LINEHAN: Welcome to the Revenue Committee public hearing, my name is Lou Ann Linehan. I'm from Elkhorn, Nebraska, and represent Legislative District 39, and I serve as Chair of this committee. The committee will take up the bills in the order posted. Our hearing today is your part of the public legislative process. This is your opportunity to express your position on the proposed legislation before us today. If you are unable to attend the public hearing and would like your position stated for the record, you must submit your written testimony by 5:00 p.m. the day prior to the hearing. To better facilitate today's proceeding, I ask that you abide by the following procedures: please turn off your cell phones, move to the-- and this really does help and you're doing a good job of it already. Please move to the front of the room when you're ready to testify. The order of testimony is the introducer, then proponents, opponents, and neutral, and closing remarks. If you will be testifying, please complete the green form and hand it to the committee clerk when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page as soon as we get the instructions out here so they can-- you don't have to wait till you come up to testify because that won't work. We need to get them to the page as soon as you can. We need 11 copies for all the committee members and staff. When you begin to testify, please state and spell your name for the record. Please be concise. It's my request-- and how many are here to testify on the first bill? OK, we'll go five minutes but we're gonna-- I'm gonna be very strict. When the light-- so you've got four minutes on green-- so when it goes yellow, please try to wrap up because I'm-- we got five bills today-- five bills and people here for the last bill should have an opportunity, too. So I'm gonna be really like police-- you know, you're done when light turns red. If there are a lot of people-- OK, done-- covered that. If your remarks were reflected in previous testimony or you would like your position be known but not-- do not wish to testify, there are white sheets in the back of the room that you can fill out and it will be part of the official records. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. To my immediate right is our legal counsel, Mary Jane Egr Edson. And to my left is our research analysis-- Kay Ber-- analysis-- Kay Bergquist. And to the end-- at the end of the table on my left is our committee clerk, Grant Latimer. And I would ask the senators to introduce themselves starting with my far right.

KOLTERMAN: Senator Mark Kolterman, from District 24, Seward, York and Polk Counties.

GROENE: Senator Mike Groene, District 42, Lincoln County.

LINEHAN: Senator Friesen is introducing another bill and Senator Lindstrom is home not feeling well.

McCOLLISTER: John McCollister, representing District 20, central Omaha.

CRAWFORD: Good afternoon, Senator Sue Crawford, representing eastern Sarpy County, Offutt, and eastern Bellevue.

BRIESE: Tom Briese, District 41.

LINEHAN: And our two pages over here: Brigita is from Hudson, South Dakota-- is a sophomore at UNL majoring in agricultural education. Please say your name because I don't--

KYLIE CAPPELLANO: Kylie Cappellano.

LINEHAN: Kylie-- well, they change them. [LAUGHTER]

KYLIE CAPPELLANO: [INAUDIBLE]

LINEHAN: Kylie, I assume you're at UNL, too.

KYLIE CAPPELLANO: Yes.

LINEHAN: OK, so these are the young ladies that can help you with copies if you need copies. Please remember that senators may come and go during our hearing as they may have bills to introduce in other committees. Please refrain, refrain from applause or other, other indications of support or opposition. We know that we all need to speak into the microphones for the recording purposes. And lastly, if you see me or other senators looking at their phones or computers, they're probably looking up information because we all use our-- just like most of you do to find out. So with that, we will begin. Senator McCollister. Welcome.

McCOLLISTER: Thank you very much, Madam Chair, members of the committee. I am John, Jo-h-n, McCollister, M-c-C-o-l-l-i-s-t-e-r, and I represent the 20th Legislative District in Omaha. I'm here today to introduce LB276. Reacting to an uproar to reduce Nebraska's sky-high property taxes, the Unicameral enacted a sales tax on income tax in 1967. Now 52 years later in 2019, there's another outcry to reduce property taxes particularly in the rural parts of the state. But unlike the 1960s, the 106th Nebraska Legislature can't reduce property taxes simply by shifting the tax burden to sales on income tax. That simple solution is no longer available. Nebraska's tax system is clearly out of balance. Our property tax load is the seventh highest in the country and our farmers are in deep financial trouble. Our income tax burden is among the highest in the region, region and does not compare well with some of our neighboring states which have no income tax at all. The third leg of the tax triad, the sales tax, is based on the 20th century model of only taxing goods rather than goods and services model of the 21st century. Rebalancing Nebraska's tax system with a somewhat greater reliance on sales tax generated for remote Internet sites and an up-to-date tax on services should help the cause. So what's the best strategy? Should we adopt the Governor's plan to increase the property tax credit fund by $51 million? Or replace the current state-aid formula for K-12 education, as Senator Groene suggests? Or pass the Friesen plan reform K-12 school funding? Or revalue ag land and remove sales tax exemptions? Or put a constitutional amendment on the ballot to provide an income tax credit for property taxes paid, as Senator Erdman advocates? Or increase sales tax rates and eliminate exemptions like Senator Briese advocates? And what about tax expenditure proposals Sen-- such as Senator Kolterman's ImagiNE Nebraska Act, and my LB276 which would eliminate the provision that currently allows sub S on LLC stockholders to deduct income derived from sources in other states. The original legislation was passed in 1987, so it's entirely appropriate to review the existing provisions again. The decision we make in the days ahead will carefully balance the necessity with the possible. We must consider the costs and the benefits to each of these proposals and find a path forward. I look forward to the next few days as we evaluate all the proposals coming to the Revenue Committee. I would be happy to answer any questions if I can.

LINEHAN: Thank you, Senator McCollister. Are their questions from the committee? Senator Kolterman.

KOLTERMAN: I believe so, yes. Thank you, Senator Linehan. Senator McCollister, since you brought up my bill, I'd just like to indicate that I'm a supporter of property tax relief. My district would benefit greatly from property tax relief, but I don't believe for a minute that we can grow in this state if we don't have a strong economic development program. And so I think they need to go hand in hand like you indicated. I, too, would like to have that dialogue and I'm hoping that we can have a strong dialogue in this committee about how we do it. But I'm nev-- I've never been a proponent of increasing taxes. And, and my bill will be within the budget guidelines that we're proposing, so what I-- I would hope that you would work with us on that as well. Thank you.

McCOLLISTER: Oh, absolutely. Had a good opportunity to deal with the State Chamber of Commerce this morning and create a vision that moves Nebraska up, not just sideways. And I want to participate in that effort. And I look forward to working with all of the members of the, the Revenue Committee in that effort, and I'm fairly sure given the members of the committee, I bet we can do it. So thanks for the question.

KOLTERMAN: Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: Thank you, Chairman. John, you were part of the Platte Institute. Have you ever, ever seen economic growth cause a decrease in taxes in the state of Nebraska? I mean, how many years have we've been doing this? Our property taxes go up, our income taxes go up, our sales taxes go up. So claiming we're gonna grow our way out of it is kind of getting a little bit sour in my throat. Maybe we ought to try it the other way.

McCOLLISTER: Well, actually I support the Governor's effort to control spending, and I think he's done a very credible job there. You know, that's got to be part of the, of the plan as well, Senator Groene.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you very much. First, we'll have proponents. Go ahead.

RENEE FRY: Good afternoon, Senator Linehan, members of the Revenue Committee. My name's Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We worked with-- on this bill with Senator McCollister for a couple of reasons. The primary reason being that we're having a lot of conversations around reviewing tax expenditures and our hope is that we can have an open and honest conversation about what this tax expenditure is and is not. There have been several efforts to amend it on the-- into legislation on the floor and each time it has been met with a sea of misinformation, which I'm hoping can be cleared up today. So here's why we support LB276: the S corp/LLC exclusion is a significant deviation from a normal income tax code. It treats income from different sources and states differently. It creates tax distortions and incentivizes S corporations and LLCs to do business out of state and it's a huge benefit for very, very high-income Nebraskans. And contrary to the misinformation that I've heard, it is not double taxation. The exclusion doesn't fully align S corporations and LLCs with C corporations and the exclusions does not incentivize Nebraska job creation. I know that you have all privately been told that people will leave Nebraska if the provision goes away. But if their primary objective is tax avoidance, they would have already moved to a no-income tax state. Study after study-- academic study find that generally people don't move because of taxes. A 2016 study that specifically looked into millionaire tax flight found that it is occurring but only at the margins of statistical and socioeconomic significance. Millionaires, they find, move at a lower rate than the population as a whole, and a little more than-- and little more than 2 percent of the elite's migration patterns can be explained by tax hikes. And it begs these questions: If the provision is enough for wealthy people to leave, why are there more millionaire households per capita in New Jersey than all of the states that don't tax income? They don't have this provision, they have a higher income tax rate. Also, why haven't more states adopted this provision? And has this provision actually led to people moving to Nebraska? These are the questions that we would ask. I know that you're having some very wealthy and very influential people that are lobbying you quietly on the bill and threaten to leave. And it works. That's what led to the creation of tax incentives in the state in 1987. When Dr. Timothy Bartik from the Upjohn Institute was here for a symposium a couple of years ago, he spent a lot of time researching tax incentive programs. He asked me why we have such an inferiority complex in Nebraska. Why do we, why do we think people won't stay if we don't give them an incentive? I encourage you to ask yourself that along with the following questions that Professor Adam Thimmesch posed at our symposium: Would this money be better spent elsewhere for ImagiNE Nebraska reducing income tax rates, property taxes or increasing our investment in education? Does it provide an economic stimulus or job creation? Should the state be ceding taxing power over income that it has a constitutional right to tax? And should it treat income as sole proprietor, partner, LLC member of an S corporation or shareholder differently? Does the state gain or save more revenue-- tax revenue from those that would leave or come because of this provision? And is there any evidence of the last 30 years that it's been used to attract or retain people? I've handed out a map of the U.S., those states in gray are those that tax out-of-state S corp/LLC income. You can see how unusual this provision is. You will-- that don't-- yeah, that do tax that, excuse me. You will likely hear that Iowa has a similar exemption but is only for S corporations and not LLCs. And despite having more than one and half times the population in Nebraska, their exclusion is about half of the cost. I've also handed out a chart showing how the income tax, the income tax loses its progressivity at the top end. So given that only 600 tax returns with AGI of a million dollars-plus received 80 percent of that benefit equal to $66.3 million in 2016, it's a safe assumption that this provision is contributing to that effect. You also have been given a list of the number of millionaires per capita by state and you can see that there is no apparent correlation between income tax rates and where millionaires choose to live. Finally, I'm handing out a Journal Star editorial in support of LB276. So with that, I would be happy to answer questions.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you.

RENEE FRY: Thank you.

LINEHAN: Good afternoon.

JOHN HANSEN: Madam Chairman, members of the Revenue Committee, good afternoon. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I am the president and also the lobbyist for Nebraska Farmers Union. And this particular item caught our eye as a part of the Nebraskans United for Property Tax Reform and Education has been going through our, our state tax system and looking at revenue sources across the board both income and sales tax issues and looking and saying, how can we develop a more fair and balanced state tax system that adequately funds K-12 education. And that at the end of the day not only meets those obligations but provides property tax relief and ends up with a state tax system that is more equally balanced between the three different revenue streams. And so as we went through this particular issue it got on our radar for two reasons: and one is that it's got a large number attached to it. And so as you're looking for revenue sources, when you get down and you say, well, you know this is

$89 million is worth pursuing. And so then when we looked at the basis for it, we discussed this in some depth and the-- you know, the $82.9 million price tag was, was tempting but we put things on the list that we thought had merit. And we were not convinced that by ending this exclusion that we were unfairly singling anyone out or asking them to pay something that was not a fair and reasonable amount of tax in the first place. And so if we thought that this was actually represented putting an additional double, double taxation or an unfair amount on someone, I do not believe it would've been included in the package. And so it stayed in the package. It, it went through a lot of discussion back and forth by all the different partners. And so we commend, Senator McCollister, today for bringing the issue itself forward. And we commend, Senator Briese, for keeping it in his LB314 that you'll hear from tomorrow. So thank you for your time and consideration. I'd be glad to answer any questions in the off chance I was actually able to do so.

LINEHAN: Thank you, Mr. Hansen. Are there questions from the committee? Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Thanks for coming today, John. I appreciate it. Do you know of any farm families or farm businesses that are L-- LLCs or S corps?

JOHN HANSEN: Yep.

KOLTERMAN: Have you talked to them about how this would affect them?

JOHN HANSEN: I, I kind of know because I am one.

KOLTERMAN: OK.

JOHN HANSEN: And so--

KOLTERMAN: So you don't see this as a negative impact on your personal business?

JOHN HANSEN: No.

KOLTERMAN: OK.

JOHN HANSEN: No.

KOLTERMAN: Thank you.

JOHN HANSEN: You bet.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: The way I read this from the last testifier, I'm part of an LLC. Anybody who's got a family that has inherited a farm ground and ends up with one. But if you make the money here you're taxed. I'm, I'm taxed on it.

JOHN HANSEN: Yep.

GROENE: When we break it up-- the profits, and it's not that much but I get the statement K-2 or something-- I can't remember what the heck it is.

JOHN HANSEN: Yep.

GROENE: But it's part of my income, but I'm taxed here. So is that-- I believe that's the way it works.

JOHN HANSEN: Yes.

GROENE: Thank you.

JOHN HANSEN: Yeah, and our, our view is that if you're, if you're here and you're, you're generating revenue here you're gonna continue to be taxed here. But then if you're operating in other states, you ought to be taxed somewhere. You either ought to be taxed there and get a credit or you ought to be taxed here. But you, you ought to at least account for the tax somewhere.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you.

JOHN HANSEN: Thank you very much.

LINEHAN: Other proponents? Again, it's helpful if you move to the front if you want to-- so anybody else that is a proponent if you can move up front.

ANN HUNTER-PIRTLE: Good afternoon, Chair Linehan and members of the Revenue Committee. I'm 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. We're a nonprofit dedicated to advancing public education in Nebraska. We support LB276 and we thank, Senator McCollister, for bringing it forward. Nebraskans value the good life which includes access to good schools, quality healthcare, safe neighborhoods, and successful businesses. But a decade of tax cuts largely directed to wealthy Nebraskans to the tune of approximately $800 million per year over the last 10 years have eroded our state's ability to help communities thrive. It's one reason why conversations about school funding have become so contentious because the state has run itself out of options for sources of school funding and districts have had no choice but to rely more heavily on property taxes. It's time for the Legislature to pursue solutions that will build prosperity for the vast majority of Nebraskans and LB276 does that. The Department of Revenue estimates that the S corp of an LLC non-Nebraska income exclusion cost the state $82.9 million in 2018 alone. No surprise, we would love to see those funds made available for K-12 public education, but they would also be well spent on property tax relief or a litany of other possible priorities. The state of Nebraska has been experiencing largely self-imposed budget shortfalls in recent years. The solution to that problem is more revenue from sources other than property taxes and LB276 closes a loophole that was created to benefit a few companies and has done just that over its history. For these reasons, we support the bill and urge you to advance it from committee. Thank you, and happy to take questions.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you.

ANN HUNTER-PIRTLE: Thank you.

LINEHAN: Other proponents?

JOEY ADLER: Thank you. Good afternoon, Chairwoman Linehan and members of the Revenue Committee. My name is Joey Adler, J-o-e-y A-d-l-e-r, and I appear today in support of LB276 on behalf of the Holland Children's Movement, a nonpartisan, not-for-profit organization that strives to fulfill its vision for Nebraska to become the national beacon in economic security and opportunity for all children and families. We'd like to express our thanks to, Senator McCollister, for the introduction of LB276 and to share with you that we think that this forward thinking proposal provides a direct and positive response to the voices of Nebraskans. According to the Holland Children's Institute, Nebraska voters outlook in a public opinion research survey that was conducted last September, an overwhelming majority of Nebraskans, 76 percent believe the economic policy of the state has been focused on big corporations and including over half believe that it was focused on out-of-state corporations. At the same time, 58 percent of Nebraskans favor raising revenue by increasing some taxes to balance the budget and allow for increased investments to support the middle class. Only 28 percent of Nebraskans believe that corporations paying their fair share of taxes with 58 percent believing that they are paying less than their fair share. Majorities in Nebraska agree that the state spends too little on job training programs and K-12 education. As the research continues to make clear there is an obvious disconnect that exists between the economic realities of Nebraska's families and where they feel their government is focused. We believe this needs to change and we urge you to advance LB276 to General File. Thank you for your time and service to Nebraska.

LINEHAN: Thank you. Are there any questions from the committee? Seeing none, thank you.

JOEY ADLER: Thank you.

LINEHAN: Other proponents?

DONNA ROLLER: Good afternoon, my name's Donna Roller, D-o-n-n-a R-o-l-l-e-r. I'm just here as a citizen and I've read this bill and I support it and I back previous testimonies that were in favor of this today. And I do feel that-- I've read some other tax bills and you're targeting the little people, the ones that can least afford it like taxing our groceries or taxing a service on my car. And I know that the state has given tax benefits over the-- like one person testified, the last 10 years. We are not taxing the right people and I think the wealthiest need to pay their share. And because any of your other tax bills will detrimentally affect the people that can least afford it. I have children-- my own children struggle with paying their grocery bills. So let's make the people that can most pay for this do it and I support public education and we need to find ways to creatively fund it. And I appreciate you letting me speak today.

LINEHAN: Thank you very much for being here. Are there questions from the committee? Seeing none, thank you. Other proponents? Seeing none, would have opponents.

