And, yes, there is wealth in that place, but these places are ones that we love. These are places that we've been there since the beginning that the west was settled. And when only 1 percent of these lands trade over, yeah, there may be wealth on the balance sheet but I'm never selling my place. This is my home. This is where my family has been and this is where we're going to continue to do that. So in closing, though LB1084 may not be the perfect solution, I'm not saying it is by any means, but I think it's a start to address the real issue that is killing western Nebraska and the families. If you look at some of our small communities, one quick example, McPherson County has 50 kids in the entire county K through 12, homegrown. That place is going to die. That's where I grew up. I was in a one-room country schools all across that and we had 10-12 kids in each of these schools. Now they can't even...they can't even hardly make a football team in six-man football. So to close it up, we're all in this together. The costs

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

associated with funding our schools should be on a level playing field. I just feel that it's been...needs to be revisited. That 1990 TEEOSA formula does not calculate in the valuations today. Thank you. [LB1084]

SENATOR SMITH: Senator Harr. [LB1084]

SENATOR HARR: Thank you. And thanks for coming down here. I'm always amazed at Chadron. How many times have you been here this year? [LB1084]

BOONE HUFFMAN: I believe two. [LB1084]

SENATOR HARR: Two. Right. And how long a drive is it? [LB1084]

BOONE HUFFMAN: Seven hours. [LB1084]

SENATOR HARR: Seven hours. Chadron does a great job of showing up down here, so thanks for coming. I really appreciate it. [LB1084]

BOONE HUFFMAN: Yeah. [LB1084]

SENATOR SMITH: All right. Very good. Thank you for your testimony. [LB1084]

BOONE HUFFMAN: Okay. [LB1084]

SENATOR SMITH: We're now going to go back over to opponents and we're going to take a few opponents. Welcome. And we may want to just clear out some of the front row so that folks can come forward and be kind of lined up so they're not fighting over that chair. Welcome. [LB1084]

BRIANA CUDLY: (Exhibits 17, 18, and 19) Hello. My name is Briana Cudly, B-r-i-a-n-a C-u-d-l-y. I am the government relations chair for the American Massage Therapy Association of Nebraska and I'm here today to ask you to remove massage and spa services from LB1084. In Nebraska, massage therapy is not a personal service, rather a valued healthcare profession. In 1987 Nebraska increased massage therapy educational standards to move the profession from masseuse and masseur to that of a massage therapist, and this was partly in response to the demands of other healthcare professions for the use of the term "therapist." The value of massage therapy in Nebraska is supported by the healthcare community, as evidenced by the letters submitted by hospitals, doctors, PTs, and more during legislative hearings in 2017, and she's

handing out a list of those. If you want to actually see the letters you can call Kent. Also, many HSA, Flex, workmen comp, personal injury, and health insurance companies cover massage therapy here in Nebraska. Another indication of Nebraska's regard of massage therapy as healthcare is Nebraska Attorney General Peterson's signing of a letter to the America's Health Insurance Plans specifically naming massage as a nonpharmaceutical pain management option to help combat the opioid epidemic. Research shows massage therapy can provide significant improvement for pain, anxiety, and health-related quality of life for those looking to manage their pain. State Statute 38-1706 defines massage therapy as physical, mechanical, or electrical manipulation of soft tissue for the therapeutic purposes of enhancing muscle relaxation, reducing stress, improving circulation, or instilling a greater sense of well-being, and may include the use of oil, salt glow, heat lamps, and hydrotherapy. Because it's within our scope of practice, spa services and massage therapy have an overlap, just as massage therapy and physical therapy do. Because of the term, "spa services" are often viewed as merely special, fancy, and luxurious things people get to pamper themselves. While people do feel pampered, there is therapeutic value in these services. In example, I many times use hot stone during a massage treatment. The stones provide moist, penetrating heat, increasing circulation, softening tissue, decreasing resistance, increasing range of motion, and allowing me to give a deeper massage, improving treatment results. Other examples of spa services are paraffin wax dips, a therapeutic treatment for arthritic joints, and contrasting foot baths, which improves circulation and improve recovery time after sprains and strains. I could go on and on but I won't. Instead, I'll conclude by asking you to strike massage and spa services from this bill. In Nebraska, we do not tax healthcare services and, as you can see, in Nebraska massage therapy is an important healthcare profession providing a plethora of treatment options. Taxing a health service to alleviate property taxes is not only bad policy but contradicts Nebraska healthcare policies. And thank you for your time and I'm happy to answer any questions. [LB1084]

SENATOR SMITH: Thank you, Ms. Cudly. Senator Groene. [LB1084]

SENATOR GROENE: Do some insurance companies cover massage? [LB1084]

BRIANA CUDLY: Yes. [LB1084]

SENATOR GROENE: They do. [LB1084]

BRIANA CUDLY: Uh-huh. [LB1084]

SENATOR GROENE: So you are...you consider you medical. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

BRIANA CUDLY: Yes. [LB1084]

SENATOR GROENE: Have you raised your rates lately? [LB1084]

BRIANA CUDLY: Lately? No, I have not. I haven't for over five years. [LB1084]

SENATOR GROENE: All right. So with a 7 percent price increase all of a sudden could affect your ability... [LB1084]

BRIANA CUDLY: Absolutely. [LB1084]

SENATOR GROENE: ...to raise your rates in the future to cover your costs. [LB1084]

BRIANA CUDLY: Right. I would have to raise my rates in order to cover the increase but our... [LB1084]

SENATOR GROENE: You wouldn't be able... [LB1084]

BRIANA CUDLY: ...bigger priority is that we are included in personal services as opposed to healthcare services and so that distinction is pretty important because we do not tax healthcare here. [LB1084]

SENATOR GROENE: So you don't know if health insurance companies would, or Medicaid or Medicare would cover... [LB1084]

BRIANA CUDLY: Correct. [LB1084]

SENATOR GROENE: ...sales tax? [LB1084]

BRIANA CUDLY: Correct. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: Senator Schumacher. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony. Just a quick kind of follow-up, wouldn't fixing a hole in your roof so you could stay warm and dry be healthcare too? [LB1084]

BRIANA CUDLY: I do not believe so. You're not actually improving somebody's health directly with that. [LB1084]

SENATOR SCHUMACHER: But you certainly are keeping them warm and dry, which would make them healthier, and we're going to tax that. Where do we start drawing the line because we can slice and dice any of the things in Senator Briese's list and end up with not much of a list left and...? [LB1084]

BRIANA CUDLY: I'd like to point out that Senator Briese did just say that healthcare, not...he is not talking about healthcare for taxation in this bill. [LB1084]

SENATOR SCHUMACHER: Right. But he added you into the bill, as he did fixing the hole in the roof to keep somebody warm and dry. [LB1084]

BRIANA CUDLY: Correct. And what I'm saying is, is that we are considered a healthcare profession here. We are called massage therapists. We're not roofing therapists. We're massage therapists. [LB1084]

SENATOR SCHUMACHER: Thank you. [LB1084]

SENATOR SMITH: Senator Brasch. [LB1084]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you for coming to testify today. An earlier testifier had said this and it resonates with me. This is your income, correct? [LB1084]

BRIANA CUDLY: Correct. [LB1084]

SENATOR BRASCH: And do you pay income tax? [LB1084]

BRIANA CUDLY: Yes. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR BRASCH: So what we'd be asking is to have you pay your income tax plus to charge a sales tax on top of it, so we would be increasing, I guess, the burden for your clients and also look at your bottom line, the number of people that would continue services. [LB1084]

BRIANA CUDLY: Correct. The cost would be passed on to our clients. Again, what I'm stressing here is that massage therapy is healthcare. There is no other healthcare profession listed in this entire list of, you know, however many pages of other professions. We just want to ensure that we are categorized correctly as healthcare because if we are put into the personal service, insurance companies, workmen comp, doctors, hospitals will have a harder time employing us. It, you know, we need to be considered healthcare. [LB1084]

SENATOR BRASCH: And I'm not disputing you're healthcare. [LB1084]

BRIANA CUDLY: Uh-huh. [LB1084]

SENATOR BRASCH: So is it you cannot tax me on my service but maybe somebody else's service is okay, or do you see... [LB1084]

BRIANA CUDLY: I'm here representing the American Massage... [LB1084]

SENATOR BRASCH: Okay. [LB1084]

BRIANA CUDLY: ...Therapy Association so I am here bringing forward our point of view. [LB1084]

SENATOR BRASCH: Just yours. [LB1084]

BRIANA CUDLY: Uh-huh. [LB1084]

SENATOR BRASCH: So it's okay to charge other services. [LB1084]

BRIANA CUDLY: That's not for me to say. [LB1084]

SENATOR BRASCH: Okay. I have no other questions. Thank you. [LB1084]

SENATOR SMITH: Senator Groene. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR GROENE: About 20 years ago is the first time I went to one. You're healthcare in my book. [LB1084]

BRIANA CUDLY: Thank you. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: All right. Very good. Thank you for your testimony today. Next opponent of LB1084. Welcome. [LB1084]

NICOLE FOX: Good afternoon, Chairman Smith. [LB1084]

SENATOR SMITH: You made it to the chair that time. [LB1084]

NICOLE FOX: Yep. All right. Nicole Fox, N-i-c-o-l-e F-o-x, director of government relations for the Platte Institute and I'm here today to testify in opposition of LB1084 as written. While the Platte Institute supports property tax relief and an expansion of the sales tax based to sales which are not business inputs, we do not believe it is wise to fund property tax relief by increasing other tax rates and particularly without the proper safeguards to assure lasting reforms. The increase in the cigarette tax, the income surtax, and the increase in the sales tax rate are all detrimental to our state's revenue projections and economic growth. In recent years, 91 percent of cigarette excise tax increases across 32 states have missed their revenue projections, some by as much as 180 percent. Many national organizations also agree with this. Even the National Conference of State Legislatures specifically states cigarette taxes are not a stable source of revenue. Depending on this revenue source to pay for local property taxes will likely result in the state coming up short. The Platte Institute has been here before, twice already this year, to talk about the millionaire's tax and according...once again, according to the Tax Foundation, a millionaire's tax is poor policy because it is a narrow, high-rate tax on a highly mobile group of people who earn less in bad economic times. Enacting such a tax makes state tax revenue more volatile and unpredictable. In addition, an income surtax will put additional pressure on small businesses in Nebraska that file through the individual income tax. The elimination of sales tax exemptions is something the Platte Institute supports. Today we have an increased service-based economy and the sales tax base needs to be updated to account for this change. This principle of including services in the sales tax base is agreed to across the philosophical spectrum among tax policy experts. Where the disagreement begins is when deciding on what to do with the new tax revenues. This bill directs the new revenues towards the Property Tax Credit Relief Fund in K through 12 education. While that choice will subsidize local property tax bills at their current levels, we are concerned that LB1084 does not have a strong enough mechanism to assure that local property tax entities will reduce levy rates in response to receiving these new revenues.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

Education is very important and LB1084 acknowledges that by asking for a study on the Department of Education's spending. We support a study that has the potential to show where Nebraska's school system can be more efficient in providing a quality education for all students. We leave it to the tax...the state taxpayers to decide whether more or less of a state budget should be spent on K through 12 education. While Nebraskans already fund education generously across our state, there are some states that spend much more and many states that spend much less. But state's aid alone can't solve the problem of high property taxes without a strict guarantee that school boards will reduce property tax rates or their reliance on property taxes. LB1084 does not give taxpayers that guarantee, and without this guarantee new aid may only accelerate local spending. Overall, we see LB1084 as a bill with good intent, which is to keep our education system whole while trying to reduce the property tax burden at the local level, and we thank Senator Briese for the opportunity for this discussion. Unfortunately, the offset by increasing excise, income, and sales tax rates is not the answer if our goal is to do so while improving Nebraska's economic growth and revenue stability. Thank you, and I'm happy to answer any questions. [LB1084]

SENATOR SMITH: Thank you, Ms. Fox. Questions from the committee? I see none. [LB1084]

NICOLE FOX: All right. [LB1084]

SENATOR SMITH: Thank you. Next opponent of LB1084, opponent. [LB1084]

BARBARA BETTIN: Good afternoon. [LB1084]

SENATOR SMITH: Welcome. [LB1084]

BARBARA BETTIN: (Exhibit 20) My name is Barb Bettin, B-a-r-b B-e-t-t-i-n. Chairman Smith and members of the Revenue Committee, thank you. I'm the president and CEO of the Lincoln YMCA but I'm here today on behalf of the YMCAs of Nebraska. We are opposed to the language in LB1084 on page 46 that repeals an exemption for sales tax on certain fees and admissions at YMCAs and other nonprofits. We've met with Senator Briese and we thank him for his support of YMCAs and his willingness to work with us to take out this language that would repeal this exemption. YMCAs have been serving Nebraska for 145 years and today serves over almost 260,000 members. This action is a dramatic departure from a specific exemption determination letter in 1988 to YMCAs from the Nebraska Department of Revenue and is really inconsistent with the longstanding treatment of nonprofit 501(c)(3) organizations. No state currently imposes an amusement and/or recreation sales tax on the YMCA because of our charitable status and the community impact of our programs and services. The Y is volunteer-led, nonprofit organization, a community asset not owned by an individual or

corporation. The Y exists to strengthen communities and, in doing so, relieves the burden of government through charitable activities, services, and programs. The return on investment comes from leveraging privately raised and earned dollars and the efforts of nearly 16,000 volunteers in Nebraska to provide programs and services to support children, families, and seniors, and adults, A sales tax would diminish the ability to provide Y programs to the underserved, low-income children, adults and families that need the Y the most. In fact, the Nebraska Ys collectively contribute over \$4 million annually in scholarships and financial assistance, which would be directly impacted by this bill should this bill pass with this language. The Y reaches 130...almost 132,000 children, over 50 percent of who we serve. In Lincoln it's 87 percent of who we serve, and is the leading provider of preschool, childcare, and after-school programs in the state, which help improve academic outcomes, graduation rates, and supports hard-working families to continue working through our after-school programs. The Y is the largest sponsor of affordable youth sports, not the club programs that often become not available to kids because of the dollars involved with that. Ours, we really pride ourselves in keeping it affordable for all. And they are all really about youth development. They also...we also offer many opportunities and classes to foster family togetherness. One other thing, the Y is also a leader in providing evidence-based programs, endorsed by the CDC, that improve the health of Nebraskans while reducing high costs of chronic disease to the state. Some of these programs are Enhance Fitness to deliver programs to people that have arthritis, diabetes, cancer survivors, Parkinson's, and all of these are very well attended in all the Ys across the state. The Y also collaborates with a lot of other youth-serving organizations and other nonprofits, foster care, Boys and Girls Club, and so on. We can ill-afford to create additional financial barriers to our children and families becoming more physically active, especially at this time when obesity and chronic disease are on the rise in our state. And low-income families statistically are in the greatest need to be engaged in health and well-being activities. On behalf of the 14 Ys throughout the state, we respectfully ask you to retain the sales tax exemption for nonprofit organizations that has been eliminated in the current language of LB1084. We invite you to come by, see our work firsthand at the Ys. And I look forward to visiting with you more in the future. [LB1084]

SENATOR SMITH: Thank you, Ms. Bettin. [LB1084]

BARBARA BETTIN: Thank you. [LB1084]

SENATOR SMITH: Questions from the committee? I see none. [LB1084]

BARBARA BETTIN: Thank you. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: Thank you for your testimony. Next opponent of LB1084. Welcome.
[LB1084]

HERB FREEMAN: Thank you, Chairperson Smith and committee members. My name is Herb Freeman, H-e-r-b F-r-e-e-m-a-n. I'm the 2018 president of the Nebraska Realtors Association. I may refer to us later in this, in my remarks, as the NRA but it's not that NRA. (Laughter) Thank you for the opportunity to appear before you today on behalf of the Nebraska Realtors Association to defend Nebraska's single-family homeowners. The NRA opposes the application of local and state sales taxes on rent or real estate services in general and other professional services, including but not limited to real estate brokerage commissions, title searches, appraisals, home inspections, property management services, and other services related to the real estate transaction. The NRA finds the impact of such taxation places an undue burden on homeowners and other consumers of real estate services. The proposed taxation falls disproportionately only on the sale of single-family homes and is, therefore, inherently discriminatory as to other property types. And, Senators, we would submit to you that single-family homeowners are not a special interest group. Conspicuous by its absence is sales tax on real estate services provided to other property types, including multifamily, commercial, industrial, office, retail, and agricultural property. Clearly, the bill is not equitable in its selective taxation of real estate services provided only as to single-family housing, to the exclusion of every other property type. In addition to this essential unfairness, the bill is ultimately detrimental to the state and local economies because it erodes the value of what is typically the Nebraska family's greatest asset and that's the equity in the family home. For example, I'm from Omaha. In my area the average price is \$214,000. The combined state and local sales tax, and we agree with your 7 percent number, the local tax would certainly be added, on the commission to sell that average-price home is \$1,050 of that family's home equity. Well, this is a very significant reduction in the equity coming out of the home sale and will reduce the family's wealth and its ability to purchase their next home or to use their net proceeds for any other intended use, such as debt reduction, investment, or retirement. It will hurt local economies and may even have an adverse effect on home prices. Now although portrayed as a property tax reduction bill, LB1084 is actually a tax increase bill. The fiscal note, page 3, notes that, "fluctuations occurring in 244 school districts make it virtually impossible to estimate any change in property tax impacts." So any tax...any property tax relief from the bill is, at best, uncertain and, at worst, even nonexistent. Yet the impact on the 15,000 families in the Omaha area selling their home annually is certain and very easily determined. It's that \$1,050. [LB1084]

SENATOR SMITH: Mr. Freeman, we'll have to bring it to a close. [LB1084]

HERB FREEMAN: Oh, I'm sorry. I didn't see the light. Well, in summary, we have another grave concern. Please indulge me. This sales tax on real estate services for single-family homes comes right between the tax on slaughter and tanning. (Laughter) We're the beef state and we know that

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

between the slaughter and the tanning comes the gutting. We ask you not to gut homeowners' equity. Thank you. [LB1084]

SENATOR SMITH: Thank you. Mr. Freeman, let's see if we may have... [LB1084]

HERB FREEMAN: Oh, questions, I hope so. [LB1084]

SENATOR SMITH: ...we may have a question for you. I don't know about that closing. Any questions (inaudible)? [LB1084]

HERB FREEMAN: The closing was fabulous. (Laughter) [LB1084]

SENATOR SMITH: No one wants to touch it. Thank you. [LB1084]

HERB FREEMAN: All right. Thank you. (Laughter) [LB1084]

SENATOR SMITH: All right. And we'll take one more opponent before we move back to proponents. Welcome. [LB1084]

LOY TODD: Thank you, Senator Smith, members of the committee. My name is Loy Todd, that's L-o-y T-o-d-d. I'm the president of the Nebraska New Car and Truck Dealers Association, testifying in opposition to this bill. One of the...it's obviously not a surprise that we would be here since this removes the trade-in allowance on a motor vehicle. And one of the real risks you have when you have this job is not showing up for something like this, so we're obligated to be here. I can't tell you that when you're looking around for something else to tax in order to relieve another tax, we would hope that you wouldn't look to one that is the fourth to seventh highest in the nation already. Our taxes on motor vehicles are significant in this state and we've done survey after survey and they're a difficult thing to study because there's such a difference in motor vehicles. But every time we've looked at it, it's between fourth and seventh. We've also looked at the practice of other states to tax or not tax a trade-in allowance or give one. The only state that doesn't allow a trade-in allowance is California. There are some states where they went...it might show up on a list but they've got peculiar taxes. They might not have a sales tax. They might have a cap of \$300 on the sales tax on motor vehicles. But as far as states that do tax a trade-in allowance, it would be California standing alone. And we don't want to move to the second in the nation and that's where we'd go. It affects the buying decision. The purchase of a vehicle, significant as it is economically to a person, it will change buying habits and it will reduce sales. We don't know how much but it will be significant. And so for that reason we...when you think about the purchase of a motor vehicle, it's taxed at 100 percent when it's sold the first time, and

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

that's payable within 30 days of that purchase. And then with the other taxes it will run about 11 to 14 percent of the purchase price of that vehicle. A person owns it for several years, decides to trade it, then they trade that in. And that's a purchase in inventory by the dealer. We don't tax inputs normally or those other acquisitions. But so if we pass this bill, that will be taxed again. And then when that dealer improves that vehicle, cleans it up, fixes it up, does whatever and sales it again, it's taxed again. We don't need to add one more layer of tax on that same purchase. We'd urge you to remove this, if this bill moves forward. Take any questions you might have. [LB1084]

SENATOR SMITH: Thank you, Mr. Todd. Senator Groene. [LB1084]

SENATOR GROENE: Did you say we're the seventh highest tax now on a vehicle? [LB1084]

LOY TODD: Fourth to seventh, depending on the vehicle that you're... [LB1084]

SENATOR GROENE: So whenever an individual goes down to the courthouse, bought a brand new vehicle for \$40,000, their tax is 11 to 14 percent of that? [LB1084]

LOY TODD: Correct, when you add up all the other things. I mean we have cities with wheel taxes. We have...you take a look at the laundry list when you register a motor vehicle, rural road taxes, judges retirement, 911, you name it, it's all there. [LB1084]