STACY WATSON: Good afternoon, Chairman Letter-- Linehan, the committee. I'm Stacy Watson, S-t-a-c-y W-a-t-s-o-n, and I'm here to represent the Omaha Chamber at the Lincoln Chamber and the GNTC Committee. I first want to just say that the current law is good tax policy. I think-- you know, the history back in 1986, the point of doing this was to make a C corp, which is taxed at the entity level, which I think it's important to note now that tax rate is currently 21 percent given the new 2018 tax law. And S corps and LLCs, which are also entities they just happen to flow the income through to the individual that we keep parity in the way that we tax these entities. I think that's important for good tax policy. My understanding is part of the reason that we're having this discussion and we want to undo that parity is because we truly believe we are unique in this. And I know you've received a map. There are seven states that-- or eight that kind of get to the same point we are. They take a left. We take a right. The language is different, but what each one of these states is doing is only taxing their share of the income. So if I earn that income in that state that's where I pay the tax. So Texas is a good example. They don't even have an individual income tax, but they don't not tax S corps and LLCs just because that money passes through to them. They recognize that you have to keep parity between entities and an S corp and an LLC is an entity no different than a C corp. And so Texas taxes that entity's income earned in the state of Texas at the Texas rate. So no different than if they earned income in Nebraska, they'd be taxed in Nebraska on the income earned here. They're not taxed on every piece of that pie, they're only taxed on what's earned in that state. And that goes for other states like Iowa, Oklahoma, Washington, Nevada, Tennessee, Michigan, they all tax their portion of the revenue. They don't tax all of it. So we're not unique in the way that we tax. We're unique in the way maybe the law is written, but we all get to the same point at the end of the day. We're only taxing what's earned in our state. I think that keeps us competitive as we talk about this with other states. Iowa has a similar provision. There's is an elective provision. So in years of losses people might not elect to do it. So you might not see the costs the same way we see it. And also, we have no-tax states right next to us: South Dakota, Wyoming. I think if you have seven states that are doing it, some no-tax states, I can't believe that we're just completely unique. I mean, it's sexy. It gets people all riled up, but we're the only state that does it. But I think that that's untrue. But I think more importantly at the end of the day, the fiscal note that you guys have on this is wrong. So the way that they calculate the fiscal note is this is a specific line on the income tax return. And the department-- I'm not saying that you're doing this to hide anything, but you don't have-- you can't see the other state tax returns I see. So I'm just gonna to pick out one of my clients. They have $5 million that sits on this line. So they have a $5 million non-Nebraska exclusion. OK, if I do the fiscal note, you think you're gonna get $400,000, just round numbers off of that. You know, for-- you know, the $5 million times our Nebraska income tax rate. That client pays $770,000 in other state taxes. So by the time I do my credit for taxes paid calculation which would have to be part of this Nebraska gets an additional $6,255. You're not getting $400,000, you're getting $6,000. So the way that you're calculating the fiscal note, you're not gonna end up with $84 million at the end of the day. So I think that you need to be clearer on what kind of monies you actually think this work-- is worth if you don't agree with me that it's good tax policy to keep the parity between entities. The other situation that I looked up for my client is since the Texas tax that I talked to you about before is paid at the entity level, we don't get credit for that tax here at the individual level. So my client will end up paying $240,000 additional tax and pay tax on a 140 percent of his income. I don't think that's the outcome we're asking for, for Nebraska residents. So the other-- you know, we've talked about-- you know, what can happen if-- you know, we've just followed the provisions that are written. But a lot of my clients, as a good tax accountant, I'm gonna change them to a C corp. I now have a 21 percent rate, that's $770,000 in state taxes. I don't get an individual deduction for that anymore, but I do at the C corp level. So there's just more incentive. And if my client changes to a C corp, you don't get any more additional money than you're getting right now because C corps are only taxed on the income earned here. So I think we need to consider-- you know, what we're asking our clients to do. And I know that they mentioned that individuals don't move, but do realize my business doesn't have to move for me to avoid this tax. I individually just have to move. Iowa's right next door. Wyoming's right next door. So I think we have to consider those arguments when we're truly considering this bill and its effects. If anybody has any questions, I tried to talk fast.

LINEHAN: Thank you, Ms. Watson. Are there questions? Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Thank you for coming today.

STACY WATSON: Yeah.

KOLTERMAN: Do you know-- do you have any-- what would be your best guesstimate on how much this could impact our bottom line? How much do you think we could generate just based on what you've seen with some of your own clients?

STACY WATSON: Well, so I went through my client base and over 90 percent of my clients are going to have credit for taxes paid to other states. So that ranges from-- you know, they're paying tax on 10 percent of their income all the way to this client that's gonna pay way more tax-- you know, on their income. You know, just based on my client income tax [INAUDIBLE], I would say you'd probably get less than a third of what you're asking for. It's rare. I wouldn't say it doesn't happen ever because I don't like to use superlatives in that manner, but it's rare that someone's not paying tax to another state. Other states are just like us, they need as much revenue as we do and so they're reaching out and grabbing these businesses in their states to tax them as well. So we end-- as a state we have to give proper credit for that. So I don't think it's gonna be anywhere near the numbers you're thinking. And unfortunately the people who do the fiscal notes, they don't have the purview to look at all these other state tax returns that the individuals are filing. So I'm not sure how they would calculate a correct amount.

LINEHAN: Go ahead.

KOLTERMAN: Thank you. Another question that I would have-- obviously, you work with some high-income earners, do you, do you think this will have a negative effect on our, our state in recruiting and retaining new businesses?

STACY WATSON: I-- from-- so when I look at the entrepreneurs and I know people talk about the high-income people taking on this provision, we find entrepreneurs come here. I have kids that I want to stay here and hopefully they're gonna own their own business one day. But I think that it keeps the people here, this provision absolutely does. If you're, if you're an entrepreneur, you're a high- income earner and you want to live in the Midwest, the states that I've listed a lot of them are in the Midwest and it doesn't take that much to still be close to family, still be close to friends and live in Iowa or Wyoming or a nontaxing state and help them avoid-- I mean, if my income tax is gonna go up-- if I'm the client that's gonna pay $240,000 more because you don't give credit for Texas, I would absolutely consider leaving. I think it might be harder for the younger ones. But as they get older and mature, and they don't have kids here, and when then you take that person out of this state you're no longer getting their retirement income. You're no longer getting them to reinvest in the community. You're no longer getting the philan-- the philanthropy they provide into this community so I think it absolutely hurts our community to have these people move out of state.

KOLTERMAN: OK, thank you very much.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: Thank you. Clarification-- you said 21 percent, that's federal, right?

STACY WATSON: That's a federal tax rate, yep.

GROENE: Yeah, so it don't make any difference where you live.

STACY WATSON: Well, it, it does-- so the S corps and LLC's federal tax relate-- rate at the individual level that's 29 percent, a C corp's 21 percent. So if for some reason you remove this provision from the state tax where they're getting-- you know, they're getting to exclude some of it, now the C corp looks much greater. And then our state tax rate, you're still only going to get the current amount you're getting because the C corp law is not changing. So C corps only pay tax on the amount of income from here.

GROENE: Then why don't everybody do that right now?

STACY WATSON: We-- we're going down that path. More of them will and part of it is the discussion that I had earlier, the $770,000 in state income tax that this person is paying. We used to get a deduction for at the individual level, but now with the new federal tax bill we're capped at $10,000. So he's losing a $760,000 individual deduction. So most likely by the end of this year he will switch to a C corp.

GROENE: Also you gave the example, I don't know if it was that individual, but the state would only get-- not $400,000, but $6,000, and then a little bit later you said he'll pay $240,000.

STACY WATSON: Oh, they're two separate examples. So the first example is the $500 million [SIC] exclusion where if you times that by your tax rate you guys think we're gonna get about $400,000, but you have to give this credit for taxes paid other states. He pays $770,000 in other state taxes-- not all of them are fully creditable because some of it might be this Texas tax or some of them are higher tax rate so you don't get a full credit for the 770. So he's gonna pay the $6,200. But the individual that has just his sales in Nebraska and Texas, right now he pays 60 percent of his income tax to Nebraska and he pays 40 percent to Texas.

GROENE: Which is zero.

STACY WATSON: No, Texas tax is an LLC right now, so he's already paying--

GROENE: At what rate?

STACY WATSON: Well, he's already paying tax on 100 percent of his income. Texas doesn't have an individual tax, but they recognize the fact that the entity should still pay tax. It's the parity between S corp and C corp--

GROENE: What is the rate in Texas on their LLCs?

STACY WATSON: It's .0025, but they do it on the gross receipts not on net income so they're looking at-- if the gross receipts of your company are $10 million they're looking at apportioning that with some deductions versus the net income of let's say a million. So it's a smaller rate but on a lot larger dollar amount.

GROENE: So tell me if I'm wrong. There's a lot of S corps-- the biggest percentage probably in the state of Nebraska, our income is, is, is confined in Nebraska.

STACY WATSON: Correct.

GROENE: So they're paying their tax?

STACY WATSON: Correct.

GROENE: So that eliminates those.

STACY WATSON: Yep.

GROENE: Another chunk of them are making income in Iowa or another high-tax state,--

STACY WATSON: Correct.

GROENE: --so they pay the taxes there or here and one, one gets a credit for the difference.

STACY WATSON: That's correct.

GROENE: So we-- there's pretty much net gain-- no net gain there.

STACY WATSON: Correct.

GROENE: We're talking about individuals in no-tax states, where their secondary income is Texas or Wyoming?

STACY WATSON: Right, but Texas does tax the entity so that's-- I mean, there's very few individuals that are gonna have a company in Nebraska. I mean, to the extreme, that would have a company in Nebraska and pays-- or pays zero tax because they ship 100 percent of their products to South Dakota where there would be no tax because that South Dakota's current statute. So that's-- and that is not the norm. That's not-- there's not a 100 percent of nowhere income sitting out there for most people, and so that's why the $84 million fiscal note is incorrect because you're not taking into account your second scenario.

GROENE: So it's just a few percentage of S corps that happen to have this relationship and we tax them where they do-- [INAUDIBLE] income is they don't tax?

STACY WATSON: Right.

GROENE: That's the difference.

STACY WATSON: Where they have to be selling to a Wyoming or a South Dakota. Correct.

GROENE: Yeah, that's where-- that, that little group we're talking about.

STACY WATSON: Um-hum.

GROENE: Otherwise, it's a wash-- most of that.

STACY WATSON: Right, but I'm not sure that there's the purview into what size that group actually is because you guys aren't-- you're not able to see what other state tax returns they're filing.

GROENE: I've heard it's less than five and there's one big guy, probably the one you're talking about, because they're an energy company and they have a lot of interest in Texas. I mean, it's probably not a big pool of people.

STACY WATSON: Yeah, I don't-- that client's not mine. But, yeah, mine's, mine's just a small manufacturer that actually would end up paying 140 percent tax.

GROENE: All right, thank you.

STACY WATSON: Yep.

LINEHAN: Thank you, Senator Groene. Other questions? Senator Briese.

BRIESE: Thank you, Chairwoman Linehan. Thank you for being here. As written, would we not be giving credit for taxes paid to other states?

STACY WATSON: You will, but only individual taxes. So because Texas taxes at the entity level and they don't have an individual tax, that tax is not creditable. So it's just because state statutes aren't written similarly. And because Texas recognizes the fact that they should tax an entity even though they don't have an individual tax, that tax actually is not credible in the state of Nebraska at an individual level because it's a company level tax.

BRIESE: And your discussion about the fiscal note and the accuracy of the fiscal note, the folks that put together the fiscal note are they not accounting for that credit or--

STACY WATSON: They can't see that credit. I don't-- there would be no way for you to see someone else's state tax returns. You get to see Nebraska. You get to see fed, but you don't get to see the 20 other states I'm filing in.

BRIESE: But that's your testimony that that's the reason for the discrepancy.

STACY WATSON: That's correct.

BRIESE: OK, earlier you, you compared us to Texas suggesting that we're not much different than Texas when you talk about the unique nature of this provision. Can you explain that again?

STACY WATSON: Yes, so basically what this provision gets to at the end of the day is that Nebraska's taxing only the portion of the income earned by customers in their state. Right. That's really the essence of this entire bill. Whether you do it at the C corp level or the S corp or LLC level you should basically tax based on what is earned in your state. And so Texas recognizes that they have no-- you know, they're a little bit backwards-- like I said they took a left, we took a right, but they have no individual tax and they recognize that the income just the way the tax laws are written passes out to the individual from an S corp or LLC. But they also recognize that it's an entity. So why should the individuals that happen to earn that income pay zero tax on it, and a C corp should have to pay tax in Texas. Right? So Texas says, OK, all entities pay tax, C corp, S corp, LLC, and you pay tax based on what you earn from Texas customers. So the way the Nebraska law currently stands, C corps, S corps, LLCs, we all pay tax on what you earn from Nebraska customers. So the law is written differently. It doesn't look the same on the outside. But when you dig into it at the end of the day assuming we tax the exact same income and we had the exact same tax rate, Texas and Nebraska, we would get to the exact same amount of income tax.

BRIESE: So you're suggesting our provision is not as unique as others would make it out to be.

STACY WATSON: Absolutely.

BRIESE: Relative to how many states?

STACY WATSON: There's seven that in my mind when-- if you did the calculation the way we just described it we would get to the exact same point.

BRIESE: OK, with seven states.

STACY WATSON: Seven states, and then I-- and I always throw-- I always think about, well, some states have chosen not to tax. So those, those states are probably more unique than any. And then if you talk about the states that have lower income tax rates than we do that list grows. So in my mind everybody's tax is a little bit different. But we're not the only state standing out here on the island that has a provision in my mind it gets there because it's good parity. It's good tax law to treat entities in the same manner across the board.

BRIESE: And I ask those questions because earlier you said, well, this is good tax policy. What we have is good tax policy. I'm trying to decide, well, if we're unique to the rest of the country, why isn't everybody doing it and you're explaining away some of that anyway.

STACY WATSON: Correct.

BRIESE: OK, but not, but not everybody.

STACY WATSON: No, not everybody. But you know, not everybody defines ag the same way. They do what's good for their state because each of us has a different economy. Each of us has a different reason for attracting people to our state. And so-- you know, everybody does things a little bit differently. But one of seven is not unique. It's hard to find a tax policy that's-- you know, 45, 50 strong.

BRIESE: OK, thank you.

LINEHAN: Thank you, Senator Briese. Senator Crawford.

CRAWFORD: Thank you, thank you, Senator Linehan. And thank you for being here. So some of the conversation has been about parity between S corp and C corp, but are there other differences between S corp and C corp in terms of how they're treated in taxes besides this piece? So, so I'm [INAUDIBLE]--

STACY WATSON: On a federal level, yes. So on a federal level-- you know, a C corp pays an entity level tax and if there's a distribution or a dividend to the individual then they pay an additional dividends tax, and S corp only pays one level of tax. So that's kind of why we have the 29 percent and the 21 percent. But on the C corp side by not-- growing businesses don't tend to distribute dividends because they use that money to reinvest and to continue to grow the dividend. So at that point it really becomes a rate differential. I mean, there's probably lots of small details in between like now the C corp gets to deduct 100 percent of their state income tax. The individual used to, but based on the current federal law of $10,000, now that individual is gonna be limited on those state tax deductions and that's a huge number for some of these people. So the, the C corp-- had the federal law never changed that C corp tax, it might not look so attractive because you'd have at 35 and a 15 but a 21 and-- you know, a possible 15. But with a huge state tax deduction, it makes the C corp look much more attractive.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Senator Groene.

GROENE: In Nebraska, we don't-- an LLC, you don't get taxed. It passes through and then the individual get taxed. You're telling me in Texas they tax the LLC and then not the individual. All right? So what you're telling me then if we did this, somebody in Texas would get taxed, taxed twice. It would be double taxation they'd get at the LLC level plus because that credit can't go against what we would charge on their income,--

STACY WATSON: Well, they wouldn't pay--

GROENE: --we would get taxed twice.

STACY WATSON: The, the Nebraska resident would be the problem. So the Nebraska resident would pay tax in Texas--

GROENE: On the LLC.

STACY WATSON: --on their income-- on the LLC-- at the LLC level and that's deemed to be an entity level tax by law. And then when you came back to your Nebraska individual tax return you would pay tax on 100 percent--

GROENE: Because it flowed through.

STACY WATSON: --because it flowed through to me so now I got to pay tax on 100 hundred percent. And because my tax is an individual tax and this tax is an entity tax just because of the way the state laws are written.

GROENE: So it would be the credit.

STACY WATSON: I don't get any credit, so I paid a hundred tax-- 100 percent tax here and if 40 percent of my sales are to Texas I've now paid 140 percent.

GROENE: You got taxed twice,--

STACY WATSON: I got taxed twice.

GROENE: --because in that instance there's not the credit.

STACY WATSON: Um-hum, and there's more states like that than you would think of, Texas is just the Midwest example.

GROENE: All right, thank you.

LINEHAN: Thank you, Senator Groene. Other questions? I have one that's kind of absent I think from this conversation. If I don't live in Nebraska but I earn money here I get taxed here?

STACY WATSON: Only on the percentage of what I've earned here. So I-- right.

LINEHAN: Right, but-- so just to bring balance to this-- I know this because of personal experience living in Virginia having investment income here we always paid Nebraska income taxes on what we made here.

STACY WATSON: And it depends, there's businesses that earn money here that we still don't tax. I'm not sure why, but--

LINEHAN: For example.

STACY WATSON: For example, if I'm a software company that develops software, but say I sit over in Iowa and I never come over here to visit you. Right? I have no physical presence in this state. But we all know how big software bills are. I mean, if you, if you own a company you spend a lot of money programming so-- you know, for a software programmer. So if that programmer sits in Iowa but they do a million dollars' worth of business in Nebraska, they don't pay a single dime on that million dollars' worth of business in Nebraska if they have no physical presence here. But--

LINEHAN: Kind of like on-line sales tax used to be.

STACY WATSON: Kind of. So you know, right now, I know you guys it's not in this bill but you are discussing the remote seller sales tax provisions, right, and there's a bright-line test that the Supreme Court has set up for that-- the $100,000 and the 200 transactions-- we call that a factor test, OK. So there's a-- there's an economic factor test that they've set up. You've set up the limitations. So businesses love clear and concise things. Right? They don't like new taxes don't get me wrong, but they like things to be clear and concise. So what I'm curious about is if we need revenue, why we're not taking that remote seller provision from a sales tax perspective and also translating it into a remote seller perspective from an income tax perspective. Now normally the levels aren't the same, maybe you say it's $300,000 worth of sales or maybe it's $500,000 worth of sales. But if I'm sitting over in Iowa and I sell a million dollars' worth of product into Nebraska and I don't have to pay a dime of income tax to the state, that's not good tax policy. They should be equal. So I think now that Wayfair has given the states the purview to go out under economic tax policy and reach out to these businesses that are receiving economic benefit from inside your state, we should do that for both sales tax purposes and income tax purposes.

LINEHAN: Thank you. Other questions? Thank you very much for being here.

STACY WATSON: Thanks, have a great day.

LINEHAN: Thanks. Other proponents? I mean, opponents. I'm sorry.