SENATOR GROENE: Do we, Nebraska, how do we rate on leases? I mean because of that high tax, a lot of individuals lease, don't they, so they can get into a new vehicle without having to go to the courthouse and pay the sales tax and... [LB1084]

LOY TODD: Well, the rate is the same, Senator. What happens is you're only paying on the incremental payments,... [LB1084]

SENATOR GROENE: Yeah. [LB1084]

LOY TODD: ...the lease payments. However, that's higher because you're paying tax on the interest also, and people don't think about that in the overall picture. [LB1084]

SENATOR GROENE: Right. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

LOY TODD: But...so you're actually...you're paying the same rate but you're paying a higher tax on (inaudible). [LB1084]

SENATOR GROENE: Yes, but if you're living paycheck to paycheck, you don't have \$4,000 at the courthouse but you can pay \$300-\$400 a month for a lease. [LB1084]

LOY TODD: Correct, and that is an option. It's actually an option. When you go to the courthouse on a leased vehicle, you can choose to pay the entire tax or to pay it on the lease payment. [LB1084]

SENATOR GROENE: That's the property tax...or sales tax, right? The lease company pays the property tax, don't they? [LB1084]

LOY TODD: No. Well,... [LB1084]

SENATOR GROENE: Oh. [LB1084]

LOY TODD: No, the lessee pays for everything. [LB1084]

SENATOR GROENE: Oh, they do. [LB1084]

LOY TODD: Now you could enter into some other kind of hybrid lease or something to that extent. [LB1084]

SENATOR GROENE: So would you consider it as double taxation, because them individuals paying for the full new one but then when you turn around the next day and sell the used one, that person also pays the sales tax? [LB1084]

LOY TODD: I think we're approaching on triple taxation, Senator. I would consider it double. [LB1084]

SENATOR GROENE: All right. Thank you. [LB1084]

SENATOR SMITH: I see no further questions. Thank you, Mr. Todd. [LB1084]

LOY TODD: Thank you. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: And now we go back to proponents, proponents of LB1084, those testifying in support. Welcome. [LB1084]

CAROLINE WINCHESTER: Good afternoon. I'm Dr. Caroline Winchester, C-a-r-o-l-i-n-e W-i-n-c-h-e-s-t-e-r. I'm the superintendent at Chadron Public Schools. I would certainly like to thank the committee for the opportunity to testify in support of LB1084. This bill is the work of a strong coalition of organizations in both educational and agricultural communities who are proposing a thoughtful solution to the unbalanced property tax issue while preserving quality K-12 education. On September 23, 2013, myself and board members and community members from Chadron testified at the Tax Modernization Committee hearing in Scottsbluff, and my testimony is pretty much the same now as it was then. We need a more equitable distribution of tax responsibility utilizing property, sales, and income tax, and in order to have real sustainable property tax relief, another source of dollars will be needed. LB1084 addresses these needs. First, it increases the state commitment to schools by providing ways to restore lost funding to the TEEOSA formula. LB1084 restores the allocated income tax to 20 percent. It helps restore losses in sales tax revenue due to exemptions, eliminating loopholes and tax breaks for special interest groups. Restoring cuts to TEEOSA from LB409 will help restore funding for Chadron Public Schools, which is an equalized district and up against the levy limit. Most importantly, I think LB1084 will significantly reduce property taxes immediately. It is paid for by an affordable method. And as stated in 2...excuse me. LB1084 also recognizes I think, and very importantly, the need to rethink our school funding system in the long term. Our schools, communities, and teaching strategies have changed significantly since 1990. It's time to provide a long-term, systemic solution for funding for public schools instead of short-term BAND-AIDS. I would encourage you to be bold for the future of Nebraska by providing equitable education opportunities across the state. LB1084 protects...excuse me, to examine the three-leg...excuse me. I encourage you to be bold, examine the issue of a balanced three-legged stool composed of property, sales, and income tax, and consider the recommendations from the Tax Modernization Committee. Send LB1084 to the floor for general debate. Thank you so much for this opportunity... [LB1084]

SENATOR SMITH: Thank you, Doctor. [LB1084]

CAROLINE WINCHESTER: ...and for listening. [LB1084]

SENATOR SMITH: Thank you, Dr. Winchester. Questions from the committee? I see none. Thank you for your testimony. Next proponent. Welcome. [LB1084]

KYLE MCGOWAN: Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Kyle McGowan, K-y-l-e M-c-G-o-w-a-n, and I'm here representing the Nebraska

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

Council of School Administrators. The NCSA supports LB1084. And trying not to repeat testimony, one of the primary pieces is the immediate tax relief. We have concerns with other plans that take 10 or 12 years when we think that property tax relief is needed right away. At the risk of raising the ire of Senator Groene, I think we do need a comprehensive review of how we distribute state aid funds. Lastly, I think it's important to recognize the wide variety of groups that were involved in this compromise, in this cooperation. To be in the room with pork producers, corn growers, cattlemen, dairy was very educational for me, especially as my background as a school superintendent, to have large schools, small schools, middle schools. NSEA, the Nebraska Council of School Administrators, you know, the 16 months that we put in to develop a plan that is admittedly not perfect but seems to be better than anything that we've seen thus far and is willing to be worked on is important. I think just by looking at the names of the senators that have signed on is a pretty eclectic group, that I normally don't see on the same page, says a lot about the proposal, the bill. So with that, I'll end my testimony. [LB1084]

SENATOR SMITH: Thank you, Mr. McGowan. Senator Groene. [LB1084]

SENATOR GROENE: I won't raise my ire today. (Laughter) I did that yesterday. I only do that once a week. But anyway, my problem with your study is the state board...I mean the Department of Education. This body has a responsibility to fund our schools. To give another elected body, the State School Board, to decide policy for us through a study I don't agree with. That's my biggest concern with that study. If we're going to do it, we're going to do it. We have the Revenue Department. We could use Department of Education. I'm not quite ready to let some other elected body...any school board could come in and Mike Lucas from York has done it many times, how he could fix it. I'm just not ready to do that because then we got an expert 50 miles away telling us what to do. [LB1084]

KYLE MCGOWAN: Right. And I'm not so sure that I would disagree with you. I think that Senator Briese and this group, whether it's Education or Revenue, could come up with a group that would be--I don't know if it's appropriate to say here--as nonpolitical as possible just to say what's best for the good life all across Nebraska, just not in certain sections. And I think that when you have a situation that you have most of the students being served east of Crete but you have a lot of land west of Crete and you want to serve the whole state makes it a complicated issue. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: I see no further questions. Thank you, Mr. McGowan. Next proponent of LB1084. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

ROB WINTER: (Exhibit 21) Good afternoon, Senator Smith, members of the Revenue Committee. My name is Rob Winter, R-o-b W-i-n-t-e-r, and I'm here representing the Greater Nebraska Schools Association. And if you will indulge me for just a second I will tell you that I am the father of three grown children. And as my kids grew up I needed to impart wisdom with them. And as kids typically are, I needed to impart that wisdom several times in a row. And so they would remind me that I was being terribly redundant. And so in the sake of time today I will try my best not to be redundant. The Greater Nebraska Schools Association is comprised of 24 of Nebraska's largest school districts educating over 207,000 students daily. Our mission, to ensure excellence in education through equitable funding for all Nebraska public schools. And it's with that mission that we come in support of LB1084. We understand there has been considerable discussion surrounding the state's reliance on both residential and agriculture property to fund schools. GNSA understands how important it is to find a solution to the property tax concerns, but we would offer that it cannot be done at the expense of diminished state services, such as healthcare or a failure to adequately and equitably fund our public schools. LB1084 represents a thoughtful and thorough means to accomplish two goals of property tax reduction and adequate public school funding. By offering replacements in LB1084, halts the dilemma of the high taxes currently experienced by many Nebraskans. Greater Nebraska Schools Association believes the replacement revenue stream is at the heart of the bill and we completely support Senator Briese's efforts to not only bring a solution, but also a means to fund the solution. We would offer that any consideration by the Nebraska Legislature to reduce taxes must be accompanied by a means to replace the lost revenue. Property taxes for our friends in the agriculture industry are too high. It is vital to the growth and well-being of our state that farmers and livestock producers are afforded every opportunity to compete regionally, nationally, and globally. Equally as important, our public school students must be afforded every opportunity to compete regionally, nationally, and globally. We appreciate the opportunity to sit before you and would answer any questions the committee might have of me. [LB1084]

SENATOR SMITH: Thank you, Mr. Winter. I see no questions from the committee. [LB1084]

ROB WINTER: Thank you, sir. [LB1084]

SENATOR SMITH: Thank you for your testimony. Next proponent of LB1084. Welcome. [LB1084]

JIM O'ROURKE: (Exhibit 22) I was going to say, good afternoon, but it may be evening. My name is Jim O'Rourke, J-i-m O-'-R-o-u-r-k-e. I'm a board member in Chadron Public Schools and a rancher in Dawes County. I want to be quick and I want to cut right to the chase here. LB1084 is the only bill that you have before you that significantly reduces property tax. You have another bill before you that reduces or puts a limit on property tax reduction with a lid of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

\$280. That's insignificant. I hear a lot of discussion here today about people being concerned about a small increase in some of their taxes. Let me tell you what my property tax on my ranch is. Any cow-calf producer in the Sandhills west is paying somewhere between 35 percent and 50 percent of their gross income in property tax alone, 35 percent to 50 percent of your gross income. What other business would stay in this state with that kind of tax? This bill also provides a replacement...a new income source and you've heard that all afternoon. LB1084 does not reduce the income tax for the most wealthy in our state, as another bill before you does. In fact, it increases it. LB1084 concentrates on property tax relief and that's the loudest voice you've been hearing since the Tax Modernization Committee for a number of years that we've been involved with. LB1084 does not confuse property tax relief with an added issue of an aid package to education, which another bill does to buy support for that bill. Thank you very much. [LB1084]

SENATOR SMITH: Thank you, Mr. O'Rourke, appreciate your testimony. Questions from the committee. I see none. Thank you. [LB1084]

JIM O'ROURKE: Thank you. [LB1084]

SENATOR SMITH: Next proponent. Welcome. [LB1084]

JORDAN RASMUSSEN: (Exhibit 23) Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Jordan Rasmussen, J-o-r-d-a-n R-a-s-m-u-s-s-e-n. I'm a policy associate with the Center for Rural Affairs in Alliance, Nebraska. While Nebraska's economy remains dependent upon agriculture, the broader economy--following national economic trends--has moved away from dependence on manufacturing and goods to a knowledge- and service-based economy. Nebraska's tax codes do not reflect that decades-long trend. In 2004, there were 101,000 jobs in Nebraska's manufacturing sector. By 2014, that figure fell to 97,000, a decrease of 3.6 percent. During that same time, employment in other nonfarm jobs increased by 8.2 percent to 993,300 jobs in 2014. This economic shift has been profoundly felt in rural Nebraska where many of these manufacturing jobs were lost and population decline leaves many jobs in the service industries unfilled. The Nebraska Department of Labor's "Economic Insight and Outlook" report provides greater detail of this shift towards the service sector at an industry level. As this growth in nonfarm employment is disaggregated and projections are applied, Nebraska's financial activities, leisure and hospitality and the education and health services industries are projected to see the most significant growth in employment. This same report also highlights a projected decline in the number of Nebraskans employed in farming. Yet as this shift to trend toward greater economic reliance upon services, exemptions in Nebraska's tax codes have remained. This has left Nebraska's metaphorical tax stool imbalanced and leaning too heavily upon property taxes, despite this broader economic shift. This act seeks to make

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

adjustments by imposing a tax upon the services where Nebraskans, including rural residents, are spending their incomes. By drawing in added revenues Nebraska can look to modernize its tax system while also providing immediate property tax relief and funding for the services the state is obligated to provide. Beyond just broadening the tax base and drawing in other sources of revenue is the impact this tax modernization will have upon Nebraska communities. Rural Nebraskans understand profoundly how critical school systems, medical services, and public safety are to the maintenance and growth of their communities. Without those assets in rural Nebraska, counties' and communities' employment will be lost, other businesses will suffer, populations decline, and communities lose their identity and place on the map. Recognizing this need for the schools and services that are at the heartbeat of these communities, rural Nebraskans are not looking to relinquish their entire obligation to help pay for these community assets. They are simply asking for a balance in the way in which the state meets its obligation; primarily, how we fund education. LB1084 outlines and provides the mechanism for this balance to occur. By reinstating the 20 percent allocated income tax under TEEOSA and requiring a school funding study the responsibility of funding K-12 education begins to be returned to the state. Moreover, through the increase in revenues distributed by the Property Tax Credit (Cash) Fund, Nebraskans--especially our farmers and ranchers--will see the immediate relief that has put a stranglehold on their businesses for nearly a decade. With that, we encourage you to pass this bill out of committee. Thank you. [LB1084]

SENATOR SMITH: Thank you for your testimony. Questions from the committee. I see none. So we're now going to swap...switch back over and take opponents to LB1084. Welcome. [LB1084]

MICHAEL McHALE: (Exhibit 24) Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Michael McHale, M-i-c-h-a-e-l M-c-H-a-l-e, and I am the general counsel and policy analyst for the Nebraska Catholic Conference. And the Nebraska Catholic Conference represents the mutual public policy interests of the three bishops in Nebraska. We are in opposition to LB1084 to the extent it would create a sales tax on the provision of school meals and on the admission to school events at religious K-12 schools, colleges, and seminaries. Simply put, nonpublic religious schools don't make money. Moreover, they are often directly associated with churches or religious orders. Therefore, they shouldn't be turned into tax collectors for the state, especially when they already help save millions of taxpayer dollars by educating nearly 40,000 students across Nebraska at lower cost. In particular, LB1084 has a provision eliminating the sales tax exemption on school breakfasts and lunches provided by public and private schools, whether a K-12 or college, along with the sale of food at an approved function of any school. Additionally, LB1084 would eliminate the sales tax exemption on fees and admissions to school events at K-12 public and private schools. These provisions are particularly burdensome as applied to nonpublic religious schools, and we appreciate Senator Briese expressing openness to our concerns at the Catholic Conference.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

Nonpublic religious schools often have relatively few administrators, especially at the elementary level, and a mandate to collect sales taxes on the provision of school meals and admissions to school events would be a mess quote unquote according to one of our administrators and, more importantly, would divert the kind of funding and resources that are used as key tools for operating religious nonprofits like private parochial schools, part of which includes subsidizing low-income tuition. And then, additionally, LB1084's school meal tax applies to institutions of higher education if their meal halls are not open to the general public. So at the very least, Catholic seminaries that we have in Seward as part of the Lincoln Diocese, and then there's another one just outside of Denton, would be required to collect sales taxes on the meals they're providing to students living on campus. So it just doesn't make sense to us to reach so deeply into the church coffers, effectively, to raise public revenue. In our written testimony there's an additional paragraph on just making sure that the portion eliminating admission school events doesn't somehow overlap with tuition. I just think that that section of statute is poorly drafted. I'm not sure that's the intent, but it seems to imply you might create a sales tax on tuition to private schools. And then finally, in the end, separation of church and state should cut both ways. Because nonpublic church affiliate schools are ineligible for taxpayer appropriations, they should not be forced to collect taxes on behalf of the state. So, again, we thank Senator Briese for his openness to our concerns and we ask that you not advance LB1084 if it requires religious nonpublic schools to become tax collectors for the state. Thank you for your time and I'll take any questions. [LB1084]

SENATOR SMITH: Senator Harr. [LB1084]

SENATOR HARR: Thank you. Are you here in a secular role or are you here in a different role? [LB1084]

MICHAEL McHale: I'm here in my role as representing the Catholic Conference. [LB1084]

SENATOR HARR: Okay, because you had me all along as a secular that you...look, I get that, until you got to the end here where you said, separation of church and state. [LB1084]

MICHAEL McHALE: Right. [LB1084]

SENATOR HARR: I don't know any retail industry out there...I think they'd like a separation between church and retail and not have to collect sales tax, because they're nonpublic and they're ineligible for taxpayer appropriations. I'd also say that the church does receive a benefit from the state already in that the church doesn't pay property tax. All we've heard here today or we've heard a lot of is, my property taxes are too high. Well, everyone in this room's property tax

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

would be lower if the church--and I'm not advocating for that--paid property taxes. So to say they don't receive a benefit from the state already is a little... [LB1084]

MICHAEL McHALE: I'm definitely not saying that. [LB1084]

SENATOR HARR: What's that? [LB1084]

MICHAEL McHALE: I'm definitely not saying we're not receiving a benefit from the state. All I'm saying is that this is an additional issue. [LB1084]

SENATOR HARR: Well, but it's a taxpayer appropriation. [LB1084]

MICHAEL McHALE: That's where we would disagree. I see where you're saying. It's a tax expenditure, theoretically speaking, but the constitution also prohibits the appropriation of funds. [LB1084]

SENATOR HARR: Not disagreeing with that. Not disagreeing with that at all. But what I'm saying is to say the church doesn't receive tax benefit... [LB1084]

MICHAEL McHALE: I'm not saying that. [LB1084]

SENATOR HARR: Well, then let me tell you what you did say. It says, in the end, separation of church should cut both ways... [LB1084]

MICHAEL McHALE: Right. [LB1084]

SENATOR HARR: ...because nonpublic church affiliated are ineligible for taxpayer appropriations. Fair, they don't get appropriation, but whether I buy car with an appropriation or a tax credit, it still costs the same. Right? [LB1084]

MICHAEL McHALE: I see what you're saying. [LB1084]

SENATOR HARR: They should not be forced to collect on behalf of the state. Again, I don't know of a lot of retail stores that are eligible for taxpayer appropriation. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

MICHAEL McHALE: But the First Amendment doesn't say free exercise of retail, it says of religion, so that's where that piece comes in. [LB1084]

SENATOR HARR: What's that? [LB1084]

MICHAEL McHALE: So the First Amendment obviously doesn't say free exercise of retail. Although certainly there's freedom to do that, it talks about religion, so that's where we're thinking. [LB1084]

SENATOR HARR: I'm not disagreeing with that, but I just...to say that the church doesn't receive benefits... [LB1084]

MICHAEL McHALE: Not saying that, just public appropriations. And I see what you're saying, but there is a difference in our mind between a tax expenditure and a public appropriation. [LB1084]

SENATOR HARR: Saint Thomas would be proud of you. [LB1084]

MICHAEL McHALE: Also... [LB1084]

SENATOR HARR: Thank you. [LB1084]

SENATOR SMITH: Any further questions? I see none. Thank you for your testimony. Next opponent of LB1084. Senator Harr, you almost make me forget where I am in this. [LB1084]

KORBY GILBERTSON: (Exhibit 25) Good afternoon, Chairman Smith, members of the committee. For the record, my name is Korby Gilbertson, it's spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n, appearing today as a registered lobbyist on behalf of Tyson Foods, Speedway Motors, the Metro Omaha Builders Association, and the Home Builders of Lincoln coalition in opposition to LB1084. In order not to be repetitive I'm going to talk about three things you haven't talked about, except for Senator Schumacher talking about the repairs to a home. Obviously, when someone has a catastrophe happen and something happens to their home, the opinion would be that you're kind of kicking them when they're down. And this would be something that people don't necessarily choose to spend money on, but to have their home repaired and then have taxes added on to it would be an additional hardship. Secondly, for Tyson Foods, the portion of the (inaudible) of the bill talks about custom meat slaughtering. We do not feel that that's well defined, so we don't know how that would apply or to what it would apply, so we'd ask for some further definition in that. And then, finally for Speedway Motors for the (inaudible) purchases

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

for historic auto museums, the Legislature saw fit to grant that exemption 49-0. We think that the Legislature made a good decision when they did that and would hope that it would stay. With that, I would be happy to answer any questions. [LB1084]

SENATOR SMITH: Thank you, Ms. Gilbertson. Questions. I see none. [LB1084]

KORBY GILBERTSON: Thank you. [LB1084]

SENATOR SMITH: Thank you. Next opponent of LB1084. Welcome. [LB1084]

KEN ALLEN: (Exhibit 26) Good afternoon, Senator Smith and Revenue Committee. My name is Ken Allen, K-e-n A-l-l-e-n. I am the executive director of the Board of Barber Examiners. I am here on behalf of the board and myself, who asked me to strike on page...well, it's the part dealing with hair services. It would be Section 20, subsection (3), subdivision (1), line 31 on page 29 and line 1 on page 30. Simple, short, haircuts are a necessity, they're not so much a luxury. I looked around the room, everybody's got a haircut. It's not a luxury. Define it as you wish. If you start taxing on necessities, we better go all the way. So that being said, I did hear Senator Briese state that taxes on cigarettes lowered the sales of cigarettes. If I interpreted that correctly, taxes on...sales taxes on anything would lower the sales of anything. So anyway, that being said, I would be open to answer any questions. [LB1084]

SENATOR SMITH: Thank you, Mr. Allen. Senator Harr. [LB1084]

SENATOR HARR: Thank you. Thanks for coming. And while they may not be a luxury, for me they are not a necessity. Thank you. [LB1084]

KEN ALLEN: Yes. [LB1084]

SENATOR SMITH: I thought he was going to ask for a discount. Any further questions? Thank you, Mr. Allen, for your testimony. [LB1084]