MICHAEL CASSLING: Madam Chairwoman, members of the revenue committee, my name's Michael Cassling, M-i-c-h-a-e-l C-a-s-s-l-i-n-g. I'm CEO of Cassling, a Nebraska-based healthcare company formed as a subchapter S. I'm here to testify against LB276 on behalf of Cassling, which was founded 35 years ago by my father. Since its founding, Cassling has grown from a regional distributor of medical imaging equipment to the largest global partner of Siemens. Success in the medical imaging space has allowed Cassling to expand into other segments of healthcare. In 2011, we purchased a company, IT company, and relocated from Seattle to Omaha. The company now has 50 high-paid IT professionals in Omaha and just moved into a state-of-the-art facility. Cassling's portfolio investment continues to grow. Our investment philosophy prioritizes local entrepreneurship and we made investments in at least ten Midwest start-up companies to date. With also being in Nebraska company, we're really focused with our Nebraska values and philanthropy is at the heart of our culture. Just last week we served as the lead sponsor of the American Heart Association Ball in Omaha which raised over $800,000 which stays in the state of Nebraska. Also we allow our employees paid time off so they can volunteer work and have a company-led committee that puts money back into the communities we serve. None of this would be possible without Cassling's ongoing financial strength and this bill would jeopardize that. LB276 would negatively impact Cassling, but it's not just about us. According to the Census Bureau in 2016, there's some 36,000 businesses in pass-through form in the state employing more than 340,000 individuals. Small business growth outpaces C corp growth in Nebraska as there was a 13 percent increase in the number of Nebraska-based pass-through entities between 2010 and 2016. By contrast, C corps decreased by 9 percent. Collectively, we are the entrepreneurs driving growth in Nebraska. We are not driven by Wall

Street. The only way and the best way to increase revenue and deal with this tax issue that we all agree with and needs to be fixed is to increase the number of companies and number of individuals that come to this state. Nat-- Nebraska's national relevancy and financial stability is incumbent upon promoting a business-friendly environment that encourages companies to locate-- remain in Nebraska. LB276 would hurt this goal by increasing tax burgen-- burden on residents of small businesses like Cassling, already at-- taxed at high rates-- of higher rates than those immediately adjacent to Nebraska. I thank you for the opportunity to speak today and share my views. I do appreciate the sacrifice you do for the state. I do not envy your job at all. But I'm here-- I love Nebraska-- born and raised here. I want to see the state grow. It can grow. But LB276 would be a loss of people, would be a loss of jobs, and would be a loss of revenue for the state of Nebraska. Thank you.

LINEHAN: Thank you, Mr. Cassling. Are there questions from the committee? Senator Groene.

GROENE: So when you do business in Iowa--

MICHAEL CASSLING: Don't get as technical as Stacy's. [LAUGHTER] Sorry.

GROENE: I hear it makes me sound smarter. But anyway, so when you do business in Iowa, you're paying their tax, right?

MICHAEL CASSLING: Correct.

GROENE: So--

MICHAEL CASSLING: We pay a lot different returns throughout the country.

GROENE: So it's just a few states where you might be doing business and--

MICHAEL CASSLING: But it, it has a, it has a big negative impact as we look it, as our accountants look at it.

GROENE: That's fine, I just wanted to clarify.

MICHAEL CASSLING: Yes, but we do-- we have multiple state returns.

GROENE: So you're not, you're not-- so nobody believes you're just skating tax free with all the business you do in a different state. If that state has an income tax, you're paying?

MICHAEL CASSLING: We are, because that is correct.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Thank you for coming today, Mr. Cassling.

MICHAEL CASSLING: Absolutely.

KOLTERMAN: You, you-- did you indicate that you, you purchased a lot of entrepreneur or business types--

MICHAEL CASSLING: Invested and started, started in both.

KOLTERMAN: Started and invested.

MICHAEL CASSLING: Correct.

KOLTERMAN: How do you think-- do you think that would slow down in our state, if, if this bill were to pass?

MICHAEL CASSLING: Absolutely. I think by passing this bill, you're telling all those people that are looking to start up businesses or maybe come here because of the great school system and a great place to raise kids, you're telling those people we're closed for business.

KOLTERMAN: And, and a lot of your business has to do with the, the, the ability to use soft-- develop software. Is that, is that accurate?

MICHAEL CASSLING: We have a soft-- we have a software company. We have, we have multiple companies. One-- you know, we sell and service the Siemens product line that's with the, with the largest global distributor. We moved the software company to Omaha. We have service business-- all in healthcare but multiple different components of healthcare.

KOLTERMAN: And you've located in Omaha.

MICHAEL CASSLING: Correct.

KOLTERMAN: Omaha-- as, as I've been here and worked in this body for the last four years, I've real-- I've come to realize that Omaha is a very philanthropic community.

MICHAEL CASSLING: It's absolutely--

KOLTERMAN: Probably one of the best in the nation, proportionate to size. What kind of a negative effect do you think this would have on the philanthropic community in, in our state?

MICHAEL CASSLING: Those companies like ours and many others that are subchapter S or pass-through or LLCs that would dramatically decrease that amount. We've, we've put in millions of dollars back-- not only into Omaha but communities and state colleges and scholarships across the state as others who will testify, and that would be-- we would cut that back if we stay.

KOLTERMAN: Thank you.

LINEHAN: Other questions? Senator Crawford. Thank you, Senator Kolterman. I'm sorry. Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you, Mr. Cassling, for being here.

MICHAEL CASSLING: Absolutely.

CRAWFORD: So I'm very glad that you're in Nebraska. But I just wanted to ask what brought you to Nebraska or keeps you in Nebraska given that there would be tax free-states nearby?

MICHAEL CASSLING: I mean, obviously like I said, I was born and raised here. It's a great place to raise kids. It's got great school systems. My kids, as long-- as well as myself went through the public school system. So it's a great state. But if we keep upping the taxes or change the parity between sub S and C corporations, it's just gonna encourage us to look elsewhere and others or not start up businesses or not bring business in. And it's not so much about just us, whether we would stay or not, it's about all those companies that are prob-- most likely LLCs, all these smaller startups. All these great companies like a Hudl, who has come here-- who started up here are L-- a lot of them are LLCs. They will not come here. That's my biggest concern is we cannot fix our tax base issue unless we get pro-business and do things to attract businesses, to attract people. I said I'm running a statewide focus on IT work force development. It's a huge issue for our state. If we don't get more people to come to this state to drive it, we won't get business. We all need to work together to drive the growth and that's, that's my biggest concern with this bill, is it will kill future growth which will kill the state.

CRAWFORD: Thank you.

GROENE: Can I?

LINEHAN: Thank you, Senator Crawford. Senator Groene.

GROENE: I'm gonna question your summation. So what you're telling me, we can keep you here--

MICHAEL CASSLING: I don't--

GROENE: --because you can do business in Texas and still get the advantage of no income tax. If we tax you for what that vantage of no income tax you might as well move to Texas.

MICHAEL CASSLING: That's an opportun-- that's a possibility.

GROENE: But that's, that's what I'm trying to figure out here. Just because you're an S corp or an LLC, if you do all your business in the state of Nebraska or you do all your business in states that have similar tax, you're paying taxes on that income.

MICHAEL CASSLING: Um-hum.

GROENE: The only advantage doing business in those states, they don't have a state income tax. But we can keep you here and you can do business in Texas and take the advantage of not paying income tax on the business in Texas. If we tax you, you would move to Texas because then you can just not pay income tax at all.

MICHAEL CASSLING: That's a possibility, and like I said--

GROENE: Am I putting things together here right?

MICHAEL CASSLING: But the bigger issue is who's not gonna come to the state. Who-- because of this bill because this pair-- making a parity or difference between the LLCs and the sub S, those, those startups-- all-- who's not going to come to the state. Those are the ones I'm really concerned about, because in order to fix this tax issue we need more businesses into the state. In order to help the farmers decrease property tax, which I'm all-- absolutely for, we need to-- we need ag, we need business. But the way to get there is to bring more businesses, to bring more people, to bring more tax revenue into the state. And this bill will not help, this will do the opposite for that. That is my biggest concern, not us leaving or what we would do, it's the future of the state and what this bill says to all those people, all the surrounding states around us.

LINEHAN: Thank you, thank you. Senator Kolterman.

KOLTERMAN: No.

LINEHAN: Senator Briese.

BRIESE: Thank you, Chairman Linehan. And thank you for being here today, appreciate everything. Do you feel that owners' property taxes are impeding economic growth in our state?

MICHAEL CASSLING: Well, property tax is definitely an issue. I mean, I hear from our employees-- our houses and everything, it's, it's-- there's, there's no question it's an issue here.

BRIESE: Fair to say it's choking off economic growth in some areas?

MICHAEL CASSLING: Prob-- I'm sure.

BRIESE: OK, thank you.

LINEHAN: Thank you, Senator Briese. Other questions? Thank you very much, Mr. Cassling, for being here. Other opponents?

RON QUINN: Good afternoon, Madam Chair and members of the committee. My name is Ron, R-o-n, Quinn, Q-u-i-n-n. I'm here representing Tenaska Energy, Inc., and its employees and owners in opposition to LB276. I serve as executive vice president of Tenaska, which is organized as a combination S corp/LLC company. Tenaska's headquarters office is in Omaha and it engages in business throughout North America. Tenaska was a start-up business in 1987 and established its headquarters office in Nebraska. In part, because the founders lived here and wanted to stay here and make a difference to Nebraska and due to the pro-business, pro-growth provisions and incentives of the Employment and Investment Growth Act, LB775, that was passed that year. Without that legislation, there would have been a more logical and business-friendly state to establish Tenaska's headquarters. It is fair to say that absent that legislation, Tenaska likely would not be-- have started here and be here today. Passage of LB276 would increase taxes and dramatically and detrimentally affect decisions of S corps and LLCs that do any of their business outside the state. The legislation would treat business income of S corps and LLCs differently than C corp, C corp business income. In my mind, that makes no sense and is unfair on its face. Moreover, it would tax the business income of an owner of a company who resides in Nebraska more than a nonresident owner of that same company. Again, that makes no sense. The stated goal of this bill is to increase the state tax revenue. But the effect would be the opposite. The impact would be a huge net negative for the state and would cost the state much more than any projected revenue benefit. In my mind not only would the revenue not be raised, but you could lose income of existing businesses that might choose to relocate. It would discourage businesses from starting and keeping their businesses in Nebraska, and it would incent owners of companies to base their businesses in states with lower tax rates or more favorable business environments. Also, it's important to note that there would be a significant negative to the impact of the nonprofit sector. You've heard that from everybody on the opponent side here today. Owners and employees, owners and employees of S corps and LLC businesses donate millions of dollars and provide countless hours of volunteer support to Nebraska charities, institutions, and nonprofit organizations every year. When Tenaska started as a small business with six employees, the founders considered where to locate the company. They were from Nebraska, they wanted to stay in Nebraska. Tenaska's first three power plants were built in Texas. It would have made more sense to base the company there or in a more tax friendly state than Nebraska. Today, more than two-thirds of our employees and a majority of our business activity is outside the state but our headquarters is here. Recent changes in the federal tax code that limits the deductibility of state income taxes is added to the burden of residing in a high-tax state. You heard that earlier as well. The proposed bill would make it burdensome and more costly for S corp and LLC businesses to start up and remain in Nebraska. Our loyalty to Nebraska and the significant long-term investments and commitments Tenaska, its owners, and employees have made to the state for the past 32 years are ignored and taken for granted by LB276. The signal with this bill to all S corp and LLC businesses, large and small, is unless the business you own and does all its business in Nebraska, we don't want you to live here or to be here. For these reasons, the owners and employees of Tenaska respectfully oppose LB276 and would ask that you not move it forward. Thank you for the opportunity to testify in this bill. I'd be happy to answer any questions.

LINEHAN: Thank you. Do you have questions from the committee? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for being here, Mr. Quinn. How would you rate Tenaska's concern over the property tax burden we have in Nebraska?

RON QUINN: Well--

BRIESE: The impact of high property taxes have on your company for example.

RON QUINN: The impact of high property taxes has more of an impact on our employees and us as citizens than it does on us as a company because we don't have a high asset base as a company in Nebraska. Because as you know, Nebraska is an all public power state. It doesn't welcome nonpublic power. But from an individual citizen and resident standpoint, property tax bills are very high. It's an issue when we are attracting and retaining employees to come here as well as the climate. But in any case, we can't do much about one. We can try to do something about the other. Again, as this has been said, we would applaud efforts to bring down property taxes. There's no doubt it's an issue in our state. I just don't think that this is the way to go about it. Pro-growth, more business, more population, more payroll is the way to bring this down, not-- you, you want to tax what you want less of and not tax what you want more of, and this does just the opposite.

BRIESE: But your testimony is that high residential property taxes impede your ability to recruit employees for your company.

RON QUINN: I would say it's, it's an issue although a lot of them don't realize it till after they're here. [LAUGHTER] Try to license a car. It's not something we highlight in the recruiting process.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Kolterman, is up first. I did, I saw you first.

KOLTERMAN: All right, thank you very much.

LINEHAN: You're welcome.

KOLTERMAN: Thank you for coming, Mr. Quinn.

RON QUINN: You're welcome.

KOLTERMAN: Can you-- obviously you've had a chance to look at the fiscal note involved with this bill. Do you have any thoughts about that?

RON QUINN: I, I glanced at it. Again, I do-- I-- I'm not an expert on how fiscal notes are prepared. I do-- am kind of persuaded by the comments of, of chair-- of, of Miss Watson, but I don't know how the fiscal bill could be prepared knowing what credit would go to other states. So I think that's a valid comment. The one thing I did notice is at the end of the fiscal note-- I meant to bring it up here with me, is that it states something about the compensation and there is nothing in this bill that deals with compensation. Just so everybody is clear, this is about a bill on business taxation. This is not a bill on investments or personal investments, stock or bond ownership, compensation wages, that's not what this bill is about. We as employees are all in relatively high-paid jobs paying all of our Nebraska income tax on all of those kinds of income. This is about the tax on business income, separate and apart. And again, to tax one form of business income one way and another form another way, to me just doesn't make sense. If-- they should be parity, they should be the same.

KOLTERMAN: And, and you indicate you have a large amount of business in Texas.

RON QUINN: Around the country. Yeah, we, we, we built three plants in Texas, yes. And we pay-- anticipating what might be a question, is we pay taxes in all the states in which we do business in accordance whatever those state-- states tax on business income or how it works into for LLCs and S corps.

KOLTERMAN: That's-- that was my question. Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: Thank you, Chairman. I-- just a comment. You keep talking about Nebraska. I wish your philanthropy wouldn't stop at Lincoln and Omaha, there's a whole big state that could use some of that.

RON QUINN: Well, I would be happy to tell you that-- in fact, our chairman was born in Bruning, Nebraska-- Nebraska native, is very concerned about outstate Nebraska. A foundation, the Hawks Foundation provides scholarships and grants across the state from border to border. There's big scholarship funds going to a large majority of all the colleges and universities in the state. So I would say that it does not stop at Lincoln.

GROENE: We've got a couple needs out there. We'd gladly put his name on the building. [LAUGHTER]

RON QUINN: I'll, I'll, I'll forward that on.

LINEHAN: Thank you, Sen-- Senator Groene, thank you. Other questions from the committee? Thank you very much for being here,--

RON QUINN: Thank you.

LINEHAN: --Mr. Quinn, appreciate it. Good afternoon.

TODD SIMON: Good afternoon, Senators. My name is Todd Simon, T-o-d-d S-i-m-o-n. I'm a senior vice president and fifth generation family owner of Omaha Steaks. I'm testifying in opposition to LB276. Omaha Steaks has been in my family and in Nebraska for over 100 years. We have significant operations in Dodge, Douglas, and Sarpy counties. Here are some facts about Omaha Steaks business impact on the Nebraska economy: we've invested $100 million in fixed assets in the state in Nebraska. We employ 1,425 full-time employees and additional 3,000 employees during the holiday season. We have a $74 million annual payroll. We produce 23 million pounds of beef and pork annually. And last year we shipped 4.2 million coolers outside of the state of Nebraska. Omaha Steaks is the largest exporter of Nebraska Beef Products through direct to consumer channels in North America. A significant portion of our sales revenue is collected outside the state of Nebraska but it fuels the Nebraska economy. The positive economic effects on Nebraska are significant and far-reaching. We invest our sales revenue to buy meat from packers in Dakota City, Grand Island, Lexington, Schuyler, and South Sioux City. The meat packers pay the feedlot operators. The feedlot operators by their feeder cattle from our state's ranchers. Of course they get their feed from our state's farmers. The ranchers invest in and support in their local communities. And my family also has a long history of philanthropic support throughout these communities and the state. Omaha Steaks buys coolers, packaging, and other supplies from hundreds of Nebraska-based companies. Couple those expenditures with our $74 million payroll, the support to Nebraska's economy is immense and far-reaching. The high level of advertising we do raises the profile of Nebraska beef nationally and internationally helping to drive demand for other producers as well. I will let-- and the others have spoken on the technical aspects of the bill, but I believe LB276 will create an incalculable impediment to expanding Nebraska's economy. Nebraska's border states will exploit LB276 as a recruitment tool if it passes. The negative impacts would include the loss of current and future businesses, high-paying jobs, mater-- and material investments being siphoned off to other states. And this bill discriminates against family businesses because of their chosen corporate structure. Our planning for capital expansion and additional personnel requirements is on precarious grounds because Omaha Steaks cannot commit to future expenditures because of this bill. The business landscape is increasingly competitive. Placing additional tax burdens on a company like Omaha Steaks, will reduce opportunities to reinvest, grow, and support the many businesses and citizens of this great state. Let's all work together so that companies like Omaha Steaks can thrive for another hundred years in a business-friendly Nebraska. I appreciate the Revenue Committee allowing me the opportunity to appear and give testimony today. Thank you.

LINEHAN: Thank you, Mr. Simon. Do we have questions from the committee? Seeing none-- I, I did have one. I'll, I'll give you one. So a $100 million in fixed assets invested in Nebraska, I assume a large portion of that is-- has a property tax bill?

TODD SIMON: Oh, most certainly.

LINEHAN: Thank you.

TODD SIMON: Thanks.

LINEHAN: Thank you.

SHERI ANDREWS: Adjust this a little bit for short person. My name is Sheri Andrews, S-h-e-r-i A-n-d-r-e-w-s. I apologize for my voice but this changing Nebraska weather is causing some havoc with it. I'm here today to represent Lozier Corporation and their shareholders. I'm president and CEO of Lozier Corporation and also a shareholder. And I want to talk about why we oppose LB276, and there are two other bills that also have something in them that's very similar to this. Our company was started in the mid-1950s in Omaha, 30 people. I think that year they had about $300,000 dollars in sales and they had about 40,000 square feet. Today, we have over 1,100 people employed and we have 1.3 million square feet of manufacturing facilities and right around $500 million in sales. Not all in the state of Nebraska. We have plants in Missouri, in Pennsylvania, and in Indiana, and in Alabama. If we became an S corp in 1982 when the federal law changed, and then in 1982 our primary shareholder moved to the state of Washington and he did so because of the way Nebraska taxed at that point in time, S corps. And what we're talking about here is going back to that kind of a taxation. And you can-- before you ask, I'll tell you I think we file in about 35 to 38 states. But when you run the numbers, because Nebraska's rate is pretty high, a lot comes due in the state of Nebraska that we don't pay today, which would create a real competitive disadvantage for us because our primary competitor is in the state of Texas. And with Texas income tax is not being deductible anymore on the fed, that makes a huge difference. With the 1,100 people in Nebraska, our payroll is $62 million, and we had Nebraska tax withholding of $2.7 million. If the bill goes forward and becomes law, we will seriously have to look from our standpoint as to whether the shareholders stay in the state of Nebraska. I will tell you that the shareholders do have a foundation, a Lozier Foundation, that does a lot for all communities in Nebraska. I'm not sure if it reaches all of yours, but I will tell you they do an awful lot with education and health and human services and that would probably go away. Thank you.