KEN ALLEN: Thank you. [LB1084]

SENATOR SMITH: Next opponent. Welcome. [LB1084]

TIM KEIGHER: Good afternoon, Chairman Smith and members of the committee. For the record, my name is Tim, T-i-m, last name Keigher, K-e-i-g-h-e-r. I appear before you today in

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

opposition to LB1084 on behalf of the Nebraska Petroleum Marketers and Convenience Store Association, as their executive director and registered lobbyist. While we oppose adding sales tax to any of the items that we currently sell: soda, bottled water, candy, etcetera, I'm going to focus on tobacco, specifically cigarettes. As you've heard from previous testifiers, cigarettes account for 30 percent to 35 percent--the last number I saw was 36 percent so I'll give Ms. Siefken a pass on her 30--of my members' inside sales. When Iowa raised their cigarette tax a while back...we raised our cigarette tax back in early 2000, we saw the sale...one wholesaler saw the sale of cigarettes, one major brand, go down 25 percent in the Nebraska market and go up 26 percent in the Council Bluffs market. Subsequently, Iowa has raised their tax. So we have an advantage right now, they're at \$1.36, we're at \$.64. I think we are benefiting by that. We are getting more tax revenue off of cigarettes than we were if we were closer to their rate, so I think we're already getting an advantage from that. You get to decide where you want to put that money, I'm not going to make any suggestions on that. We also see the border bleed in gasoline and other products that we sell. And that's the end of my testimony, since you've already heard enough today. Any questions? [LB1084]

SENATOR SMITH: Questions for Mr. Keigher. I see none. [LB1084]

TIM KEIGHER: Thank you. [LB1084]

SENATOR SMITH: Thank you for your testimony. Next opponent. Welcome. [LB1084]

ROCHELLE MALLET: Hello. Chairman Smith, members of the Revenue Committee, my name is Rochelle Mallett, that's R-o-c-h-e-l-l-e M-a-l-l-e-t-t, and I am here today as the registered lobbyist for the Nebraska Beverage Association. The Nebraska Beverage Association includes distributors of nonalcoholic beverages. Our distributors distribute products from Coca-Cola, Pepsi, Dr. Pepper, and Snapple. Nationally, our industry has a direct economic impact of over \$140 billion and employs over 233,000 people. Here in Nebraska we employ approximately 1,700 people. Our specific opposition to LB1084 is in the provision that pulls out soft drinks, candy, and bottled water for the purposes of taxation, pulls them out of the definition of food. And that is really where we have a problem with this bill. And we believe that those three items fall specifically into the definition of food as provided by the Department of Revenue. So with that and my comments, happy to take any questions. [LB1084]

SENATOR SMITH: Thank you, Ms. Mallett. Questions from the committee. I see none. [LB1084]

ROCHELLE MALLET: Thank you. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: Thank you. We now move back to proponents, those wishing to testify in support of LB1084. Remaining proponents. Hello, Mr. Hansen. [LB1084]

JOHN HANSEN: (Exhibit 27) Good evening, Mr. Chairman and members of the Revenue Committee. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, and I am the president of Nebraska Farmers Union and appear before you today as our organization's president, our lobbyist, and I'm also pleased today to represent the Nebraska Grange and the Nebraska Women Involved in Farm Economics, and to offer their support as well for LB1084. In the packet that I've given you I have included their testimony, which has already been previously distributed I believe to the committee, but just in case their testimony is there. And then I also have in the news yesterday from USDA the ERS "Highlights from the February 2018 Farm Income Forecast" which says that net farm income, a broad measure of profits, is forecast to decrease \$4.3 billion, 6.7 percent from 2017 to \$59.5 billion in 2018, the lowest net farm income level in nominal dollar terms since 2006. There's other data in there from USDA. I give you this information to make it clear that the crisis that agriculture is facing is not about to go away. We are going to have another year of extremely difficult times. And so we are up against the blades. We are at breakpoint and so we are talking about not, gee, wouldn't it be handy if we could get some property tax relief, we're talking about survival. And so as I've been doing this job now for 28 years, I have heard all of the arguments for 28 years. I think I've probably participated in more efforts to broaden the sales tax base in those 28 years than anybody else I can think of really and I understand those arguments. I hear what they're saying, but the growth in services and our decisions in the last 28 years to continually give away our sales tax base has put us at a place where we simply do not adequately fund the TEEOSA formula based on what the TEEOSA formula, itself, calls for. And when we do that we very simply shift the shortfall to property. And given the increase in ag values, that has caused ag to be the unwilling designated donor that is disproportionately hit. And so when we get to the point where we have 72 percent of the schools in the state that don't get any TEEOSA funding, we obviously need to do something. This is a broad-based bill. It is a work product that has a huge investment from an awful lot of both ag and education and public interest folks. There's been a lot of vetting. There's been a lot of work. It is now Senator Briese's bill. We thank him and his staff for taking it over. And a lot of the legwork has been done and we wish you well. But if you're wondering which bill do we really support this session for property tax relief, this would be the one. [LB1084]

SENATOR SMITH: Thank you, Mr. Hansen. Appreciate your testimony. Questions from the committee. I see none. [LB1084]

JOHN HANSEN: Thank you very much for your kind attention and your persistence. [LB1084]

SENATOR SMITH: You bet. Next proponent. Welcome. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

ROBERT JOHNSTON: Thank you, Mr. Chairman, committee. I didn't really have any testimony prepared. I sat here all afternoon listening to comments. I do carry with me...oh, I'm sorry...Robert, R-o-b-e-r-t, Johnston, J-o-h-n-s-t-o-n, from Clearwater, Antelope County, in Senator Briese's legislative district. And so mainly I wanted to come to support the senator and to thank all senators for any bill introduction they've done for property tax relief. I carry with me the TEEOSA, the state aid formula for my school district, Nebraska Unified District Number 1, and I'd just like to state that in bold letters, total state aid, \$36,641, and that's all from the allocated income tax. And so I'm not going to profess to be able to talk about the entire bill in its complexity, but I do appreciate a few components, the Property Tax Credit Fund component and especially the allocated income tax component. It would be great if we could get some of that income tax that's generated in our district back. In our community we don't have a lot of what I'd call high income earners. We don't have a doctor's office, we don't have a lawyer, we don't have a dentist. And in our school district the administrators and teachers that are over here on the pay scale are some of the highest paid people in our community. And I would say the way the ag community is now that they're even paid more than farmers with valuations. And, Senator Schumacher, I would like to mention that valuation does not equate to wealth. Valuation for me equated to more tax dollars that I pay. I mean, it's simple. The valuation went up and I paid more tax dollars and I still had to pay my note and pay my interest. Most of my notes were 20-year notes, so I still had to pay that. I just wanted to make that comment. So thank you for your time. [LB1084]

SENATOR SMITH: Good. Thank you, Mr. Johnston. Questions. Senator Groene. [LB1084]

SENATOR GROENE: So what you're saying is that the bank owns the...if the bank actually owns your land and the value is going up, we ought to tax the banker? [LB1084]

ROBERT JOHNSTON: The bank is the one that their wealth increased, yes. Now if I'm able to hold on for the next 16, 15, 14 years, then maybe I would actually have the wealth. [LB1084]

SENATOR GROENE: Well, your kids will. [LB1084]

ROBERT JOHNSTON: Yeah, by that...you're right. By that time it'll be my daughter. [LB1084]

SENATOR GROENE: Thank you. [LB1084]

SENATOR SMITH: Seeing no further questions, thank you, Mr. Johnston, for your testimony. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

ROBERT JOHNSTON: Thank you. [LB1084]

SENATOR SMITH: Additional proponents. Proponents. Going once. [LB1084]

BRUCE RIEKER: That hurt. [LB1084]

SENATOR SMITH: Welcome. [LB1084]

BRUCE RIEKER: Thank you. Good afternoon, Chairman Smith, members of the Revenue Committee. My name is Bruce Rieker, B-r-u-c-e R-i-e-k-e-r, I'm vice president in government relations for Farm Bureau. And I'm here to thank Senator Briese for bringing this legislation. I'm here to commend his colleagues that have cosponsored it. And I hope what you as the committee and any of your colleagues that are listening to this or are paying attention to this see what is going on is that...and I don't have a long history in the tax discussion, but I think this is probably one of the most thoughtful, in-depth conversations about school funding and property taxes that the Legislature has probably had in a long time. What you're seeing is no accident. Kyle McGowan already spoke to this issue from the Council of School Administrators, but this is 16 months in the making by a very diverse group of organizations--and I could recap them for you--but the organizations, whether they're ag, other property owners, education represents hundreds of thousands of people in the state. We approached this from two perspectives: one, substantively; and two, politically, with 33 being the key in everything we do. We're not there yet, but we are bound and determined as Nebraskans United--the Ag Leaders Work Group is part of that and many of these other partners--to deliver a package that will get 33 votes and will generate the property tax relief and adequately fund schools the way it should. Is there one silver bullet? No. Are there ways to make this better? Absolutely. And Senator Briese has indicated that we are willing to work on this. The most rewarding part of this is all of the meetings that we've had, whether they've been every other week or weekly, even though we have strong differences of opinion, all of the groups that are part of this rose above their parochial interests for the greater good. There are definitely things that we in ag would want more. There are definitely things in education that they would want more. But we have come together, hopefully, to show you that there is a way to rise above the parochial interests, generate 33 votes, and get this done. So with that, I'll close my comments. [LB1084]

SENATOR SMITH: Thank you for your testimony. I see no questions. Thank you. [LB1084]

BRUCE RIEKER: Thank you. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: (Exhibits 28-36) Additional proponents. All right, we do have some letters for the record in support of LB1084 that were sent in for the record: Mike Helmerk from Hemingford, Nebraska; Pam Potthoff, Women Involved in Farm Economics; Kevin Cooksley, the Nebraska State Grange; Dr. Adi Pour, Friends of Public Health in Nebraska; Nick Faustman, American Cancer Society Cancer Action Network; Jami Jo Thompson, Norfolk Public Schools; Brian Krannawitter, American Heart Association; Robert Rhodes, Nebraska Medical Association; and Jodi Radke, Campaign for Tobacco-Free Kids. Do we have any additional opponents that would like to testify, those that would like to testify in opposition? Welcome. [LB1084]

CHARLOTTE RALSTON: Hello, Senator Smith and committee. Thank you for hearing my testimony. My name is Charlotte Ralston, C-h-a-r-l-o-t-t-e R-a-l-s-t-o-n, and I am here as a Nebraska citizen. I grew up on a farm. I still live on a small farm. I'm a small business owner; I sell candy. I'm an escort. But I'm not here on any of those things. I agree that there is a property tax problem, a big one. Inflated valuations have caused issues for all Nebraskans. Regarding LB1084, I have a philosophical concern with taxing services and the unintended consequences. The state redistributes wealth by taxing what we produce; it's called income tax. It taxes what we have; it's called property tax. And it taxes what we buy; it's called sales tax. And now we want to tax what we do; I would call it a services tax. This Pandora's box on taxing services of small businesses has caused much confusion in collection and enforcement. One example is in lawn services. And I'm not going to get this exactly right, but I have a friend in lawn service and he said, if I trim a bush it might be taxed. If I mow a lawn, it's not taxed. If I put insecticide on, it might be taxed. If I do fertilizer, it is taxed or it is not taxed. It was so confusing. And I think that happens in a lot of industries. And the list that's in this bill is a Pandora's box of even more. Music, piano teachers, are you going to make a piano teacher in her home file a sales tax report? How are you going to enforce that? Personal care services, what about when it affects the elderly, another expense for them. What does personal care mean? We know how the list of exempted sales tax on goods has grown. If all goods were taxed, there was a study here at the Legislature that showed we could reduce sales tax to an ultra-competitive 2 percent. By taking named services in LB1084, this is essentially exempting all unnamed services. A tax on a service is a tax on a Nebraska citizen. Taxing services is the same as taxing labor. If we were a no-income-tax state, that might make sense and have some excellent outcomes, instead it doubles the tax. You have a difficult even painful job. I just don't believe LB1084 is the answer. It may create politicization more than solutions. Thank you. [LB1084]

SENATOR SMITH: Ms. Ralston, thank you for your testimony. Sorry it took you so long to get up here. We really appreciate hearing from citizens representing themselves. [LB1084]

CHARLOTTE RALSTON: Thank you. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: (Exhibits 37-47) So thank you for being here. Questions from the committee. I see none. Thank you. Other opponents of LB1084. We do have a few letters for the record that were sent in in opposition to LB1084: James Specker, American Massage Therapy Association; David Spross, Reynolds America Inc.; Nancy Gompert, Touch of Grace Therapeutic Massage and Bodywork; Allen Beermann, Nebraska Press Association; Joe Moore, International Health, Racquet and Sportsclub Association; Robert Hallstrom, NFIB; Carla Jacobs, Uber; Ryan Dressler, Advantage Capital Partners; Dr. Bruce Brodersen, Nebraska Veterinary Medical Association; Dr. Blane McCann, Westside Community Schools; and Dennis Pate, Omaha Henry Doorly Zoo and Aquarium. We now invite neutral testimony on LB1084, neutral. Welcome. [LB1084]

JOHN SPATZ: (Exhibit 48) Thank you. Good evening, Senator Smith and members of the committee. My name is John Spatz and that's J-o-h-n S-p-a-t-z, and I'm with the Nebraska Association of School Boards. And the first thing I want to say is that school board members do want property tax relief and I think you heard that today. And there's a lot of things in this bill that we like and primarily the concept that if we are going to have meaningful property tax relief in the short term, we've got to find revenue from some other source. And I commend Senator Briese for his courage to put that on the table. The thing we don't like in here is the levy cap. And the reason why, is that this feeds a narrative that has failed our property taxpayers for many years. And for a long period of time we have dealt with property taxes. It didn't happen just overnight. And for many years we keep talking about, well, if we control spending at the local level, if we control levies, if we do this. And right now property taxes are worse than they've ever been. And I remember something Senator Friesen said I think on the floor last year and I'm going to paraphrase, but in some land the number one input is property taxes for ag industry. That is a burden on our number one industry in the state of Nebraska. So we stand with those who say, we've got to find ways to address property taxes. But part of our message is we think that the property...the high tax system in the state of Nebraska and we think corporate, income, property taxes, we are a high tax state. And we think that is a symptom. And I think sometimes we don't always look at the cause. When we tweak tax rates, we're dealing with the symptom of the problem. And before you I put a couple of things over the last few years. The first chart here shows revenue growth at the state of Nebraska. And as you can see, in 2012 the state of Nebraska was growing in revenue but you know what we had in 2012, we had \$8 corn. Over the last couple of years you've seen revenue go down in the state of Nebraska. And what that tells me, as commodity prices have gone down over the several years is that our ag industry not only pays a big share of the property tax burden, but they pay a big share of the income and sales tax burden. And when the commodity prices go down and the ag industry hurts, there's a spill-over effect across the state in income taxes and sales taxes. So revenue is down at the state of Nebraska. So why is that? We're too dependent upon our ag industry in the state of Nebraska. We've got to have a long-term focus about how do we diversify our economy. The second sheet in there shows over the last 20 years the demand on state resources, the things growing as a

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

percentage of the state budget. And as you can see, the things growing as a percentage of the state budget are things like Corrections and child welfare and Medicaid. The things shrinking as a percentage of the state budget are K-12, special ed, and higher ed. This is a 20-year trend. And even if we find that magic bullet and find a pot of money hidden under some couch cushion, if this trend continues we're going to continue to have this discussion about property taxes and relying too much on our ag industry 20 years from now. Our kids are going to have this same discussion if we don't begin addressing some of the causes for our high tax rates in the state of Nebraska. And I was trying to put together some legislation for Senator Schumacher this year that would create coal and oil under the ground in Nebraska. I couldn't quite work out that language and I apologize, I'm going to keep working on that. But in the absence of that, we've got to develop the work force in the state of Nebraska to spread that burden cross more taxpayers. And I'm going to paraphrase something Senator Groene said last year during a TIF discussion. He said, if we can have more people pay in, we can lower the rate for everybody. That's what we have to look at in the state of Nebraska. How do we grow our industry and get more people to pay in so we can lower the rate for everybody and not depend so much on our ag industry, our number one industry in the state of Nebraska. You heard from Jim O'Rourke earlier, the burden on a cow/calf operation. We heard from Senator Friesen about the number one input. We've got to find a long-term solution to this and we're ready to help. And we appreciate, Senator Smith, what you're doing this session and we're ready to help as you explore how to do that. [LB1084]

SENATOR SMITH: Okay. Questions from the committee. Senator Groene. [LB1084]

SENATOR GROENE: Got numbers and I like numbers. [LB1084]

JOHN SPATZ: Yep. [LB1084]

SENATOR GROENE: I've heard from a few...I keep hearing it, we...schools aren't spending more money, just 1 percent, 2 percent, 3 percent. So I've got my spreadsheet here, where did...'06, '07 is my latest numbers. Property tax TEEOSA was \$2,008,000,000. [LB1084]

JOHN SPATZ: Excuse me, the what? [LB1084]

SENATOR GROENE: Two billion, zero, zero, eight, so to two billion eight million dollars. In '16-17 it was \$2,936,000,000, so we got another \$928 million. And what you said, we're not growing. That was paid by existing Nebraskans. [LB1084]

JOHN SPATZ: Right. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR GROENE: In fact, less taxpayers... [LB1084]

JOHN SPATZ: Right. [LB1084]

SENATOR GROENE: ...because the little bit of growth we're getting in this state is coming from international immigrants and their children. They come in, they add to the school, but they do not pay taxes. It's really immigration. Is that the problem? I mean, the same people...we're not growing. The same people are paying all the increase. [LB1084]

JOHN SPATZ: Yep, this is spilled down to our ag industry, you're right. And so that's what we've got to figure out, how do we develop high-wage jobs in the state of Nebraska? How do we keep our kids in the state of Nebraska? We need a strategic plan of vision to expand our economy because we don't have mountains, we don't have oceans. What we have in the state of Nebraska is valuable ag land. And so ultimately that burden spills down to that. [LB1084]

SENATOR GROENE: But you understand, God don't make any more ag land. [LB1084]

JOHN SPATZ: I know, you're right. You're right. That's right. [LB1084]

SENATOR GROENE: So the taxes are...he's making less farmers but he isn't making a lot more people living in the cities, in Nebraska at least. [LB1084]

JOHN SPATZ: Well, you've heard that old adage, don't tax you, don't tax me, tax the guy behind the tree. I'm looking for that guy behind the tree right now. And what we've got to do right now is expand our economy. That's something...and a piece of legislation won't do that, but we've got to come together to figure out a way to do that. [LB1084]

SENATOR GROENE: The first time I heard that I cut all the trees in my yard and they still found me. [LB1084]

SENATOR SMITH: Senator Schumacher. [LB1084]

SENATOR SCHUMACHER: Thank you, Senator Smith. When you were looking for that oil and that gas, did you at least find any bitcoins? [LB1084]

JOHN SPATZ: I didn't find any bitcoins, but I'll get to work on that right away. I appreciate that. [LB1084]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: Thank you. [LB1084]

SENATOR SMITH: I see no further questions. Thank you for your testimony. [LB1084]

JOHN SPATZ: Thank you, Senator Smith. [LB1084]

SENATOR SMITH: Others wishing to testify in neutral. Welcome. [LB1084]

MERLYN NIELSEN: Thank you, Senator Smith and committee members. It's great to be before you this afternoon at this late hour. My name is Merlyn Nielsen, M-e-r-l-y-n N-i-e-l-s-e-n, and I come from Seward. I have worked for the last 15, 16 months within a group called Fair Nebraska and I wish to make comments today based on the tenets that Fair Nebraska stands for and the efforts that we're trying to get accomplished. The reason that I wish to come and speak in a neutral position today is because we strongly support the efforts that Senator Briese and his cosponsors and his staff and many organizations that have been talked about already that have worked on bringing LB1084 before you, we strongly support the ideas for where new revenues can come from that have been outlined in regard to sales and income and other sources. Where I cannot be as supportive yet because I don't understand them as well yet, is on the education funding side, how we would divert those new taxes into education funding. So that's why I've taken a neutral position today. Fair Nebraska believes that the state of Nebraska ought to be paying from its coffers for the basic education of our students across all the districts. And then any costs above that should be paid by property taxes at the local level, property taxes that are only levied on residential properties or residences or houses and apartment houses. Therefore, you get the balance of responsibility for budgets with those who are paying the taxes and you get returns coming back or benefits coming back that are commensurate with the taxing that is being done to get that. So, again, I wish to speak today as a supporter of the tremendous efforts that Senator Briese and colleagues have done in identifying new sources of funding, because in order to complete the ideas of Fair Nebraska we need to find awfully close to \$1.25 billion, so we got to start finding those funds somewhere. Thank you for your time today. [LB1084]

SENATOR SMITH: Thank you. Questions from the committee. I see none. Thank you, Mr. Nielsen, for your testimony. Others wishing to testify in a neutral capacity. We now invite Senator Briese to close on LB1084. [LB1084]