LINEHAN: Thank you very much. Questions? Senator Groene.

GROENE: Just out of curiosity, what's your product line?

SHERI ANDREWS: We sell store fixtures. So if you want to be in a difficult environment, that's one. But, yes, we sell store fixtures.

GROENE: [INAUDIBLE] process.

SHERI ANDREWS: Um-hum.

LINEHAN: Other questions? Thank you, Senator Groene. Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for being here. I assume property taxes are a concern for your company also.

SHERI ANDREWS: They are.

BRIESE: Any idea what percent of profit they would represent if you're comparing profit to your property tax burden?

SHERI ANDREWS: Well, our property taxes are about $700,000 dollars, so it's real minor.

BRIESE: OK, still, still a concern though?

SHERI ANDREWS: Um-hum.

BRIESE: And a concern for your employees?

SHERI ANDREWS: Absolutely.

BRIESE: OK, thank you.

LINEHAN: Are there any-- I know you're having fun. [LAUGHTER]

SHERI ANDREWS: All right, I'll wait.

LINEHAN: You're doing well. Any other questions from the committee? Thank you, Senator Briese. Seeing none, thank you very much. Appreciate it. Are there other opponents?

SARAH CURRY: My name is Sarah Curry, S-a-r-a-h C-u-r-r-y. I'm the policy director for the Platte Institute and I'm here to testify in opposition to this bill. The result of LB276 will be a net tax increase on shareholders of S corporations and limited liability companies in Nebraska because these types of businesses are treated as pass-through entities as you've heard earlier. The Platte Institute believes this bill, if enacted, would increase the effective tax rate on many Nebraska businesses both large and small. Moreover, this bill does nothing to aid the state in its journey towards lower taxes or a tax reform plan. It only raises taxes on small businesses and their shareholders. Many states have a throwback provision for their C corporations, however, Nebraska does not. There was a change on the taxation of corporations in the federal '86 tax reform. Because of this change, the Legislature chose to establish parity between the taxation of multi-state taxable income of C corps and that of S corps and LLCs in '87. That parity would no longer exist if this legislation was adopted. We recognize that Nebraska does have a credit for income taxes paid to other states. But due to Nebraska's high-income tax rate in the region, this credit would not be enough to keep many of those shareholders from moving to a lower taxed state. And I know some of you will say, people don't move because of taxes but our office has already heard of one shareholder that said they would move if this change was passed because it would greatly increase their tax liability. For an example, there would be no credit for taxes paid in South Dakota or Wyoming because these two states have no income tax. So all of that income would now be subject to the Nebraska tax. In the case of Kansas and Missouri, because those states have lower income tax rates than Nebraska, the credit would not satisfy the entire tax liability. Some might say people don't move due to taxes but we're already seeing that in the state of New York having to deal with the large budget shortfall this year because many of their residents have left for lower taxed states. Another concern is on page 10, lines 11 through 13 of the bill where it states, quote, shall include in Nebraska taxable income, to the extent includable in federal gross income, their proportionate share of such corporation's or LLC's federal income. We were unable to find in the Nebraska statutes a definition for federal gross income or federal income. If this is not defined, the effect of this legislation would be so-- would be to equate gross revenues before expenses to the Nebraska taxable income. Any changes should be stated in terms of federal adjusted gross income to avoid this. I encourage the committee to vote in opposition to LB276 to keep taxes from being increased on small businesses and not detrimentally affecting Nebraska's economic growth. Thank you and I'm happy to take any questions.

LINEHAN: Thank you, Miss Curry. Are there questions from the committee? Seeing none, thank you very much for being here.

MIKE HALL: Good afternoon, Chairman Linehan. My name is Mike Hall. I'm executive vice president of American National Bank. It's Mike, M-i-k-e, Hall, H-a-ll. I'm at the distinct disadvantage of the old axiom is, you never follow somebody who's smarter than you are, and I'm unfortunately, I think I'm in that position. There's a lot of educated and well-spoken people that have testified on both sides of this issue. I'll be brief. American National Bank and its stockholders are in opposition of this bill. In 1987, the Unicameral enacted LB773 which wisely, I think, they did so to address apportionment of multi-state income to S corps and LLCs. Such was to create parity among Nebraska resident taxpayers and nonresident taxpayers.

Unfortunately, as has been previously stated, Nebraska individual, individual tax rates are higher than states nearby. Passage in this bill could result in Nebraska resident shareholders of multi-state S and-- S corps and LLCs owing more in Nebraska state income tax than nonincome-- than nonresidents in tax, and we would question whether this is good public policy. LB773, as previously approved by the Unicameral, provided for such fair treatment in shareholders in these organizations and relied on this for multiple years. It would appear also as a by-product of LB276-- other bills introduced in this session, LB314 and LB614 would repeal provisions of previously enacted legislations regarding S corps and LLCs. C corps do not appear to be affected. You have-- and you have heard from similarly placed organizations that have made significant investments in our state. As part of this group, American National Bank, as a background, is approximately a $4 billion organization, multi-state national bank with physical locations in Nebraska, Iowa, and Minnesota, and production offices in Missouri, Colorado, and Texas. American National Bank employees over 500 of our associates in our operations. And we'd like to think that we are a great contributor to the economic growth of our state. Competitive tax structures continue to be vital to growing a Nebraska economy. Current law is equitable to businesses, C corps and pass-throughs. As many Nebraska, Nebraska business owners report income on their personal returns, it is significantly important to hold parity between the pass-through and the C corporations. Thank you.

LINEHAN: Thank you, Mr. Hall. Are there questions from the committee? Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Mr. Hall, are-- is American National Bank an S corp?

MIKE HALL: It is.

KOLTERMAN: Do you know-- in-- because in my business I have had the knowledge that a lot of the S corps-- a lot of the banks in the state are S corps. Do you have any idea of how many there might be?

MIKE HALL: I do not. I'm sorry.

KOLTERMAN: But you, you do business across state lines. So any, any business like yours, First National Bank-- I know that Senator Stinner has some banks in Wyoming. If that's an S corp, this would come into play. Is that correct?

MIKE HALL: That is my understanding the way it is written, correct.

KOLTERMAN: OK, thank you.

LINEHAN: Thank you, Senator Kolterman. Other questions from the committee? Thank you, Mr. Hall.

MIKE HALL: Thank you.

LINEHAN: Good afternoon.

JOHN CEDERBERG: Good afternoon, I am John Cederberg, J-o-h-n C-e-d-e-r-b-e-r-g. I'm a-- an accountant-- actually a business-- an accounting and business consultant here in Lincoln. And interestingly enough, virtually all my clients are out-of-state, they're-- but, but I don't have nexus out-of-state. I am here representing myself. I have-- I will make a couple of comments. I am here in opposition to LB276. Since I do not intend to occupy the committee's time to repeat testimony on LB314 and LB614, I want to register that I am opposed to the similar provisions there. I have provided the committee and the page is, is sending out another memo or distributing another memo. I would appreciate those being included in the record if you would. I also have some extra copies of the material should someone here want one. First of all, there seems to be a perception that somehow these apportionment provisions were part of the economic development incentives in 1987. That is not correct. In 1987, we had three parallel but somewhat separate efforts going on. I looked around the room and I'm really believing that maybe the institutional memory in the room is Mrs. Andrews and I. We were partners at the time that at Touche Ross. But in 1987, we were trying to rewrite the individual income tax to align with the Federal Tax Reform Act of 1986. It would have reduced our revenue from the income tax significantly. We needed to align with that tax less materially. We also needed to revise the corporate tax to align and we needed-- and then we did have, of course, the economic development incentives. This apportionment-- these apportionment provisions were not-- had nothing to do with ConAgra. They had nothing to do with economic development centers. They were driven by two objectives. The committee-- the Revenue Committee and the Legislature were trying to do-- to achieve two things. One, recognizing that S corporations are incorporated, and remember there were no LLCs at the time, that S corporations are incorporated as are C corporations. They wanted to align our corporate tax in such a way that there was as much identity between S corporation and C corporations for state purposes as we could accomplish. And secondly, that it should make no difference where the shareholder lived with respect to the tax they pay. If they lived in Nebraska, if they lived in Wyoming, if they lived in Iowa, Missouri, Texas, or wherever, that it shouldn't make-- that that should be an absolute neutral decision for the shareholder of S corporations. Those were the driving factors in, in adopting those provisions in the first place. I haven't heard it yet today, but two years ago when similar proposals were proposed in the Legislature, we heard a lot about the lack of debate. That there's a single paragraph in the, in the legislative record on General File where Senator Vard Johnson, then the chair of the committee, explained the provisions. And that the implication is that somehow that slipped through for some reason. I was there. I can assure you that was not the case. As a matter of fact, somehow it fell to me to do the briefing of the senators, one at a time, and make sure everybody understood what was happening so that we didn't have the need for an extended debate on the floor. The, the legislative record is really the result of a consensus in the body that this is the right policy for the state of Nebraska. With that, I am willing to take questions. I would seek your questions. You know that I'm opposed to the, the provisions, but I will-- I, I am not here representing any organization and I will be as honest and forthright in my answers as I can be.

LINEHAN: Thank you, Mr. Cederberg. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. I apologize for not being here for the whole discussion because I was really looking forward to this. So when we talk about apportionment and how we treat taxes coming in from other states, do we-- you know, with sales taxes now-- we've got the sales tax that we're going to start collecting, Internet sales, and so do we tax money leaving the state under franchise agreements and stuff like that? If they earn their money here, do we tax that money leaving the state? You, you talk here about credit-- you know, other states that you pay tax in that state you get a credit for-- not here, but are we doing that-- are income taxes money leaving the state?

JOHN CEDERBERG: Let me understand the question, is it that a McDonald's franchisee pays a franchise fee to McDonald's Corporation of some sort somewhere,--

FRIESEN: Something like that.

JOHN CEDERBERG: --and do we tax the out-of-state McDonald's Corp on that income?

FRIESEN: For money they earned in Nebraska.

JOHN CEDERBERG: For money they earned in Nebraska. That depends on the franchisor, OK. You know, you take some-- I'm, I'm not imminently familiar with the franchising business, OK. I grew up on a farm, and I've been an accountant all my life.

FRIESEN: I'm still in a fog.

JOHN CEDERBERG: But be all that as it may, I know some of the franchisors have company stores and franchise stores. If they have a company store in Nebraska so that they have presence here, then, yes, they would pay tax-- they would pay Nebraska income tax and that under the, under the source of-- or the location of use standard for services and intangibles, they should owe a tax. They should include those franchise fees as Nebraska source sales I would expect. Now on the other hand if they had no company stores in Nebraska, my-- and had no other nexus in Nebraska such as a different subsidiary or something in a unitary group, my expectation would be that they may not. That this might be-- this-- that this would not be a Nebraska source sale. Now it depends on the state where they are whether the, the throwback rule would make them taxable in their home state on that income.

FRIESEN: But haven't we just in the Supreme Court now said that you don't necessarily have to have a physical presence, and you can have a, a sales nexus?

JOHN CEDERBERG: You're asking an accountant a legal question. But I've been accused of hanging around lawyers too much before, so we'll try again. My understanding of the Wayfair decision is that it's a sales tax decision, and my-- you know, I, I would expect that there's a lawyer probably a whole lot better, better prepared to answer that question than me, but my expectation is-- and, and I know I have read many articles to this effect on Wayfair, that it is up in the air how much of the Wayfair decision can be bled over into income taxes. As of now, my expectation is that you still need either-- this is why you need some physical presence, either payroll in the state, property in the state, some physical presence in the state to, to create nexus. And then once you have nexus, of course, your taxable based on all of your sales in the state.

FRIESEN: OK, thank you, Mr. Cederberg.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Still trying to figure this out. So I've got four states here: Arizona about 4.5 percent state income tax; Missouri, 5, I guess it is around there; Nebraska, 7; Iowa, 8. All right?

JOHN CEDERBERG: No.

GROENE: No, I'm just given some numbers.

JOHN CEDERBERG: Well, that's the nominal rate.

GROENE: Yeah.

JOHN CEDERBERG: You know, these--

GROENE: Well, I don't want to get into details--

JOHN CEDERBERG: Yeah.

GROENE: I'm, I'm doing an example here.

JOHN CEDERBERG: The effective rate is a whole lot less because of the deduction.

GROENE: So, so you're doing a-- your company does a lot of business in Texas.

JOHN CEDERBERG: Yeah.

GROENE: All right, but you don't like Texas. You don't want to live there even though it's zero percent. Because of our, our laws-- even though Nebraska's higher than Missouri and Washington, wouldn't you be better off putting your office in Nebraska at 7 percent because the Texas money is gonna be taxed in Missouri and Washington and Iowa. Is that not correct?

JOHN CEDERBERG: It would be taxed in Missouri and Iowa. It would not be taxed in Washington because they have no individual tax.

GROENE: So are-- part of-- kind of my development ought to be advertising in Iowa and Missouri, two S corps that do a lot of business in Texas, they'd be better off putting their office in Nebraska. Is that not true?

JOHN CEDERBERG: Well, let me back up a bit, Senator. The location of the business,--

GROENE: Um-hum.

JOHN CEDERBERG: --its property, its payroll is not material from Nebraska's perspective where we have a solo sales factor, except for the purpose of establishing nexus in Nebraska. And you know, I, I don't remember exactly-- I know Iowa has a single sales factor also. I don't remember exactly where Missouri is. At one point, I remember they were double sales.

GROENE: But I understood that,--

JOHN CEDERBERG: So that--

GROENE: --if you do business in Texas, in most states you pay income tax on that but then you get a credit of what you would pay in Texas which is zero.

JOHN CEDERBERG: Well, you know Texas is a-- Texas and Washington are outliers that have really complicated the multi-state taxation of pass-throughs. And the reason for that is that, unlike Tennessee which levies the corporate income tax on S corps like a C corp, Washington and Texas do not have a corporate income tax. In Washington, it's a business and occupation tax which is a gross receipts tax. In Texas, it's the margin tax which is a gross margin tax literally. And so those aren't income taxes. And so my understanding-- and you know, both of those taxes came into being after I left Touche Ross and--

GROENE: But your--

JOHN CEDERBERG: --but that--

GROENE: Excuse me, sir.

JOHN CEDERBERG: --both-- I do not believe that those taxes are probably creditable in Nebraska. Whereas, Tennessee's tax is creditable in Nebraska because it's an income tax. And we have a specific provision that allows a Nebraska resident shareholder a credit for taxes-- for income taxes deemed paid through their S corporation in another state. I mean, it, it gets very--

GROENE: I don't think I'm [INAUDIBLE]--

JOHN CEDERBERG: --it, it gets to be a real patchwork.

GROENE: I'm not being very clear on this.

JOHN CEDERBERG: Yeah.

GROENE: That isn't the question.

JOHN CEDERBERG: Try me again.

GROENE: Well, we were told that in other states if you make money in, in Texas you will pay tax-- their taxes if your headquarters are in-- not Iowa, let's say Missouri. Correct? Even though you didn't pay income in Texas, you will pay in Nebraska-- in, in Missouri.

JOHN CEDERBERG: That would be correct.

GROENE: All right, now even though Missouri has a lower rate, that company would be better to have their headquarters in Nebraska with a six point whatever-- a 6.84 percent, because we're not gonna tax that money in Texas. Correct? Because it passes--

JOHN CEDERBERG: Well, are, are we--

GROENE: We don't presently do that, Missouri does.

JOHN CEDERBERG: The question really is, do we have nexus to be taxable in both Missouri and Texas? We do. OK, then the S corporation pays the Texas margin tax on the income apportionable to Texas. The S corporate-- the, the resident who lives in Missouri would pay the Missouri tax and would not get a credit for Texas because it's not an income tax. If they lived in Nebraska, under our present law, there, there is no nexus in Nebraska. There are no business operations in Nebraska. There would be no Nebraska source income. And so-- and they do have [INAUDIBLE] in nexus in another state. So yes it would be better for that shareholder even though the company is headquartered in Missouri and it does business in Missouri and Texas. Under our present law, it would be better for the shareholder from a tax-- state tax point of view to live in Nebraska because he would pay the Missouri tax on the Missouri source income, the Texas tax on the Texas source income, and no Nebraska tax because there is no Nebraska source income. And that's what we set out to do in 1987. We wanted everybody to pay state taxes based on the tax that that state chose to levy. And, and, and, and your example works out perfectly because Missouri chooses to levy a tax, Texas chooses to levy a tax. Those get paid. Nebraska does-- does not under our current law double up. Under LB276, they would double up and ask for an increm-- they would ask for the full Nebraska tax on the Texas source income. And an incremental Nebraska tax on the Missouri source income if they lived in Nebraska. It doesn't make any difference where they're headquartered-- where the business is headquartered. Have I sufficiently confused the issue for you?

GROENE: I think I'm starting to understand.

LINEHAN: Thank you, Sen--

GROENE: You're better to be residing in Nebraska--

JOHN CEDERBERG: Yeah.

GROENE: --between the two even if you had a lot income in Texas.

JOHN CEDERBERG: In those facts,--

GROENE: Yeah.

JOHN CEDERBERG: --that, that would be correct.

LINEHAN: Thank you, Senator Groene. Are there other questions? I, I have one for you, Mr. Cederberg, and appreciate it. And you are right there is, because of term limits, a lack of institutional memory. So we frequently get told that these incentives and tax-- whatever you want to call them, tax laws happened in the last ten years. But that's-- this goes back to 1987,--

JOHN CEDERBERG: That's correct.

LINEHAN: --which was the last time we tried to match up the state income taxes with the federal income taxes, which we just tried to do again a year ago.

JOHN CEDERBERG: Right.

LINEHAN: Right. OK, thank you very much for being here. Unless there's other questions, thank you.