SENATOR BRIESE: Thank you again, Chairman Smith and members of the committee. I heard a lot of great testimony today on both sides of the issue and I certainly appreciate that. That's what we're here for, to hear from both sides. And I did note that, and I think that a couple of the other folks pointed this out, that we had a lot of groups and organizations testifying in support of this proposal. We come up with 20 or 21 such groups or organizations. But, again, it was a good

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

hearing. Heard a lot of good testimony. We could talk...I could go down through a bunch of points and try to counter some of the things that were said, but we know the arguments on those things and I'll let you guys ask questions...you folks ask the questions if there's something you want to talk about. But in general, it's clear we have a property tax crisis in Nebraska and it's clear that Nebraskans value K-12 education. Nebraskans are demanding property tax relief and they deserve property tax relief. And if we're serious about property tax relief you have to ask yourself, how we going to get there? And I believe there's only one responsible way to do it, and that's raising new revenue, putting it into the hands of our property taxpayers through increased K-12 funding and the Property Tax Credit Fund. And we can listen to the naysayers, we can listen to them try to pick this package apart, but we were elected to lead on issues like this. We weren't elected to kick the can down the road. We were elected to do what Nebraskans want us to do and that's provide property tax relief. So with that, I'll close and be happy to answer any questions. [LB1084]

SENATOR SMITH: Very good. Thank you, Senator Briese. Remaining questions from the committee. I see none. [LB1084]

SENATOR BRIESE: Thank you. [LB1084]

SENATOR SMITH: Thank you for the closing, and that concludes our hearing on LB1084. I know folks will want to transition. If I could ask you to do that quietly, we're going to move on to LB919 to be introduced by Senator Bolz. Welcome to Revenue Committee, Senator Bolz. Sorry I missed you last time you were here. [LB1084 LB919]

SENATOR BOLZ: (Exhibits 1-3) That's okay. Good evening, kudos for your hard work. I know it's been a long day, so. I am, however, excited to introduce LB919. LB919 addresses issues that you have heard before. It also addresses issues you have heard today. So, I'll run it down quickly and answer any questions you might have. But, you all know as well as anyone that Nebraska needs to grow our skilled work force in order to be more competitive and successful in a global economy. You've of course heard it from the Chamber of Commerce, who has made work force development one of its top priorities for as long as I've been in the Legislature. You've heard it from the Nebraska Department of Economic Development, which of course commissioned the SRI study which found that our wages are 21 percent below the national average and that economic growth depends on skilled workers and high-quality jobs. And you've heard it from the Nebraska Economic Forecasting Board. And I put one of the sheets from the forecasting board in your handout because I think it's pretty compelling. It's a chart that shows how Nebraska's business growth is trailing the national business growth. And the quote from that page is: "the Nebraska economy is not keeping up with the growth of the U.S. economy. This is to be expected, because Nebraska's unemployment rate is low" which leads to a shortage of workers

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

needed to grow the economy. So LB919 puts together a comprehensive vision for a high school work force in our state. I'd say that that's a vision that we need to build and keep growing. I think it's one of the top priorities of this legislative body. The bill provides funding for Customized Job Training grants at \$5 million per year, which currently doesn't have an ongoing funding stream and instead we appropriate as we're able to. It provides funding for the InternNE program at \$2 million per year, which will run out of funding this year. It creates the Student Loan Tax Credit program, which has been in front of this committee before, which "incentivizes" businesses to provide tax...to provide student loan repayment as a benefit of employment. And it creates the Integrated Education and Training (Grant) Program to try to provide career opportunities to folks that need developmental or remedial education. And it increases the child and dependent care tax credit for working families. This is my vision for a comprehensive approach to building a skilled work force and supporting the work force that we do have. Ultimately, it's a bill about priorities. And so it also sets all of those things as a higher priority than the Nebraska Job Creation and Main Street Revitalization Act, which it repeals. No doubt today that you'll hear about the merits of that program, there are laudable aspects of that initiative. However, I have the annual report from the Department of Revenue--and if anyone would like to see it I'd be happy to share it with you--but it doesn't actually report out any jobs created. And even if we assume that jobs were created related to this program, they aren't long-term jobs because the projects aren't long-term in nature, nor are they created across the state. The report illustrates an uneven distribution of the benefits of the tax credit. The tax credits went to 24 individuals and entities, according to the most recent report. I realize that our tradition isn't always to use these pay-as-you-go approaches, but I think perhaps it's time to change tradition and think of new ways to invest in new priorities. I'd argue that historic preservation has its value, but it's time to look toward the future of our economic vision and the future of our hard working families. The last things that I'll say is just to comment about the fiscal note. The bill, as written, has an effective date of 2019 which was intended to put all the costs in 2019. The way that the Coordinating Commission for Postsecondary Education read it was that the grants could be awarded in the second half of 2019 which made the cost show up in the first year rather than the second year. So I've brought an amendment to create that fix. So, I realize it's been a long day. I'm sorry not to be more concise. But those are the priorities as I see them. And I'm happy to answer any of your questions. [LB919]

SENATOR SMITH: Thank you, Senator Bolz, for your opening on LB919. Questions from the committee? Senator Harr. [LB919]

SENATOR HARR: Thank you, Senator. Fiscal notes, I love them. Why...you're on the Appropriations Committee, aren't you? [LB919]

SENATOR BOLZ: That's right. [LB919]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR HARR: We're on Revenue. We do tax credits, you do appropriations. [LB919]

SENATOR BOLZ: Sure. [LB919]

SENATOR HARR: Why is it cheaper to give money away than it is for a tax credit? [LB919]

SENATOR BOLZ: Why is it cheaper to appropriate than to do a tax credit? [LB919]

SENATOR HARR: Yes. [LB919]

SENATOR BOLZ: I'm not sure I understand your question. [LB919]

SENATOR HARR: Well, I had a bill for InternNE that paid for the interns through tax credits. And the Department of Economic Development said, whoa, whoa, whoa. It's a lot more expensive for us to regulate tax credits than it is to regulate appropriations to interns. Why is that? [LB919]

SENATOR BOLZ: Uh-huh. [LB919]

SENATOR HARR: Why is that? [LB919]

SENATOR BOLZ: I can't speak for the Department of Economic Development. They did put a significant fiscal impact on the regulation of this bill, as well... [LB919]

SENATOR HARR: But not for the InternNE portion. [LB919]

SENATOR BOLZ: Oh, okay. [LB919]

SENATOR HARR: No. Matter of fact, what they said was, hey, we've never had \$5 million in ask. And so going up to \$5 million isn't a big deal for them. So, let me ask you this. How much have been appropriated for InternNE or for the customized job training this year? [LB919]

SENATOR BOLZ: Nothing yet. [LB919]

SENATOR HARR: Okay. [LB919]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR BOLZ: I mean, in this year's budget... [LB919]

SENATOR HARR: Sure. [LB919]

SENATOR BOLZ: ...we haven't taken any action yet. [LB919]

SENATOR HARR: Right. How much is in the InternNE, currently, as a portion of the specialized...customized job training? [LB919]

SENATOR BOLZ: I don't know exact numbers, but my understanding is that we'll run out of money this year and they won't be able to make new offers for the fall. [LB919]

SENATOR HARR: Okay. Yes, I just...I want to know why it's easier...cheaper to give away money than tax credit, because at the end of the day it cost the same amount. And it's my opinion that there should be the same oversight for a dollar given away or appropriated as a dollar paid for through a tax credit. And I don't know the answer as to why that is not true. And if it is true, maybe we should get rid of all our tax credits and just do appropriations. And then we'd have more money to appropriate. [LB919]

SENATOR BOLZ: Well, at the risk of heading down a bunny trail, you know, the PEW...for example, the PEW Center for Research would make some arguments that, in terms of our tax incentive programs, we should make those appropriated. That that is a better way of doing it so we can have cost containment. So, I think it's an idea worth exploring. [LB919]

SENATOR HARR: Thank you. [LB919]

SENATOR BOLZ: Thank you. [LB919]

SENATOR SMITH: Senator Schumacher. [LB919]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Senator Bolz, I hate to be the bearer of bad news, but Senator Briese beat you to the historic credit money and already gave it away. [LB919]

SENATOR BOLZ: (Laughing) Well, does my seniority over Senator Briese give me any sway here? [LB919]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SCHUMACHER: We'll have to check the Rule Book. [LB919]

SENATOR BOLZ: Let's talk to Patrick. [LB919]

SENATOR SMITH: Other questions for Senator Bolz? I see none. Senator Bolz, one thing I do want to say is that, you know, I think you've been very consistent from the day you arrived here, trying to work on developing a skilled work force and the work force development. So, I appreciate your ongoing efforts on that. Thank you. [LB919]

SENATOR BOLZ: My pleasure. Just very briefly, I do have a work obligation tonight. I'm going to stay my...stay as long as I possibly can, but if I have to leave it's not out of inconsiderateness. [LB919]

SENATOR SMITH: I understand. Thank you, very much. We now move to proponents of LB919. Proponents of LB919. Welcome. [LB919]

GREG ADAMS: Senator Smith, thank you. Members of the committee, my name is Greg Adams, G-r-e-g A-d-a-m-s, executive director of the Nebraska Community College Association. We are here in support of this bill. And I'll try to make my testimony as short as I can, I know that the evening is late. Think of it this way. Nebraska has had, for a long, long time, a very high rate of students that leave our high schools and go into higher ed, from community college right on up the line. In excess of 70 percent annually. And yet, we've got this labor force that we have to tackle this shortage. Part of what that means is going after those persons who didn't go on to higher ed and the high school student that maybe tried or disengaged from high school when they were a sophomore or a freshman. And now they find themselves having to take developmental or remedial courses and so they say, forget it. I'm not going to a trade school, I'm not going to a community college, I'll just stay doing what I'm doing, whatever it might be. An accumulation of those folks that are now in the adult world and they're unemployed or typically in Nebraska, they are underemployed that would like to get a different skill. But they have timing issues, they have family issues, they have transportation issues, they, too, have remediation issues. What we see in the bill is an opportunity for us to continue to try to reach out and to tackle some of those problems. I'll give you one specific program that we're working on right now with all of our community colleges. We know that there is a transition problem that students have...high school students have, getting into college. And particularly in this case I'm talking about community college, which means by statute we're going to have them in developmental ed. What we're trying to do right now is to pilot a program where our community colleges, all of them, will be reaching out to high schools and literally helping them get their students ready for our schools. And whether it be welding, whether it be auto mechanics, whatever it might be we want to be helpful to them. And we're working on a pilot program. It costs money, and reaching

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

out to some of these nontraditional student groups is very difficult because they've got a lot of other challenges. With that, I'll conclude and if you have some questions, I'll try to answer. [LB919]

SENATOR SMITH: Very good. Thank you for your testimony. Questions from the committee? I see none. Good to see you, again... [LB919]

GREG ADAMS: Thank you. [LB919]