BRYAN SLONE: Chairman Linehan, members of the committee, thank you for this opportunity to be here today. I'm Bryan Slone, B-r-y-a-n S-l-o-n-e. I'm the president of the Nebraska Chamber of Commerce and Industry and would like to testify in opposition to this bill today. But, but talk a little bit more about where we are as a state and, and where this fits or doesn't fit into tax policy for this state. In, in many respects this state is at an economic crossroads at least in terms of competitiveness. There's no question that all 50 states are in a competitive battle for both jobs and work force right now. And that economic growth is not consistent around the country. Indeed in the, in the last several years of one of the greatest economic expansions in this country, our state has not participated at the same levels. We have GDP growth of under 1 percent. We were one of the slowest growing states last year in, in the country. We have population growth of less than 1 percent in the rural communities that I grew up in. We have negative population growth in, in most of those counties. And, fundamentally, as we look at tax-- tax policy in this state, we've got to start asking ourself the bigger question of how are we going to generate even 3 percent much less 5 and 7 percent and even more growth in our budgets both state and local with GDP growth of under 1 percent and population growth of under 1 percent. And as we, as we take on our tax policy responsibilities we have to ask the question, are our tax policies gonna grow our economy? Are they gonna grow the number of jobs? Are they gonna grow the number of high-paying jobs? Are they gonna grow the economies, not only in Omaha and Lincoln, but in counties across the state. And most importantly, are they gonna attract the 20- and 30-year-old entrepreneurs in whatever industry they're going to be in because the guys my age aren't gonna be that important 10 or 15 years from now. The fact is our economy is moving to a technology and services economy in many ways. As we think about tax policy, we need to really focus on the question of how do we tract-- attract these technology and service companies particularly in those industries where we are world leaders currently? Number one is agriculture. How do we attract all these new technology and service companies that are gonna service the new agriculture? As a cattleman friend of mine says, I cease being in the cattle business. It seems like I'm now in the technology business. So how are we gonna attract these companies who are likely suspects to diversify our locally-- our local property tax base and our local income tax base in all the communities around the state. The same is true in manufacturing, our second largest industry as well as banking, transportation, logistics, and healthcare. Whether Nebraska competes or not successfully over the next decades is going to in large regard have to deal with decisions we make in the next several years about what we want our tax policy to be and what we want our tax code to be. And we all seem to be headed towards the direction of a major tax reform and it makes sense because the tax laws were drafted at a time where the service and technology companies were not such a large part of our economy. When you look at where these growth companies are they typically use LLCs and sub S's. I can't remember the last time I formed a C corporation as a lawyer. We want these companies to be here. We want these young entrepreneurs to be here and we want them to choose our state instead of other states. And to correct prior testimony, Iowa actually does not have this rule. So on three of our borders, South Dakota and Wyoming and Iowa, these sorts of companies could avoid Nebraska taxation simply by moving to the other state. Bus-- small businesses in Omaha could move to Council Bluffs, small businesses and South Sioux could move to North Sioux, small businesses in Scottsbluff, my hometown, could move to Torrington. And so we need to be in the business of attracting these businesses. This legislation goes the other direction. Where we do need to go has been suggested before and, and Senator McCollister, and others have had bills on Internet taxation, that should be our first priority to certainly tax after the Wayfair decision, those revenues from businesses who choose not to locate in Nebraska. And as this nexus issue goes forward on income taxes, we should stay current. I appreciate the opportunity to testify today, and would be happy to answer any questions.

LINEHAN: Thank you, Mr. Slone. Are there questions from the committee? Oh, let's let Senator Briese go first.

BRIESE: Thank you, Chairman Linehan. Thank you for being here, Mr. Sloan. Fair to say the property tax relief-- property tax reform is a key component of a pro-growth strategy like you described?

BRYAN SLONE: Yeah, I think there's two components. I think it's both property tax and income tax and in some sort of balanced approach because both are limiters in our ability to attract not only businesses but the work force that we need to be successful.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: Isn't it reality when you talk about GNP, it's all-- if it's down, it's down in ag, which drags down the whole state. Wouldn't you agree to that?

BRYAN SLONE: I, I would say that ag has a, ag has a major portion of it. On the other hand, we've had a great revitalization of manufacturing which is our second biggest industry. And in terms of some statistics, larger [INAUDIBLE] and ag is still our number one. So it's a mixed-- but if I look over the last 20 years even the last 30 years, GDP growth has not kept pace in Nebraska and certainly population growth at less than 1 percent so our tax base is simply not as big. Our population growth compared to Iowa, and even if you take a city like Sioux Falls is, is growing at multiples of what any of our cities is growing here.

GROENE: We question that the same two reasons, high taxes.

BRYAN SLONE: Um-hum.

GROENE: Anybody who has an education and if mobile is not gonna work here with the property taxes and the income tax is not gonna move here.

BRYAN SLONE: Right, so we are--

GROENE: I, I hear from my railroaders when the, when the, when the new yard opens up in Texas, they're transferring because they have no income-- state income taxes if they move down there. So-- and property taxes same thing. But my curiosity is, I've heard you speak about property tax relief, but the other day in my, in my bill you guys testified against it. You'll probably testify against Senator Briese's. Where are you gonna give us-- and how are you gonna give us property tax relief?

BRYAN SLONE: Yeah, so I think-- we think with respect to your bill specifically, we also testified that there are certain aspects of your bill that we would like to continue to discuss and pursue with you. One, one of the things that your bill does that's helpful is there is probably no-- what we've learned in the last 20 years is there is no property tax relief simply by pouring more money into school funding. And your bill and your efforts around taking a look at the TEEOSA formula as part of any solution to property tax is, is something that, that does need to be pursued.

GROENE: But how do you propose paying for it?

BRYAN SLONE: So ultimately,--

GROENE: Internet tax is only $20 million maybe.

BRYAN SLONE: --ultimately, if-- to pay for it simply by shifting taxes from one group to another and not expanding the pie, we represent all companies and all industries within this state. So simply moving taxes from one group to another is not gonna be a successful strategy because we're not only top in property tax-- in the top ten property tax burdens, we're one of the highest income tax burdens. Certainly, one of the top corporate tax burdens in the country. And even our sales tax with all of the exemptions that we discuss, it's the 22nd highest sales tax per capita in the country. We are very simply a very high tax state and until we control expenditures and start growing people, it's gonna be hard to fill that hole. And so we're looking for property and income tax relief based on an economic growth strategy rather than sort of ad hoc legislation. But, but both have to be done, Senator.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So when we talk about a, a, a big tax policy picture, I, I think we're all kind of ready for it. Under our current tax policy and our economic incentive packages that are out there that we have given up a lot of revenue over the years, would you call it successful? Part of it was back then I think the intent was to attract businesses. Has it been successful in that effort?

BRYAN SLONE: At different times it was more successful than others. The, the first-- well, its incentive process really related to a period where we were in danger of losing lots of our companies from this state for, for various tax reasons. It was pretty successful.

FRIESEN: Well, that was at retaining, but [INAUDIBLE]--

BRYAN SLONE: Right, as, as we've gone forward it has been successful in many cases. As we start looking at what we're trying to accomplish we would agree that the incentives program needs to continue to be tailored and refined and if rates were to-- if tax rates were actually-- if business tax rates were actually to go down in this state there would be less of a need for incentives. But right now having some of the highest income tax rates and particularly corporate income tax rates in the country, it's very difficult to compete without incentives.

FRIESEN: So in the past-- I, I mean, numerous senators have talked about, you broaden the tax base, you broaden it out and you lower the rates. Take away the incentives, you use that money to buy down the corporate rate, you buy down the individual rate, you fix property tax problems and you make us a business-friendly, low-tax state and we don't pick winners and losers. Is that a strategy we should be looking at?

BRYAN SLONE: It's part of a strategy and, and it pains me to say this, Senator, because as you know I've been a tax lawyer for 30-some years and although my wife doesn't think I'm, I'm very entertaining as a tax lawyer and in conversation, I would be the first to say that reducing taxes alone is not totally the answer to our problem. We have to solve the work force issue in conjunction with that. But if we can bring jobs and people to this state in, in, in tandem, we can grow the economy. To Senator Groene's point-- you know it's difficult to grow the economy, but we've got to deal with both the work force and the tax issue simultaneously, and we need policies that, that make that happen.

FRIESEN: That brings back the question that we-- you know, we supposedly have 55,000 job openings here and we don't have the people,--

BRYAN SLONE: Right.

FRIESEN: --and, and you want to bring the people in and housing and, I agree, but property taxes are the biggest portion of that housing anymore. I mean, they can't afford the taxes on the houses any more.

BRYAN SLONE: And not, not only property taxes which-- and it is property taxes and income taxes because we start taxing people in this state at a very low rate of income at the highest marginal rate which is already one of the highest in the country. And so even for our work force, income taxes and property taxes are both an issue.

FRIESEN: And, I've, I've heard the comment, I guess, maybe one too many times today about the tax shift, can't raise some of these taxes to lower somebody else's. Where was everybody when the tax shift was happening to agriculture? It was a billion dollar tax shift happened there and nobody said a word. They were quiet. And when we want to shift it back, we've got a problem. Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thanks again for being here. You know, going back to tax shift, when we collect 70 percent more in property taxes in state and local, motor vehicle sales taxes, 50 percent more in property taxes and income taxes. In, in view of that-- in light of that, you still are opposed to any sort of a shift?

BRYAN SLONE: What, what I would say is what we've proved in, in the last 20 years is that a simple shift, a simple shift where all we do is, is shift from property tax base to sales and income tax base and we run that through, it's just created more spending. And that a simple shift without spending controls, we're, we're pretty much certain-- when I graduated from high school in 1975, I believe, aid to schools was $40 million. As we sit today, it's over $1 billion, and all the sales taxes and income taxes that we've collected over the years to try to solve this problem obviously didn't work. And so without some spending controls, in the mix of what we do from a policy standpoint, it's very hard to do. But, Senator Briese, I would agree with you that, that property taxes relief has to be a component of a long-term state strategy.

BRIESE: Isn't tax reform by definition-- doesn't tax reform by definition entail some sort of a shifting of the burden?

BRYAN SLONE: Depends on the type of, of tax reform that, that you do. Ultimately, tax reform involves a lot of hard decisions. But at the end of the day sort of the North Star in tax reform should be, did we make the state more competitive? Are there gonna be more jobs and better jobs? Is it fairer? And will the, will the work force and the young innovators and entrepreneurs come to our state so that we can grow the population of the jobs and the, and the revenue base.

BRIESE: Was it your testimony here just a little bit ago though that a shift coupled with spending caps is more palatable to the business community to the extent we can sure-- ensure that shift?

BRYAN SLONE: I would say that if the-- for fundamental tax reform, what we need to, to figure out is not how to move the tax bills around, but how are we gonna grow the number of people and the number of jobs in this state along with property tax.

BRIESE: OK, thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: Thank you. I, I-- I'm gonna admit I didn't read your letter. I just saw you're in opposition. I'll read it, and then I'll apologize about what you said in it, but you guys came in Education saying $30 more million for the University of Nebraska, nobody's talking about controlling that, we're fifth in the nation per capita as part of the university system and everybody says we just keep throwing money there because we can't do economic development unless we have more people in college dropping out because they're not qualified to be there in the first place because they're trying to get 50,000 students. Where do you-- I mean, we can't-- it's the same thing, you're picking winners and losers. You want to cut K-12, but you'd look at the university and want to spend more, then we got to cut everybody because-- you know, I did in my bills, cut K-12-- well, not cut them, but slowed down the growth. That's what frustrates.

BRYAN SLONE: Yeah so, Sen-- Senator, to, to respond your question, Senator's referring to our testimony in support of scholarships for UNL, and so how does that, how does that align with, with what everything else I just said. In my testimony at, at that hearing, it was limited. That bill was limited to scholarships and we asked that it be amended to address a specific issue which is we pay for a lot of K-12 education for some very bright and talented people and over 50 percent of our ACT scores of 30 and above leave the state for college. And so after paying for all of their K-12 education, we fail to keep them in the state. So the testimony on that bill was specific and was specific to that bill which was we would like to see that bill tailored to keep those 30 and above ACTs in the state. And we think that the return on investment of that makes sense for that specific bill, but it was not a broad general statement beyond that.

GROENE: But, but the thing is you pay for K-12, and you pay for--

BRYAN SLONE: Yeah.

GROENE: --college, doesn't mean they're not gonna leave, too.

BRYAN SLONE: Does not mean they're gonna leave but when they leave somewhere else for college, and I had one of them as my own child, it's very hard to get them back.

GROENE: Thank you, Bryan.

BRYAN SLONE: Thank you.

GROENE: You've been very good about give and take here. Appreciate it.

BRYAN SLONE: Thank you very much.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? I, I have some.

BRYAN SLONE: Yes. That would be very bad form. Sorry, Senator.

LINEHAN: No, no, that's OK. I just want to clarify the record here because there's a confusion with language there. I did read your letter that was submitted for, Senator Groene, and you are very clear that you appreciated very much his efforts to control growth in spending. There was no cuts. It was growth.

BRYAN SLONE: I'm sorry, that was true.

LINEHAN: That's OK. Just-- this is big crowd here. So growth in spending-- and we-- there is no way-- I mean, it's just like if you're in business-- there are a lot of business people here. If you are bleeding, you have to do something about how much you're spending. So that, that has to, to be part--

BRYAN SLONE: Spending controls is inherently a, a component-- I mean, we have to have the taxing and spending go together to, to be competitive and, and to really make a difference.

LINEHAN: Thank you very much for being here.

BRYAN SLONE: Thank you.

JORDAN KLUTE: Senator Line-- Senator Linehan, thank you. My name is Jordan Klute, that is spelled, J-o-r-d-a-n, last name, K-l-u-t-e. I represent our family business, Klute Inc. We are a small business located in York, Nebraska. We fabricate structural steel for electric utilities across the country. I am the third generation of our business. I, I don't want to speak to a lot of what everybody else has said because a lot has been said. I am opposed to the, to the bill and I would just say that-- and Senator Groene has now left, but a lot of what has been brought up is about how complex the rules around state and nexus regulations are about when tax happens. And as someone in a small business, I just want to say that things are getting more complex now that Wayfair was passed. So now with the economic nexus regulations around sales tax, all the states in my opinion are going to be reaching for tax in-- from people in other states. It makes sense because they don't vote for you. And so I just-- I want to bring the point across that there needs to be a focus towards simplicity as we move forward with these regulations because we are implementing the sales tax rules surrounding Wayfair and now we're filing in way more states and the burden of compliance is humongous. And I understand that that doesn't have a lot to do with this bill, but the nexus regulations are a key component of this conversation and it is why there's so much confusion about what is and what is not taxed and what is a credit versus not a credit and why this is even a problem. And with that, I, I will answer any questions.

LINEHAN: Thank you very much for being here, Mr. Klute. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So you know, I'm, I'm very familiar with your business and I know you started out in one area and ended up in a totally different area of manufacturing. So did, did current tax policy in the state help you in any way or has it been a, has it been a big benefit to you our current tax policy, the way it's in place?

JORDAN KLUTE: You know, I, I would just say that I am very appreciative of the support that we have got from the state both in terms of programs for small businesses as well as tax policies surrounding the small business environment that we are in. We utilize a, a number of different programs and we're a manufacturer. We ship things out of state. So we've been able to use the programs that are in place to grow head count to-- you know, we're out in York, so improving a, a rural area and, and employing more people is, is a really positive thing in that, in that area. So--

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Mr. Klute, thank you for coming today. I'm gonna take a little bit of a side twist to this whole thing. We've heard about the brain drain in Nebraska. You and your wife, who is a medical doctor. She just graduated from medical school. You chose to come back to Nebraska. Was there a specific reason for that?

JORDAN KLUTE: The specific reason that our business was growing like crazy and my parents needed me back.

KOLTERMAN: Was there a good draw?

JORDAN KLUTE: It was, it was. I think the, the big draw that we saw is that the cost of living is fairly reasonable here compared to other parts of the country. Even with, even with the real estate taxes that we see in our state we have very cheap housing compared to most states and, and, and you can have a good life here. There's good school systems here. We lived in New York City. We lived in Missouri. That's not necessarily the case there where most people send their kids to private schools after having paid for their own property taxes. So we have it very good here and maybe, maybe, maybe that's the reason that we're running out of money, I don't know. But I would just say that we have, we have a lot of positives in our state that many other states don't have. And I think a number of policies that we have to encourage things are working and I'm happy that we have been able to take advantage of some of these.

KOLTERMAN: Well, I'd like to thank you for coming back especially to my district. I appreciate the fact that we do have a lot to offer in this state. But we do need to work on our tax policy whether it's property taxes or income taxes. They're all too high. So, thank you.

JORDAN KLUTE: I, I will agree with that. You know, you talk to people around the state and they do say we have high taxes. And I think that all states have high taxes in one area or another. And, in my opinion, it is getting to be a race to the bottom for states. You know, you look at states surrounding us, Wyoming has big revenue coming in from oil, that they're able to leverage to, to a great extent in coal and not have income taxes and that's a huge draw for their state I'm sure. Same with South Dakota not having any income taxes is a big draw for small tech businesses that want to, that want to get a, a foothold. So it is tough. I do not envy your decisions that you must make to keep our state running in the right direction and make sure we're still competitive against other states.

LINEHAN: Thank you, Senator. Kolterman. Other questions? Thank you for being here. You do-- oh, I'm sorry, did somebody-- York is a great community with a great school with a great superintendent. Thank you very much for being here.

JORDAN KLUTE: Thank you.

LINEHAN: Other opponents? Is there anyone wishing to testify in the neutral position?

ADAM THIMMESCH: Good afternoon, Chairwoman, members of the committee. Thank you for being here-- this-- my name's Adam Thimmesch, A-d-a-m T-h-i-m-m-e-s-c-h. I'm an associate professor of law at the University of Nebraska College of Law where I focus my research and writing on state tax matters. So I might be one of the only people who's really enjoyed the entirety of the afternoon and this discussion. I am-- I should say at the outset that the views that I will express represent my own opinions and don't necessarily represent the views of the College of Law or of the University of Nebraska. I'm also testifying in a neutral capacity because I wanted to offer my opinions on the S corp/LLC exclusion as a matter of tax policy. I also appreciate that the committee and members of the Legislature oftentimes consider things other than tax or what tax professors have to say. And although I have my own personal opinions on many of the things that have been said in here today, I am-- only professionally have expertise on the tax policy aspects and that's what I will limit my discussion to. What I can say based upon my experience and role as a tax scholar is that this provision does appear to be highly, highly unusual among states. You've heard that in a number of different ways today as I research it it's difficult to pinpoint more than a handful of other states that have a provision like this. You've, you've heard numbers as high as seven which we, we could get into that but I don't have that much time. Even seven is a pretty unusual-- it's a pretty small group and this is an unusual provision because states generally tax to their constitutional power in this area and the constitution absolutely allows Nebraska to tax its residents on their income from all sources derived. And that's what the vast majority of states do, is they tax their residents all-- on all income from whatever source is derived and then they offer tax credits which you've heard about for taxes that they pay to other states. And they do that whether individuals earn income individually, through sole proprietorships, through partnerships, through LLCs, through S corporations. All of those forms of business organization fall within the individual income tax, and the vast majority of state tax on this basis. It should go mentioned, and you've heard this, that Iowa does have a similar provision and that's something that should be taken into account. It's also true the Iowa provision is more limited in that it only applies to S corporations and not to LLCs like the Nebraska provision. Also the Iowa provision is elective and so it's not that taxpayers just get it, you have to elect in and there's an offsetting. There are other features of that that come into play. Interestingly, maybe the Department of Revenue of Iowa also has evaluated this and does not view that to be any sort of incentive type program. That's not how they view their own particular provision. So the question then comes down to from a tax policy perspective is, is there a tax policy reason to support this deviation from a neutral tax code or are there other policy reasons. I'm gonna to leave the other policy reasons aside, you've heard plenty about that. On the tax policy side the argument that you've heard most frequently is the idea of parity and there is something to this idea of parity between S corporations, LLCs, and C corporations. What I can say is that doesn't appear to be the entirety of the story and it doesn't necessarily sway me necessarily from an overall tax policy perspective. There are a number of ways that S corporations and LLCs are not treated like C corporations other than this. Most notably the double layer of taxation that most people are electing out of by using S corporations or LLCs. So this is an example where we can reach back into the C corporation realm and pick out a favorable rule. But it otherwise doesn't necessarily create parity between these tax systems. It also-- current Nebraska law doesn't achieve parity. If I'm an individual, I pay tax on all this income. If I am a sole proprietor, I pay tax on all this income. If I run my business through a partnership, I pay tax on all of this income. It is just these two types of entities that we create parity for with the C corp-- with C corps in the state. So with that said, I-- in sum, when I look at this provision it-- I do identify it as a highly unusual provision. There might be some policy reasons to support it. That's not what my testimony is about, I don't have expertise on that. From my perspective as somebody who studies state and local tax structures, this does look unusual and it doesn't appear to be a compelling tax policy case of when you look at what other states are doing or our constitutional structure. But I'm happy to answer any questions that you have.

LINEHAN: Thank you, Professor. Are there questions from the committee? Yes, Senator Crawford.

CRAWFORD: Thank you, thank you Madam Chair. And thank you, Professor, for being here. So just to clarify, if you are, if you are an indi-- this is individual income tax rates that you're paying. Right. If you are an individual that earns income in another state just as an individual, then you would pay the-- so what is your tax status in that case?

ADAM THIMMESCH: Yeah, so if I, as an individual, were to go to a South Dakota location and give a speech and be paid for that I would be taxed here in Nebraska on that income even though I earned it in another state. I would be offered a tax credit but because South Dakota wouldn't tax it, I would not be able to take advantage of that. I would pay tax on that income under the Nebraska individual income tax rates and structure. And same if I did that as a sole proprietor. Same if I did that through a partnership.

CRAWFORD: So we're taxing that income in all-- for-- to individuals and other who earn other entities just not S corp and LLC?

ADAM THIMMESCH: Yes.

CRAWFORD: Thank you.

LINEHAN: Other questions? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan.

LINEHAN: Thank you, Senator Crawford. I'm sorry.

FRIESEN: I've, I've talked to you before about this and when we talk about tax policy and we talk about the franchise money that's leaving the state and, and other states tax that and right now we don't. Can you talk a little bit more about how that policy is structured or, or how that might play into our overall tax policy picture when we're looking at how we treat someone who does business in another state and how we're treating businesses that come into the state and earn money?

ADAM THIMMESCH: Open floor on that one, that's fantastic, thank you. Yes, what you're referring to is our-- the state's position on nexus for corporate income tax purposes, I believe, or income tax purposes. And my understanding is that the Department of Revenue currently takes the position that we-- that out-of-state businesses who simply earn income in the state are not required to pay Nebraska income taxes unless they have some sort of physical presence in the state. That deviates from what other states do and what the Supreme Court has allowed. States can tax on economic contacts that businesses have in your state. There is some federal protection under public law 86-272 which protects businesses who sell tangible personal property. That doesn't protect companies like the franchise companies that you mentioned, companies like credit card companies. And so my understanding is currently Nebraska just does not tax that type of company that is earning income from within the state, although our businesses are taxed by other states who have those types of provisions.

FRIESEN: So you're, you're saying they probably wouldn't be double taxed either if we taxed them and they would have a credit in their state for taxes paid on the money they earned here?

ADAM THIMMESCH: So for a state's taxing structure to be constitutional, they have to provide tax credits in that type of situation to avoid potential overlapping taxation.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Seeing none, thank you very much.

ADAM THIMMESCH: Thank you.

LINEHAN: Others wishing to testify in the neutral position? Seeing none, we do have letters for the record. Proponent: Ashley Frevert, Community Action of Nebraska. Opponents: Eric Hallman, CEO, Nebraska Independent Community-- I think it's supposed to say Bankers-- there we go, I found it over here; Marvin Hefti, Chairman, First State BancShares, Inc.; Roy Miller, President of First Northeast Bank of Nebraska; Mike Hansen, Dultmeier Sales LLC; Mike Sall, Dultmeier Sales, LLC; Sara Shedd, Dultmeier Sales, LLC; Andrew Richard, CEO, Sapp Bros, Inc.; Tyler Marsh, CFO, Sapp Bros, Inc.; Curt Brannon, SYMPATECO, George Kubat, Phillips Manufacturing Co; Scott McLain, CEO, Garner Industries; Mark Hesser, President, Pinnacle Bancorp; Clay

Smith, President, Speedway Motors; Cal German, CEO, DMSi Software; Howard Hawks, Chairman, Tenaska, Inc.; Mike Cassling, was here; Shari Andrews, was here; Tonn Ostergard, CEO and Chairman, Crete Carrier Corporation; Dan Houghton, EVP and Co-Founder of Buildertrend; Steve Seline, President and CEO of Walnut Radio; Mike McCarthy, Chairman of McCarthy Group LLC; Bill Cintani, President and CEO of Mapes Industries; Robert Horner, Heavy Duty Specialists, Inc.; Terry Peterson, President of Omaha Track, Inc.; Mark Floersch, CEO, Catch Intelligence; Wende Kotouc, Executive Co-Chair, American National Bank; Michael Nelson, Chairman, FirsTier Bank; John Fonda, CEO, John Day Company; Roger Wynne, Board Chair, Banner Capital Bank; Philip Burns, Chairman, F&M Bank, Aaron Shaddy, VP, Tevra Brands LLC; Steve Nabity, CEO, Tek Brands LLC; Tom Olson, Chairman, Points West Community Bank; Vic and Nick Sowl, Central Nebraska Wood Preservers, Inc.; John Nelson, President, SilverStone Group; Justin Osborne, President, Industrial-Irrigation Services; Brian Thompson, Chairman, TLC, Inc.; Troy Bredenkamp, ED Renewable Fuels Nebraska; David Brown, President and CEO of Greater Omaha Chamber; William Dyer, President, Standard Nutrition Company; Bryan Slone, was here; Wendy Birdsall, President and CEO of Lincoln Chamber of Commerce. Ronald and Narbilla Rabe, Omaha. Neutral: no one was neutral. So with that, we'll close the hearing. Oh, I'm sorry, Senator McCollister, I forgot.

McCOLLISTER: Thank you, Madam Chair and members of the committee. I want to thank you for the kind attention for more than two hours on this particular topic. I, I learned a lot about tax policy and I think we all have. So with that, I'm grateful and we-- we'll move together forward.

LINEHAN: Thank you very much. With that, we'll close the hearing on LB276. I do have an announcement because of health reasons, Senator Vargas has had to leave this afternoon so we're going to not have-- OK never mind, we are going to have the Vargas hearings. OK, next is LB-- LB182 by Senator Bolz. Good afternoon, Senator Bolz.

BOLZ: Good afternoon, I am in fact Senator Kate Bolz, that's K-a-t-e B-o-l-z. I'm here to introduce LB182, the local option income surtax. I grew up in the Palmyra-Bennet school district, District OR1. And I've also become, along with my sister, a part owner of a family farm in that community. My nieces attend Bennet Elementary School. So I follow local school bond issues and their impact on rural communities. I understand the school bond conversations are challenging. It's difficult for the community balancing local leadership the need for more space, the interest in athletic facilities, and the pressures on taxpayers. Much of that difficulty stems from the fact that school funding is rooted in property taxes and local control of spending by school boards. Nebraska, in Palmyra and elsewhere, our school districts and local communities have little flexibility to meet educational needs outside of increasing property taxes. LB182 creates a mechanism by which a school board can ask their voters to approve a local option income surtax not to exceed 20 percent for school districts for property tax reduction or building construction, remodeling, or site acquisition for a duration not to exceed five years. With a majority vote of the school board, a local option income surtax could be put on the ballot of the primary general or special election. LB182 clarifies that a local option income surtax shall not increase budget authority for General Fund budget expenditures. In other words, the local community could address school needs in a different way by spreading the cost across taxpayers based on income rather than property tax payments. The bill allows the local option income surtax for building construction, remodeling site acquisition, or property tax relief only. This approach would give the communities the option of spreading the cost across taxpayers based more on their ability to pay according to their income rather than on the basis of how much property tax they pay. The proposal is modeled after a local option income surtax in Iowa. I have a summary here, if one of the pages would grab it, that outlines some of the initiatives happening in Iowa as well as a summary related to the Palmyra school district that I referenced. Local option income surtaxes have been used since the early 1970s in Iowa and now 82 percent of all school districts use this tool as a substitute for additional property tax. I see the local option income surtax as a way to address property tax pressure on school needs in a manner that is more fair to all community members. One question for clarification from when we brought this bill last year, it is our intention and it's our understanding is the way that we've dropped the bill that local option income surtax will not be considered as a resource for TEEOSA. A representative from OpenSky Institute will follow the introduction and can further flesh out any technical questions on that issue. I also have shared with you an amendment to address the fiscal note. While it may not fully address the fiscal note, it is perhaps worth consideration that schools who participate in the local option income surtax could pay a portion of the costs associated with the setup fees for the Department of Revenue. So that's LB182 in a nutshell. My apologies, I don't have 26 letters of support but I do think I have some folks in the room to support and I'm happy to answer any, any final questions.

LINEHAN: Thank you, Senator Bolz. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So in a way I think I, I, I like your approach in, in some aspects. But in the, in the TEEOSA formula we currently could be funding school districts at 20 percent of the income tax currently if we would just fund it, right? And so this is similar to that only it's outside of TEEOSA so to speak and used for special-- is it used just for bonding or things like that?

BOLZ: The purposes that we outlined in the, in the bill include property tax relief, building site construction, remodeling, and site acquisition.

FRIESEN: So if, if we would implement this statewide, I'd be all in favor. But if you're gonna let districts choose, some school districts lose and some gain then because you have some tremendous wealth in some school districts and they're obviously gonna keep getting their money from where they're getting it and they won't change. So if it was, if it was mandatory and statewide, I think there's something like this is-- it is-- kind of it's based on what's your ability to pay and I do like that. But when you're letting school districts choose, that's when we have some industries, I guess, lose and some gain.

BOLZ: May I respond?

FRIESEN: You bet.

BOLZ: I just-- I, I don't think that this is, this is very much different than existing bonding authority that allows the authority for, for property tax. So I, I guess I'm not sure I completely understand your point of view in terms of having it be disproportionate from districts because it's another tool in their, in their toolbox from a local control perspective.

FRIESEN: OK from, from-- take a, a very rural school, you're gonna have to have a vote on whether or not to do the income tax portion. Well right now, if you would have that vote, the vote would not pass because if I can do it just through property taxes you shift the burden to someone else. If you pass the property or the income tax portion, you've now shifted it back onto yourself and those votes won't happen. It's-- it goes back to the problem we have now with bonding and bond issues is that the urban residential homeowner outnumbers the rural ag landowner and we lose the vote. Same goes with this vote. It will not pass. We don't have the votes to pass it.

BOLZ: If, if I can?

FRIESEN: You may.

BOLZ: I guess I, I would offer some alternative perspectives there. The first is 82 different communities in Iowa have implemented it. Different communities of different types. So I'm not sure that it's just as, as clean or clear as more urban versus more rural folks in a community. I would also offer from personal experience the Palmyra-Bennet school district I think actually is a really nice example because it's, it's not-- it's, it's a pretty close split urban and rural. And there are people in that community who may live in the, the village of Bennet. But for example, my older sister, she, she has family farm ties. And I would say a lot of people in that community have family farm ties. So I don't know that it's as simple as a self-interested vote.

FRIESEN: When you, when you compare Iowa though-- I mean, they are obviously-- the, the state pours a lot more money into their funding to start with. And I don't know if they have access to any other funding. So if you're at the end of your levy limit or whatever, yes, they would probably vote for it. And then I think that's access to other sources that changes the vote also.

BOLZ: Um-hum.

FRIESEN: If you have no other source of funds, you'll, you'll take where you can get it.

BOLZ: Sure.

FRIESEN: Does that make sense?

BOLZ: Yeah, I, I, I think it's, it's an argument for sure and that certainly you have a, a-- there's logic behind what you're presenting.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions from the committee? Seeing none, will you stick around to close?

BOLZ: I'll stick around.

LINEHAN: OK. Proponents for LB182? Hi. Go ahead.

TIFFANY FRIESEN MILONE: Thanks.

LINEHAN: A little awkward.

TIFFANY FRIESEN MILONE: I was waiting for you to look up. Chairperson Linehan and members of the Revenue Committee, my name is Tiffany Friesen Milone, T-i-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e, and I'm policy director at OpenSky Policy Institute. We're here today to testify in support of LB182, the School District Local Option Income Surtax Act because it's one way to reduce property taxes. In fact, it could do so almost 17 percent statewide. It does this by expanding the funding options available to school districts to support education beyond property taxes and state support. It taps into another revenue stream the income tax that can be utilized to support local school districts. I've handed out the school district by school district impact of a 1 percent, a 10 percent, a 20 percent surtax, and also a map of the 11 other states that have a local option income tax of some kind. So a local option income surtax is an additional percent of tax applied to state income tax liability. For example, if a resident of school district A had a state income tax liability of a thousand dollars and voters in the school district A approved a local option income surtax of 1 percent, the local, the local option income surtax amount would be $10. Likewise, if they adopted a 20 percent surtax the resident surtax would be $200. The new surtax revenue would be collected along with their income tax and return to the district. As you can see in the district by district impact our analysis shows that a surtax would have varying degrees of impact across the state. The amount a district can raise is directly related to the state tax liability in that district. So for example, Millard could reduce their rate 31 percent; Heartland, 9 percent; and York, 15 percent by adopting a 20 percent surtax. According to the fiscal note, if every school district adopted a 20 percent surtax, LB182 would lower school district property taxes by 16.8 percent in total. At the district level it would range from reduction of 1.8 percent to 38.4 percent. Statewide a 20 percent surtax would raise about $410 million. Indiana has had some form of local income tax for 40 years. And as of 2012, property tax rates in year-over-year growth and levies had been consistently lowering surtax counties than in nonsurtax counties. Also I know there's often a concern about taxes influencing migration and so I'd like to highlight a study done in Indiana that found people weren't moving from high surtax counties to low surtax counties. The study's authors attributed the lack of responsiveness by taxpayers to the changes in the surtax rate to the relative insignificance of the tax and the overall tax structure. The cost of moving to a lower surtax county and an appreciation by taxpayers of the public services made available by the added revenue. In conclusion, we support LB182 because it would do a lot to reduce our reliance on property taxes. I'm happy to answer any questions.

LINEHAN: Thank you. Are there questions from the committee? Yes, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan.

TIFFANY FRIESEN MILONE: We can do this Christmas dinner style. Mom's not here to break us up.

FRIESEN: Good. So as a, as a tax policy should we just implement it statewide instead of letting it be elective?

TIFFANY FRIESEN MILONE: We would support having it statewide.

FRIESEN: Because you know, when I looked through the numbers-- I mean, there are some school districts to make a two-cent levy difference and other school districts it's 20 and 30 cents. There's a big variance is what it does. And so I think again it goes back to your school district and how it might be implemented. But if you want to just take it as tax policy, to me I have no problem with it because it really is based on your ability to pay and what you are paying. So if we implemented a statewide policy, to me it makes sense.

TIFFANY FRIESEN MILONE: I don't think you'd see us in opposition to that.

FRIESEN: There would be nothing wrong with that policy I guess, would there be?

TIFFANY FRIESEN MILONE: I see nothing wrong with it.

FRIESEN: OK. Thank you.

LINEHAN: Other questions from the committee? OK you can call me skeptical. Is there anything in this legislation that lowers the levy limits?

TIFFANY FRIESEN MILONE: There is nothing in there that would lower the levy limits. The-- if you did it for property tax purposes it would go into the General Fund, but it would still be subject to the same spending caps like those same levy caps and growing caps and [INAUDIBLE] caps.

LINEHAN: But they could keep their levies at a $1.05 and have a surplus and a local income tax if they had room to grow. They could have both. There's nothing in legislation that caps-- that lowers the levy.

TIFFANY FRIESEN MILONE: No.

LINEHAN: OK. There also-- why would it not affect their local effort rate in TEEOSA?

TIFFANY FRIESEN MILONE: It's separate from the model so it would not-- since it's not counted as a resource in the model, if you wanted to--

LINEHAN: Well, why wouldn't you count it as a resource? I mean, I don't, I don't how you could, how you could justify not counting it as a resource.

TIFFANY FRIESEN MILONE: I think if it-- I mean, if it were included as a resource it would be a disincentive for equalized districts because it would potentially offset the state aid. And so I think if you want to target it-- if you're using-- it wouldn't be going for increased operating expenses so it would be intended to offset the existing like it would be in lieu of property taxes that would otherwise need to be collected for those expenditures.

LINEHAN: So why I'm skeptical is that's what we did in 1990, we increased income taxes 2 percent and sales taxes two cent, and we now spend a billion dollars state funding on education and property taxes are higher than they've ever been. So how, how can we-- raising more taxes to lower property taxes without some corresponding lid cap or TEEOSA-- how do you keep it from just being more money to spend?

TIFFANY FRIESEN MILONE: Well, I mean, one, I think this would be one option in terms of tackling our high reliance on property taxes. I think in the overall school funding scheme that Nebraska is in right now we also are extremely low on state support. So I think that-- I can't speak to what the mechanism is needed to drive things down, there are already limits in place where-- if you look at the Tax Foundation, there are three main types of like levy caps and we already have two of the three--

LINEHAN: Which can all be overridden.

TIFFANY FRIESEN MILONE: Yes. I mean, with a vote of the people. The people have to choose to do it.

LINEHAN: That's if-- the people that vote against it still have to pay the taxes even if they voted against the levy override, they still have to pay it.

TIFFANY FRIESEN MILONE: Yes. And this would be an option as well to kind of change how that would function within the overall tax scheme for a community.

LINEHAN: OK. Thank you very much for being here.

TIFFANY FRIESEN MILONE: Um-hum.

LINEHAN: It's an interesting idea. I'll give you that. Other questions from the committee? Seeing none, thank you much.

TIFFANY FRIESEN MILONE: Thanks.