SENATOR SMITH: ...thank you for being here. Next proponent of LB919. Welcome. [LB919]

MIKE BAUMGARTNER: Thank you, Mr. Chairman. Committee members, my name is Mike Baumgartner, M-i-k-e B-a-u-m-g-a-r-t-n-e-r. And I'm the executive director of the Coordinating Commission for Postsecondary Education. I'm here today to support LB919, specifically the Nebraska Integrated Education and Training Grant Program that's been mentioned. Work force participation rates nationally for 20- to 24-year-olds who have not completed high school are only 48 percent. Looking at 25 and older, 44.8 percent. And as Senator Adams just mentioned, this is a pool that Nebraska has places to find the workers that it needs for its economy. The program, like the one that Senator Bolz has proposed, has been proven to work in Washington State. Washington State pioneered this model ten years ago. It expedites entry into the work force or academic transfer courses by substituting integrated contextualized adult basic education or developmental education for stand-alone courses. And what this does is avoids attrition points. The normal model has been adult basic education or developmental education, finish that and then move into--whether it's a certificate or a degree or a short-term certificate--move into that. And one of the points where we lose the most students is when you make that transition. People come and are expecting to go directly into the course that's going to get them into the job they're interested in. They get into adult basic education, get discouraged by it, time goes on, and they get out. Studies have shown that students who complete the program in Washington--programs like this because there are other models nationwide based on that--are more likely to succeed academically than their peers who are not part of the program. And taxpayers see a high return on the investment of the program of students into the work force. Even though the program is more expensive than traditional linear approaches because it requires team teaching. According to the Washington State Board for Community and Technical Colleges, I-BEST students are three times more likely to earn college credits and nine times more likely to earn a work force credential than are students in traditional basic education programs who complete first basic skills and then training for the job. Nebraska is not Washington State, but there is overlap in the needs of the two states. Washington's technical and community colleges currently have over 100 I-BEST programs that enrolled almost 5,000 students last year. These are in programs including CNC machinists, commercial truck driving, allied health, electromechanical technology, nursing

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

assistant, pharmacy tech, light maintenance tech, etcetera, etcetera. All are connected to a career pathway that can result in immediate employment and/or additional certificates or degrees. I think that the model can serve Nebraska well, and for that reason we support Senator Bolz's bill. Thank you. [LB919]

SENATOR SMITH: Thank you, Mr. Baumgartner, for your testimony. I see no questions from the committee. Thank you. Next proponent of LB919. Welcome. [LB919]

SUSAN MARTIN: (Exhibit 4) Good evening. Good evening, Senator Smith and members of the committee. My name is Susan Martin, S-u-s-a-n M-a-r-t-i-n. I'm here on behalf of the Nebraska State AFL-CIO to convey our support for LB919. There are many different facets of LB919 which would be beneficial for workers and either directly or indirectly beneficial to our members. While we are supportive of all of the provisions contained in LB919, we want to highlight a couple of the portions specifically relating to job training and education and how they are potentially beneficial to our members and, more broadly, for Nebraska. Quite often over the course of time, labor unions, the AFL-CIO, our locals and our members have served as a means to provide job training and education, but have also benefited from various job training programs and education efforts. Job training and education are vital to allow us to help develop a competent and qualified work force. And the mechanisms and funding as provided for in LB919 are another step forward to continue these efforts. The Customized Job Training Grant Program through the Department of Economic Development is set up to provide assistance for employee training to businesses that create or retain quality jobs in Nebraska. The statute specifies types of jobs that the businesses must create, including criteria for the number of full-time jobs, wages paid, and other valuable information. One of the key components for the AFL, too, is how these factors would fit into the collective bargaining process and that they are respectful of the rights of our locals and our members. We feel confident that the Customized Job Training Grant Program is one that is consistent with our efforts to support collective bargaining rights for our members but also work with the businesses who would qualify for these grants and then hire workers or provide training and education as specified. Another way to think about it is in how job training and education programs can be an opportunity for partnerships. Job training and education programs are a means where an employer and employee, or in our case, a management and labor partnership can be formed that can be beneficial to all. By partnering with employers, unions can help working people develop in-demand skills to power the next generation of American-led innovation. Joint labor-management training programs in the building and construction industry contribute significantly to the American economy every year. We combine forces to offer opportunities for working people in many other industries as well. We, again, want to thank Senator Bolz for introducing this important legislation. And thank you for considering our views. We are again also supportive overall of the components of LB919, specifically again those relating to job training and education. We would encourage you to

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

support LB919 and to vote to advance it to General File for consideration by the full Legislature. Thank you. [LB919]

SENATOR SMITH: Thank you, Ms. Martin, for your testimony. I see no questions from the committee. Thank you. Next proponent of LB919. Welcome. [LB919]

BILL MOTZER: (Exhibit 5) Hello, my name is Bill Motzer, spelled B-i-l-l M-o-t-z-e-r. I'm the vice president for enrollment management at Nebraska Wesleyan University. I thank the committee for this opportunity to testify in the support of LB919. Nebraska Wesleyan has formed partners...formal partnerships with three of our Nebraska community colleges in the last six or seven months. These partnerships help the students with associate's degrees continue their education and complete a bachelor's degree. This grant will allow more students to access that first step in the educational process as we stand to support them in the third and fourth year of their college studies, to the benefit of the socioeconomic well-being of the state of Nebraska. This progress through the educational system is good for the economy of our state and LB919 will support the work that we are doing together with community colleges. Regarding the provision of LB919 that gives employers an incentive to help employees repay college loans, we see a strong connection with another form of partnership we have at Nebraska Wesleyan. For adult learners, Nebraska Wesleyan enters into memoranda of understanding with Nebraska businesses. We have nearly 50 such MOUs today in which employees receive a tuition discount to pursue their education at NWU. This is another case where the business community, the higher education community, and the state of Nebraska working together can ensure that more of our citizens have the education they need to make their lives better. In that way, all Nebraska benefits through the economic vitality that results. To qualify for...to qualify, LB919 requires participating employees to be graduates of a college or university. Nebraska Wesleyan's partnership incentives...initiatives are all about taking people to degree completion. With a degree, employees can look forward to higher salaries, longevity in their work, and opportunities for advancement. That's the beauty of education. Regarding internships, Nebraska Wesleyan requires every student to participate in for-credit internships during their studies. We find that internships constitute a powerful engine for career success. Let's do all we can to bring more internship opportunities to more students in Nebraska. It's also a good way to keep students in Nebraska after they graduate. Our experience at Nebraska Wesleyan is that more than half of our senior-year internship placements lead directly to a job offer right here in the state of Nebraska. Thank you, senators, for this opportunity to testify. Happy to answer any questions. [LB919]

SENATOR SMITH: Thank you, Mr. Motzer, for your testimony. Questions from the committee? I see none. [LB919]

BILL MOTZER: Thank you. [LB919]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: (Exhibits 6-9) Thank you. Next proponent. Proponent of LB919. Seeing no additional proponents, I do have some letters for the record. They were submitted in support from: Robert Rhodes representing Nebraska Medical Association; Kim Robak representing Nebraska Dental Association; Sarah Ann Kotchian from Holland Children's Movement; and Chris Rogers, Creighton University. We now move to opponents, those wishing to testify in opposition. Seeing none, those wishing to testify in a neutral capacity on LB919, neutral. Welcome. [LB919]

SARAH MOYLAN: Thank you, good evening. Chairman Smith, members of the Revenue Committee, I'm going to keep my comment short. My name is Sarah Moylan, that's S-a-r-a-h M-o-y-l-a-n. I'm the senior director of talent for the Greater Omaha Chamber, here in a neutral capacity on LB919. I'm also authorized to provide testimony on behalf of the Lincoln Chamber of Commerce. So, I'm here today in a neutral capacity due to the financing mechanism for LB919. Our Chambers are unable to support or repeal the Historic Tax Credit at this time. However, we enthusiastically support Senator Bolz's continued support of work force development in our state. And we also commend Senator Bolz for taking a comprehensive approach to job training and work force development while understanding that with the current status of how these programs are funded leave them subject to empty accounts like we face today. We agree with Senator Bolz that ongoing funding for these programs is extremely important in order to grow the state's economy. So, we commend Senator Bolz for thinking about hurdles that face...that talent faces when entering or continuing in the work force. Student loans and child/dependent care are two big hurdles that face talent when they look to enter into the work force or continue in the work force. Individuals are looking to employers to continue providing workplace benefits and in today's society, these two are ending up in the category of workplace benefits that employers are considering. LB919 helps businesses to be able to do so and to compete with other businesses in other states that are offering these. So, in summary, throughout her years in this body, Senator Bolz has always been a champion for work force development and then for businesses. We commend Senator Bolz for recognizing that making an investment today is something that will pay off in the future. We've used customized job training time and time again, and InternNE has proven to keep talent in this state and keep talent within our businesses. So we strongly support the efforts made within this bill, and stand ready to assist the committee as you formulate a plan to further invest in talent. I'd be happy to answer any of your questions. [LB919]

SENATOR SMITH: Very good. Thank you, Ms. Moylan. Senator Harr. [LB919]

SENATOR HARR: Thank you for coming down. If you're...so...I heard your testimony, you're familiar with the streamlined or customized job training... [LB919]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SARAH MOYLAN: Yes. [LB919]

SENATOR HARR: ...and with the InternNE. [LB919]

SARAH MOYLAN: Yes. [LB919]

SENATOR HARR: Are there ways we can improve those programs to make them easier for people to use? And if so, how is that? [LB919]

SARAH MOYLAN: You know, in my opinion, both of those programs are fairly easy to use. When we have assisted businesses applying for both that funding the process has been fairly smooth, at least for the customized job training and InternNE. And, you know, especially InternNE, which I'm most familiar with, employers really find that once they've used it once they kind of become accustomed to the process that flows and continue applying for funds. [LB919]

SENATOR HARR: And do you find the oversight on that onerous? [LB919]

SARAH MOYLAN: Not in my opinion. [LB919]

SENATOR HARR: Okay. [LB919]

SARAH MOYLAN: Pretty consistently, businesses have received funding for the internships or the training that they've applied for. [LB919]

SENATOR HARR: Okay. Thank you, very much. [LB919]

SARAH MOYLAN: Yes. [LB919]

SENATOR SMITH: I see no additional questions, thank you for your testimony. [LB919]

SARAH MOYLAN: All right, thank you. [LB919]

SENATOR SMITH: Others wishing to testify in a neutral capacity. Seeing none, we invite Senator Bolz back to close. Senator Bolz waives closing. [LB919]

SENATOR BOLZ: Thank you, all, for staying. [LB919]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 08, 2018

SENATOR SMITH: That concludes our hearing for LB919 and our hearings for the day. Thank you, all. [LB919]