JOHN SKRETTA: Good afternoon, Chairman Linehan and distinguished members of the Revenue Committee. My name is John Skretta, that's J-o-h-n S-k-r-e-t-t-a. I'm the superintendent of the Norris School District. I'm here representing both the STANCE member districts, that Schools Taking Action for Nebraska Children's Education. We're a coalition of 20 mid-sized school districts that-- and we don't have any paid lobby representing us and we're a combination of equalized and nonequalized school districts. Again, mid-sized schools. We are also-- I'm also here today to collectively represent the Nebraska Council of School Administrators and here in a proponent capacity for Senator Bolz's proposal. I think that it's very worthy of consideration and merits your advancement to the floor for a, a full and vigorous debate because it is one of those tools that diversifies the tax base and it's been in use in some states since the early 70s. The, the fact is there are some reasonable limits imposed upon the manner in which Senator Bolz has drafted this legislation that I think are excellent. They're, they're highly appealing in terms of conferring the local control. So it's got to be voted on by the people and approved by local constituents in order for it to be a go. It also cannot exceed 20 percent. And I believe there's a five-year time limitation or sunset provision built into it. So given that, I think that, as OpenSky had previously attested to, could make school funding more equitable. I also want to just suggest that this is not an idea that's a radical or progressively leaning idea, it's something that's in place and I believe previously referenced 17 or 18 other states. And in fact, some form of local income option surtax has been in place since, I think, as early as 1939 or the 1940s in some of those states. So I think that it's a tool to help make funding schools more of an investment and a little bit less of a property tax burden. And just at my tail end of this testimony, I just would offer that we failed a bond issue ballot referendum in November 2017 at Norris. Now I'm gonna acknowledge that it was one of the historically unsexiest bond issues ever to be a ballot referendum because it was for stuff like HVAC and lagoon's cell repair so we kind of referred to it mockingly somewhat self mockingly as the up crap creek bond issue. We did a pretty extensive follow-up study after that issue failed. And what we found was that you know there were a lot of people who said the following: one, we know the district needs to do this stuff; two, we believe our school's quality relates very highly, correlates very strongly to the quality of life in our communities; but three, we just can't see ourselves paying more in property taxes right now. And that was the sum total of it. Now I'm not suggesting that had we had this alternative it would have sailed through, but I think it's, it's worth contemplating given the demographic mix of our district which is historically a strong ag district and has experienced substantial residential growth just in recent years. So in closing, like the dual purpose of this our STANCE schools and NCSA do of property tax relief and opportunity for schools to address needed building and construction projects. Thank you.

LINEHAN: Thank you, Dr. Skretta. Are there questions from the committee? You're in a-- between a rock and a hard spot along with York and some other schools that are close enough to be bedroom communities.

JOHN SKRETTA: Yep.

LINEHAN: So you have people moving into your community building new houses which means they've got to have more room in the school and the other farmers that have been there for three generations going, they might have--

JOHN SKRETTA: Um-hum. A lot of them all through generation farm families, yep.

LINEHAN: On top of that your TEEOSA funding is--

JOHN SKRETTA: Going down.

LINEHAN: --down, down, down.

JOHN SKRETTA: And down.

LINEHAN: And you don't have enough prop-- you have too many kids for the property tax credit to really do you much good.

JOHN SKRETTA: Yep.

LINEHAN: So you're like in the middle of the road.

JOHN SKRETTA: Yes, you have very adequately acknowledged the problem.

LINEHAN: So I do have great sympathy for you. Other questions? I guess that wasn't a question but--

JOHN SKRETTA: Oh, thanks. Senator Groene.

LINEHAN: Senator Groene.

GROENE: But when those folks build new houses you got more-- bigger property tax base, right?

JOHN SKRETTA: Yeah.

GROENE: But you're right on the fence between equalization and--

JOHN SKRETTA: Yes, yeah, so our equalization aid's gone down even though-- it's, it's real ironic because we've had--

GROENE: But you're still equalized.

JOHN SKRETTA: What's that?

GROENE: But you're still equalized.

JOHN SKRETTA: Yeah, yeah. We still get some equalization aid, yeah.

GROENE: All right.

JOHN SKRETTA: Um-hum.

GROENE: So-- but-- well, you wouldn't-- but you got-- oh, I can't think of his name-- CNN-- he owns all that land out west--

JOHN SKRETTA: Ted Turner.

GROENE: Ted Turner. He's not gonna pay any taxes. It says you got to be a resident of the, of the state.

JOHN SKRETTA: Um-hum.

GROENE: Is what it says here of the school district. He doesn't live there but he owns huge chunk-- tracts of land in a lot of rural districts out there.

JOHN SKRETTA: Yeah.

GROENE: So do a lot of corporations and investment companies, they aren't gonna pay any income tax. It's gonna still-- it's gonna be the locals.

JOHN SKRETTA: Yep.

GROENE: Wouldn't that be true?

JOHN SKRETTA: Yes, I think so.

GROENE: Anyway, thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Chairman Linehan, thank you. So the questions always come up on caps on spending and so if this was implemented in your district, do you need caps to control your spending? Would this be new money? How would, how would this impact your district if this happened?

JOHN SKRETTA: The way I would foresee Norris utilizing it is if this tool were available instead of a bond issue for that would be reliant on property taxes, I think it would make sense in Norris and in a number of other districts if this tool were available to run it as a local income option surtax instead. I just think that-- you know, I, I guess I was, I was thinking about Senator Erdman's comments on LR3CA last week and he talked about how property-- he's pretty emphatic about property taxes being the most unfair tax and that we seem to be getting to a point here when we talked to our farmers about really straining ability to pay and it just looks to me like this would be a way to diversify options an alternative. So for Norris, I think we would use it that way. I, I would acknowledge-- well, on-- in our support, I would say Norris does a good job of cost control and we have one of the lowest per pupil costs in the state. And some of that's a function of our size and the fact that we're a unified campus. But I, I think that, yeah, there's no mechanism that scripted into this bill as it is that would put the kind of cap on it that I think Senator Linehan had asked about in previous testifier.

FRIESEN: So if it was, if it was implemented for property tax relief if your board wasn't quite as efficient in trying to hold down spending, could they spend this money as new money and do more things with it and just have more money to spend?

JOHN SKRETTA: It looks like it to me.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Senator McCollister.

McCOLLISTER: Yeah, thank you, Madam Chair. You indicated that your bond issue that you've tried to pass two years ago failed. Is that correct?

JOHN SKRETTA: That's correct.

McCOLLISTER: Do you think a local option income tax would, would fare any better?

JOHN SKRETTA: I don't know. It, it was, it was tight. We, we passed it in two of our wards. I think there are a number of-- there were a lot of mitigating factors but I just-- I, I think having some sort of option or alternative to property tax-- I'll give you a couple examples that are just anecdotal evidence, I guess I'd say, is I was at the town hall meeting here real recently that the Governor convened in Beatrice. And you know, he came out there and, and talked about the property tax relief credits and honestly there were probably 60 people in attendance and the reception that he got was very little short of straight-up hostile. And it was because the perception is that's not enough and it's nibbling at the edges and it's high time we do something different than exclusively rely on property taxes. And one of the things that surprised me was the mood in the room-- the questions that, that different farmers asked were along the lines of tax policy suggesting that a shift made a lot of sense to them and they asked about a number of different things that are tax-free goods or services. And, and so just that, that reminded me of the community meeting we had. You put an election-- call for the election and have these community meetings and you go out and try to provide information to the public and-- you know, do your due diligence and get out there and connect with your constituents. And we had run a bond issue some years before. It wasn't that long ago, seven years back. Well, commodities prices were a lot better, and the reception was much different at these public meetings then. But the one that we went to in Firth, it, it just-- it, it almost felt like a scene out a Roadhouse where I was-- I don't know if I was Sam Elliott or Patrick Swayze but I wasn't sure how I was gonna get out of the room because the, the farmers in there were, were angry about property taxes. And to some extent that anger then gets conferred onto the school. But honestly, you know, we had other people in the room, citizens who said you know, hey, the, the-- your argument is not with these, these folks representing the school, the board members, or the administrators who are here to talk to you about it, it's, it's a system problem. And so I guess that would be my, my answer. I don't know if it would have passed but I think it would have helped our chances.

McCOLLISTER: If you were to take your school budget in-- I don't care, 2017 or '18 and then go back 10 years, how much, how much as it gone up?

JOHN SKRETTA: Well, I would have to look. But I think over the last five years we're averaging about a three and a half-- 3 percent increase annually.

McCOLLISTER: With an enrollment increase?

JOHN SKRETTA: We're having a fairly substantial enrollment increase. We're averaging an increase of about 50 to 60 students a year.

McCOLLISTER: Wow. Thank you.

JOHN SKRETTA: Yep.

LINEHAN: Thank you, Senator McCollister. Senator Groene.

GROENE: I've just finally read the bill. I see nowhere in here where, where this thing is meant to be a property tax relief. I see nowhere where this is considered a resource that it would offset property taxes. It's either school district local option-- it's for spending authority or it's for a building project. If it's for property tax relief, it doesn't say it has to be included in your resources, in your local resources. Looks to me this whole thing is just somebody believes you don't spend enough money and you need more.

JOHN SKRETTA: And I--

GROENE: I mean not you, I mean schools.

JOHN SKRETTA: Yep, I think that, I think that for-- from in one regard in which it would be viewed as tax relief would be the shift to paying for a construction project that you might otherwise run as a bond issue that's reliant upon property taxes, Senator, and instead using the income tax surcharge. I, I think that's one way in which it could be property tax--

GROENE: If you had a good manager-- good superintendent, he--

JOHN SKRETTA: Yeah.

GROENE: --would lower the levy? He wouldn't, would he? He's gonna spend it on a building project.

JOHN SKRETTA: Well, I, I think that the, the argument would be that, yeah, the responsible thing to do would be then you would lower the levy subsequently if you had the resources derived from the income tax surcharge.

GROENE: And even if you put it in a building fund, it doesn't say you lower your five-cent authority for a building fund, it's on, on top of that.

JOHN SKRETTA: Right. Because there's not a cap mechanism in this as Senator Linehan had mentioned.

GROENE: Thank you, sir.

LINEHAN: Thank you, Senator Groene. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Thank you for coming. Of those students that you say you're growing every year, what, what percentage of that are option enrollment type students?

JOHN SKRETTA: Most, most of these are resident students. What we're doing with option is option in option out. So what we've tried to manage now because the option allowance aid that we get is a really substantial part of our aid because of our proximity to Lincoln. So we look at how many students in our graduating cohort or option kids and most of the option apps that we get, Senator, are for kids coming into kindergarten whose parents want their kids to go into Norris through the entire system-- PK-12 rather. And so I think our total percentage is somewhere the, the net percentage is 15 percent or so of our students. We have a substantial number of students who opt out of Norris as well. And some of that's, some of that's because of program preferences, things they can get in a LPS Class A system that we don't have as expansive curricular offerings. And some of it's because of geographic proximity where we have kids who live on the north end of our district, it's closer to a Lincoln school or they live on the south end and they're closer to Freeman. So I'm not, I'm not sure that I'm answering your question. But one of the things that came up in our bond issue, and that's a, a really recurring talking point of course, is that so these folks wouldn't be paying on that, right?

KOLTERMAN: The 15 percent.

JOHN SKRETTA: Yeah, yeah, just like in a bond issue.

KOLTERMAN: I was just kind of shocked at the number you indicated simply-- that must be from growth, new houses and things like that.

JOHN SKRETTA: Yeah, Hickman's growing really rapidly-- residential, yep. And there's some acreage development but it's mostly Hickman.

KOLTERMAN: OK, thank you.

LINEHAN: Thank you, Senator Kolterman. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So under the TEEOSA formula we could fully fund the allocated income tax and give you 20 percent of your money back. But then it's shown as a resource.

JOHN SKRETTA: Um-hum.

FRIESEN: Now if we do it through an extra-- basically back same numbers, same, same dollars, 20 percent income tax but it's shown outside the TEEOSA formula.

JOHN SKRETTA: Um-hum.

FRIESEN: So in one way it would be property tax relief automatically and then the other way it's whatever you want it to be. Is that a fair statement?

JOHN SKRETTA: I, I think so.

FRIESEN: And so would-- if it was the allocated income tax portion that we raised to 20 percent, would you be forced to use that for property tax relief or is that still an option? Or can you fit it into your spending lids?

JOHN SKRETTA: Yeah, our spending authority. We're up against the lid now.

FRIESEN: So it would be property tax relief?

JOHN SKRETTA: Yeah, yeah.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Thank you. Oh, I'm sorry.

JOHN SKRETTA: Thank you.

LINEHAN: Thank you very much for being here.

JOHN SKRETTA: Thanks.

LINEHAN: It was very helpful.

ANN HUNTER-PIRTLE: Good afternoon, members of the committee and Chair Linehan. I'm 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. I want to thank Senator Bolz for introducing LB182. And we support it because it gives school districts a local option to reduce property taxes and preclude further reliance on property taxes for building construction and maintenance. While the Legislature has struggled for years to resolve the state's overreliance on property taxes, LB182 allows districts with the support of their voters to take steps to provide property tax relief locally while maintaining educational quality. We believe this is an essential tool that would allow districts to lessen some of the property tax burden locally with an income surtax option that's less regressive than property taxes and more closely based on families ability to pay. For these reasons, we support the bill and urge you to advance it from committee. Just to address one of the questions that came up earlier, it's true that the bill doesn't lower levy rates concurrent with the amount raised in income surtax, but districts would have to state to their taxpayers under this bill the purpose in the ballot language whether for property tax relief or construction or both. We think that's important and would help with transparency. I'll leave it at that, and happy to take any questions.

LINEHAN: Thank you. Are there questions? Senator Briese.

BRIESE: Thank you, Chairwoman Linehan. And thank you for being here. I predict that there's gonna be a lot of discussion in this committee about caps and limitations--

ANN HUNTER-PIRTLE: Um-hum.

BRIESE: --and things of that sort. What are your thoughts on that? Why should we be concerned or shouldn't we be concerned about it?

ANN HUNTER-PIRTLE: So I think-- I'll just speak for our organization. We would support this bill if it included caps if, if that was an option the committee wanted to look at and if it's something Senator Bolz was amenable to. We think that having it as is, is also nice because it, it truly does allow districts that flexibility and can help provide property tax relief as is. There was some discussion about counting the income surtax as a resource under TEEOSA. I think the reason not to do that would be so that it can remain a property tax safety valve for communities regardless of whether the Legislature takes action or not. I think that's kind of what's nice about this proposal is that it, it does allow local school boards to, to-- and local voters to make that decision even if the Legislature continues to struggle with what is-- you know, for good reason a really tough issue as you know very well.

BRIESE: OK, thank you. The previous testifier indicated they were up, up against their budget limitations, correct?

ANN HUNTER-PIRTLE: Um-hum, um-hum.

BRIESE: But there's quite a few schools out that aren't. Wouldn't that be correct?

ANN HUNTER-PIRTLE: Right.

BRIESE: And so they would have the ability if they're not up against a levy lid or the budget limitation to spend a little more freely if they wanted to. Thereby, necessitating perhaps a cap of some sort. Would you agree with that?

ANN HUNTER-PIRTLE: I think it's possible. That would be a district by district question. But I think that is possible. And again, if a cap was something the committee wanted to consider, I think we would be amenable to that discussion.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Other questions? Seeing none, thank you very much.

ANN HUNTER-PIRTLE: Thank you.

LINEHAN: Other proponents? Good afternoon.

BRUCE RIEKER: Good afternoon. My name is Bruce Rieker, B-r-u-c-e R-i-e-k-e-r. I'm the vice president of government relations for Farm Bureau. So I'm not gonna say that this history in the making but we have education and a lot of education interests and some ag interest here both as proponents of this bill. You know, my written testimony is fairly short. It talks a little bit about some of the erosion of the original TEEOSA formula that included something that you've already been talking about and that's the allocated income tax. When that was put in place, it was 20 percent. And as a little bit of a comment from the previous bill and when I hear-- you know, that we did something 25 or 30 years ago and it didn't work. Well, when you carve away at something that was put together 12, 13, 14 times, it's a recipe for-- you know, driving it to where it is which is what happened with the allocated income tax. I think that the most recent estimates I've seen is if you restored the allocated income tax it would cost up to 20 percent which is where it originally started it would be a little bit over $100 million which could be property tax relief. So that was taken away a long time ago. Nonetheless, we really appreciate Senator Bolz for putting this issue back on the table. We've supported it in the past. I think her bill is stronger. I also appreciate Senator Groene's question about ensuring that if it's for property tax relief that it goes to property tax relief. Maybe that's something that needs to be shored up. I also think though that-- you know, I've never done taxes for Ted Turner but he does have-- if he is gonna claim a credit for the property taxes paid, whatever his legal entity is that owns that and pays that, he's also got to file a Schedule F so he's gonna have to declare his income derived or his corporation would have to declare the income derived from that operation. So I'm fairly certain that he would have to do that if he is gonna be compliant with, with Nebraska state laws. Let's see. Yeah, I pretty much make the comments that I need to. What-- in closing, I-- before I take any questions if there are any, we really believe that-- and I have heard it from the discussion here that there should be a component that probably fits into a larger package that you, the Revenue Committee, hopefully put out before the Legislature so that we can truly have not only a great debate on the floor but we get something done this year. So thank you.

LINEHAN: Thank you. Are there questions from the committee? Senator Groene.

GROENE: So Ted Turner pays his taxes. He owns land in 15 school districts. So he fills a form out-- doing it wherever he does it, in Atlanta, and sends it into, into Lincoln. What does the Department of Revenue do with that?

BRUCE RIEKER: Well, I've never worked for the Department of Revenue.

GROENE: I mean, what are they gonna do about this?

BRUCE RIEKER: Yeah, but I would imagine that the way I read the bill and the fiscal note is that the Department of Revenue working with the-- I mean, the Tax Commissioner would have that set up in the formula. I mean, as to how that tax is paid somehow they would have to-- I think that that's part of the $238,000 estimated cost in the fiscal note of setting up a system to make this work. With that, that is my best estimation as to what may happen with the Tax Commissioner or, or how they would handle that, Senator.

GROENE: So it's gonna be a local resolution tax, so I guess farmers complain about this already but Ted Turner don't get to vote on that.

BRUCE RIEKER: No.

GROENE: He's gonna get taxed. I guess it's the same thing if a farmer lives in a-- doesn't live in a school district.

BRUCE RIEKER: Right, it's no different than absentee landowner that lives in the state.

GROENE: I don't see how you're gonna get any property tax relief from it. And I know you've done numbers on the income tax credit, 20 percent, but as I've said it favors high income areas like Elkhorn, Millard because that's where the income is. It's not at Hyannis or it's not in Wallace in my district. So 20 percent, I understand it's a resource,--

BRUCE RIEKER: Um-hum.

GROENE: --but that would be offset in an equalized district. But I don't see where we come out ahead in rural Nebraska by doing that. I just don't see it. So anyway, thank you.

BRUCE RIEKER: You're welcome.

LINEHAN: Thank you, Senator Groene. Other questions? I just feel-- kind of because we-- this allocated income tax keeps popping up and people get confused so I want to make sure I understand. We are spending more than 20 percent of our income taxes on school funding. It's just not allocated to districts the way the original formula had it. Because we're, we're over a billion dollars.

BRUCE RIEKER: Right.

LINEHAN: And we get $3 billion in income tax if it's that much. So that's 33 percent. So we're just-- I just-- I understand what you're saying and I understand that it's, it's getting carved up. That was a very good description of what happened to TEEOSA over the last 30 years. But I don't want there to be confusion that we're somehow not 20 percent of our income taxes isn't going to school aid because it's over 20 percent.

BRUCE RIEKER: Well, OK. Yeah, I wasn't there for the original TEEOSA. But the way I understand it-- I mean, we're talking about two different 20 percent's here.

LINEHAN: Right, we are.

BRUCE RIEKER: Because what I understand was there was equalization aid and that's using state sales tax and income tax to provide the equalization aid.

LINEHAN: OK.

BRUCE RIEKER: There was foundation aid but then there was also a third component which was the allocated income tax.

LINEHAN: OK.

BRUCE RIEKER: And it was designed to return 20 percent of the income taxes from each school district to those respective school districts as it was paid. Shortly after TEEOSA was put in place, I, I don't think there was ever a limit of 20 percent of the state's sales and income tax were to be used for equalization. I could be wrong there.

LINEHAN: Well, go ahead. I'm sorry.

BRUCE RIEKER: And all I was gonna say was that, that one-- OK, those three components I'm talking about. The 20 percent of income taxes that was to be allocated back to the school districts got reduced to 2 percent. So as I understand it, there were various things that were put into balance. OK, there is equalization aid, and in my layman's terms basically helps the, the money that, that goes to some of the larger school districts like LPS and OPS. The allocated income tax was designed to hopefully stave off part of what's happened is that some income taxes that were collected by the state would go back to those school districts. But when that dried up the only thing that they had left to go to was property taxes.

LINEHAN: Right. I think maybe some of the disconnect--

BRUCE RIEKER: Sure.

LINEHAN: I've, I've tried to read the whole thing but I'm-- there was no equalization when they first wrote TEEOSA. That is something that happened later.

BRUCE RIEKER: Um-hum.

LINEHAN: It's probably when the allocating income taxes dissipated.

BRUCE RIEKER: Yeah, I don't know.

LINEHAN: Equal-- equalization is not part of the original TEEOSA. That's where there's a lot of confusion. So it's just-- you've done very well explaining, but I don't want people to walk away thinking that we're not spending 20 percent of our income taxes on, whether you want to call it school aid or equalization, it's-- the point-- because we're a billion dollars in the school aid formula which is far more than 20 percent of our income tax takings.

BRUCE RIEKER: Yep.

LINEHAN: Thank you very much. Other questions? All right. Thank you very much for being here.

BRUCE RIEKER: May I make one comment to that?

LINEHAN: Sure.

BRUCE RIEKER: We're spending about a billion dollars of that but we're spending $2.4 billion of property taxes on education.

LINEHAN: I'm not, I'm not dis-- I'm not-- I know that we've got a property tax problem. I just-- there's a lot of confusion. I hear it all the time and I get it in e-mails, if we just give 20 percent of our income taxes to school funding this problem would go away. I wish it were that easy.

BRUCE RIEKER: We don't believe that.

LINEHAN: OK, that's-- and I'm just for clarification for the rest of the people.

BRUCE RIEKER: It would help, but we don't believe that. I mean, that it would make the problem go away.

LINEHAN: Thank you very much.

BRUCE RIEKER: You're welcome.

LINEHAN: I think that's it. Is that it?

BRUCE RIEKER: Thank you.

LINEHAN: Thank you. Other proponents? Any opponents? Thank you. Go ahead.

DUSTIN ANTONELLO: Good afternoon, Chairwoman Linehan and members of the Revenue Committee. My name is Dustin Antonello, it's spelled D-u-s-t-i-n A-n-t-o-n-e-l-l-o, and I'm here on behalf of the Lincoln Independent Business Association. LIBA opposes LB182. Although we support the idea of lowering school districts' reliance on property taxes, we do not believe the right approach is to shift the burden from property taxes to income taxes. Many small businesses will be severely impacted by higher income, income taxes because they file and pay their taxes under the individual income tax plan. LB182 also does not provide any guarantee that property taxes will be lowered by commensurate amount to compensate for the increase in income taxes. The bill states that the proceeds from the income, income tax will be deposited into the school districts' general fund but it does not provide any assurances that the additional revenue will be put aside for property tax relief. Many cities have found that is very difficult to convince political subdivisions to lower their property tax levies when they receive additional funding. For example, property tax reeval-- reevaluations yielded Lincoln Public Schools an additional $12.1 million in property tax revenue in 2015. But rather than lower its levy, LPS elected to put over $10 million of the additional revenue into its cash reserve. The best idea we've seen thus far to lower property taxes is LR8CA which limits political subdivision property tax revenue to a 3 percent increase over the prior fiscal year. This constitutional amendment would still allow political subdivisions to increase their budgets if they receive additional revenue from state aid, federal aid, or grants. But it would also protect property owners during times of high property reevaluations. Thank you. I'd be happy to answer any questions.

LINEHAN: Thank you for being here. Are there questions? Senator Briese.

BRIESE: Thank you, Chairwoman. Thank you for being here. You expressed some concern about shifting the source of funding for education.

DUSTIN ANTONELLO: Um-hum.

BRIESE: But if we have caps in place to ensure that yields property tax relief, would you support those kind of shifts?

DUSTIN ANTONELLO: I mean, I think it all depends on, on how much the caps will be, be reduced. I mean, Lincoln Public Schools is up to a $1-- $1.04 on its levy limit right now. We've asked that they lower it. They lowered it a penny this past, this past year. We have asked and requested that they lower it even further in light of the additional school aid they got the last time around. And we just think that the best way to lower property taxes is to, to lower spending and continue to strive for a lower levy limit.

BRIESE: OK, thank you.

LINEHAN: Thank you, Senator Briese. Other questions? Senator Groene.

GROENE: Have you read this bill?

DUSTIN ANTONELLO: Yes.

GROENE: Does it not say "The local option income surtax shall be imposed upon individuals who reside in the school district?"

DUSTIN ANTONELLO: Yes.

GROENE: That wouldn't be Ted Turner would it?

DUSTIN ANTONELLO: Can you repeat that?

GROENE: "The local option income surtax shall be imposed upon individuals who reside in the school district." Page-- line 11 and 12 on page 2.

DUSTIN ANTONELLO: Um-hum.

GROENE: That wouldn't be Ted Turner if he didn't live in Hemingford but owned a bunch of land would it?

DUSTIN ANTONELLO: No, I would not think so.

GROENE: Would that be corporations? I mean, how do they define in tax law or corporations, are they considered an individual?

DUSTIN ANTONELLO: I'm not sure how the bill would address that particular situation. You know, I'm, I'm more concerned about the small property-- small business owner that owns property within the school district and how it will impact them.

GROENE: All right. Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? OK, thank you very much for being here.

DUSTIN ANTONELLO: Thank you.

LINEHAN: Were there any other opponents? Is there anyone in the neutral position? Somebody moving here? OK. No, I guess not. Thank you.

BOLZ: Thanks for your interest and your patience, Committee. I thought I might just share a couple of final observations and thoughts about issues that came up. The, the first issue that I thought I'd address is the concern that it could possibly be collected and not end up going to property tax relief even if that was the intention as explicitly articulated in the ballot initiative and we put the ballot initiative proposed language in the bill. The intention, of course, in the bill is on page two that it would be used for the purposes of "Property tax reduction; or building construction, remodeling, and site acquisition." I think that if that is a concern that the dollars would go to the General Fund and not actually be for the purposes as articulated on the ballot there might be some amendment language to say what the consequences would be if they weren't used or that it may only be used for those purposes. I think there is potential to work on an amendment there. I also think part of the, the conversation about local control is that you hold your local elected officials accountable and to continue using the example of the Palmyra-Bennet district OR1 school. I, I literally sit next to one of our school board members in church. His name is Brandon [PHONETIC]. He's a nice guy. If he tried to pull something like that he would hear it from me and I think that's part of what it means to be a part of a democracy. That's part of what it means to have local elected officials. So I think we could both solve for that problem through improved amendment language. But I also think it can be solved through holding elected officials accountable. I wanted to address the issue related to this initiative. The local option income surtax not being counted as a resource. My intention in drafting this bill was that the local option income surtax would be treated and thought of similarly as the property tax bonds that are going to these purposes. And so because those are not counted as a resource neither would this. It is an alternative to the bonds that would be used for building construction so that's, that's part of at least the way that I'm thinking through why that policy argument makes sense. I also thought I would add that studies in Indiana and Iowa have shown that the communities who do use their local option income surtax do in fact have lower property taxes than those who don't. So from the case studies that we have from other states, it is effective. I won't take any more of your time. Just wanted to share those points.

LINEHAN: Thank you very much. Questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Thank you, Senator Bolz. I mean, I, I do like your idea. I, I, I would make it mandatory across the state. I guess I would put it as a resource. And then I think by lowering property taxes, because some of the school districts, I think, are forced to-- they're up against spending caps. It will be property tax relief. But when you do that, you lower their property taxes when the bond issues come up and if they're convinced they are good, I think they vote for them. But when you're maxed out on your bonds, that's when they push back and say, no. But if, if you could lower their property taxes a little bit by doing this-- and I, I, I like the idea, then you've opened them up to saying, OK, we, we do need the school. I'm, I'm-- we've gotten some relief over the years and these bond issues don't happen all the time. They're, they're-- especially in most areas are few and far between. But it does, is open-- do you feel would open it up to those people that you've talked to that they would be more entitled to think that they could vote for a bond issue if they had some tax relief up front?

BOLZ: I would, I would think so, yes.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions for Senator Bolz? Seeing none, thank you very much.

BOLZ: Thank you.

LINEHAN: We do have letters for the record. Proponents: Mary Ann Sturek, League of Women Voters of Nebraska; Kevin Cooksley, Nebraska State Grange; Michael Dulaney, Nebraska Council of School Administrators; Kyle McGowan, Nebraska Council of Schools [SIC]; Jenni Benson, Nebraska State Education Association; Jack Moles, Nebraska Rural Community Schools Association. Opponent: Robert Hallstrom, Nebraska Federation of Independent Business; Kristen Hassebrook, Nebraska Chamber of Commerce Platte Institute-- wait a minute she can't be both, or maybe. I don't know. Platte Institute just wrote a letter. OK. Neutral: none. So with that, we close the hearing on LB182. And we, we got a bit of an issue because Senator Vargas had to leave for an emergency. But some people were told that we weren't gonna, and others were told-- so are there any people here that want to testify on LB310 or LB477?

____________: LB477.

LINEHAN: OK. Is this young man here waiting in the front row--

____________: Here's some--

MATT CLOUGH: He's a friend of mine with me.

LINEHAN: OK. OK. So let's go ahead and we'll be-- and if, and if somebody left, we'll figure out a way to fix it, right? They'll get their chance.

MEG MANDY: OK. Hello.

LINEHAN: So we'll open the hearing on LB310.

MEG MANDY: Good afternoon, I am Meg Mandy, M-e-g M-a-n-d-y. I'm the legislative aide for Senator Vargas, and I just ran here. I'm sorry. He sends his apologies for not being able to join you and hopefully many of our testifiers will be able to stay so that you can ask them questions about these bills. I'm going to just read the testimony that he had prepared for this hearing for you. LB310 would amend the Nebraska Job Creation and Mainstreet Revitalization Act by requiring the Nebraska Department of Revenue to essentially complete an audit of a historic tax credit project within 60 days of receiving notice from the State Historic Society that a project has been completed and approved. First, I'd like to provide a brief background on the historic tax credit. The historic tax credit was initiated in 2015 under the Nebraska Job Creation and Mainstreet Revitalization Act and was intended to encourage investment in historic resources in both urban and rural communities. It provides a state tax credit of up to 20 percent of qualified rehabilitation expenditures. Total tax credit funds available from the state are capped at $15 million per year and up to $1 million per project. When a developer decides that they would like to start planning a project they first submit paperwork to the Nebraska Historical Society which processes applications and allocates credits to qualifying projects. Generally, applications are reviewed within 30 days which then lets applicants know whether or not a project qualifies for credits and does so in a relatively short period of time. Once a project receives approval from the Historic Society, the Department of Revenue reviews the expenditures that were made. However, there is no timeline or deadline for the Department of Revenue to complete the audit of the expenditures. LB310 simply establishes deadlines for the Department of Revenue to complete audits of projects within a reasonable period of time within 60 days of receiving notice of project approval from the Nebraska Historical Society. Establishing the deadline for the audit will allow developers and investors in these projects know when to expect the credit to be issued very similarly to what we provide to taxpayers with the Nebraska Advantage Act. There are things we can do to simplify things for taxpayers. I think LB310 helps to accomplish that goal. I'd like to work with this committee on ways to simplify this program and make things easier to help move the state forward and to put some of our very long vacant properties back into use. Before I close, I'd also like to comment on the use of targeted tax credit programs. The broader debate on tax reform and the metrics we employ in evaluating the benefit of one tax benefit over another. I think and I believe most of you do as well that there is a time and place for targeted tax programs. We have discussed that in the context of property taxes, income taxes and other tax programs. So as we look at the historic tax credit program and the broader debate on tax relief, I think it is important to note that the historic tax credit program is one program that is clearly providing a higher than average return on our investment. A couple of years ago the University of Nebraska Lincoln's Bureau of Business Research released a report highlighting the benefit of the state's historic tax credit program and I have copies for all of you here of the Executive Summary. The benefits and importance of this program cannot be understated both from a rural and urban perspective. According to the report the program resulted in an economic impact to our state's economy of over $120 million yielding over 1,600 full-time jobs and generating over $53 million in new wages for Nebraska workers. In addition, these projects contributed over $69 million to the state's gross state product and over $5 million in new state and local tax revenues. These numbers are for 2015 projects alone and I would remind the committee that the tax credit is capped at $15 million of investment from the state. Fifteen million dollars of investment from the state for an economic impact of $120 million dollars is an incredible return for Nebraskans. Lastly, I think it's also important to highlight where these projects are taking place in neighborhoods throughout Nebraska in need of revitalization including neighborhoods in my district, District 7, as well as Chadron, Columbus, Fairbury, Friend, Grand Island, Hastings, Lincoln, Norfolk, Pender, and Red Cloud. I'll end here, and would be happy to take any questions from the committee. Thank you.

LINEHAN: Thank you. Are there questions from the committee? Seeing none,--

MEG MANDY: Thanks.

LINEHAN: --are there proponents wishing to speak?

DAVID LEVY: Good afternoon, Madam Chair, members of the committee. David Levy, D-a-v-i-d L-e-v-y, Baird Holm Law Firm. Gonna be very efficient here, I'm testifying on behalf of three organizations: the Nebraska Economic Developers Association, the Nebraska Association of Commercial Property Owners, and Omaha by Design in support of LB310. You are receiving, now as we speak, the entire report from the Bureau of Business Research. Meg and Senator Vargas passed out the Executive Summary which was probably a better idea than the entire report. But it really does show, as Meg did a great job of highlighting, the real, real strong benefits of, of this program. Over the four years of this program, now it shown an 8 to 1 return. So there's been $8 invested in the state for every dollar of tax that the state has forgone. And these are projects that will be around for 50 or 100 years paying property taxes. People living these-- a lot of these are housing projects. We know that there's a housing shortage and a housing issue in this state. This program is a very successful program. LB310 truly is, is a cleanup of this program. I was very involved in bringing this program about a few years ago. And at that time, we put deadlines on the State Historic Preservation Office thinking that that's an organization that needed some deadlines. And we didn't think to do that as to the back end of the program, the Department of Revenue. And, and I want to go through how these work a little bit and talk about why this, this is needed and why it's helpful. Real quick-- quickly before I do that and, and Meg also talked about some of the cities but there have been tax credit programs in just four years in the following Legislative Districts: 4, 7, 8, 9, 11, 17, 19, 22, 23, 26, 27, 30, 32, 33, 35, 37, 38, 41, and 43. So it truly has been a statewide program. It did start initially-- the first few projects tended to be in Omaha and Lincoln because that's where there were people who know how to do this but it has really spread statewide and again worked very well. The reason that this is needed is that all of these tax credits are essentially a financing mechanism for a development project. And a, and a, historic redevelopment project is a very expensive project. It's a very difficult project. It's a higher risk project. And so you can't get the level of bank financing for a project like this that you can for a Greenfield project that's, that's pretty well-known. And so you have these other financing mechanisms like tax credits. With the historic tax credit, the developer has to do the entire project and, and go show the State Historic Preservation Office, now called History Nebraska, that they've done the project and they've done exactly what they said they were gonna do in a historically appropriate manner. Only at that time then does that office sign off and say to the Department of Revenue, OK, you can go ahead and, and take a look at this and issue these credits. At that point, the developer has spent all the money, done the project, and they've got a construction loan that is now due. They've got a banker going, hey, I want you to repay my construction loan now your project is done. If it takes as, as it has unfortunately in some cases a year to get the tax credits you don't have the money to repay the construction loan. So you're paying additional interest potentially penalties those kinds of things. And so the goal here is to bring about certainty and to help developers by bringing this what really is an equity source in, in a predictable manner so that they don't suffer the consequences at the end when they've invested all of that private capital. And they think they have this part of their financing stack coming and they have to wait for it and wait for it and wait for it. In the federal program, and it's not that the Department of Revenue doesn't have important work to do, they have a review function. In the federal program, the federal government accepts a certification from an accountant that's over the accountant signature with their professional stamp, professional license on the line. I would suggest that given some timelines, the Department of Revenue would probably look to something like that to, to shorten the process. Last point I'll make, I see the yellow light, the fiscal note on this is about 27, $28,000, half of an FTE. I would submit to you that the users of this program would gladly bear a little additional fee that would make that up and zero that out if that were something that the committee wanted to look at. There is a fee currently of .025 percent of the credit amount that goes to the civic and community center financing fund to try and put a little money back into these communities in addition to this program. And, and one easy way to deal with this fiscal note would be to raise that by-- you know, from .025 to .03 or something like that so that somebody who is getting a big credit pays a higher fee. Somebody who is getting a smaller credit pays a, a proportionate fee but you, you zero out that fiscal note.

LINEHAN: Thank you

DAVID LEVY: With that, I'm happy to answer any questions.

LINEHAN: Thank you. Are there questions from the committee? Senator McCollister.

McCOLLISTER: Yeah, thank you, Madam Chair. The whole purpose of this legislation is to put the Revenue Department on a more timely timeline. How, how long does it generally take for you to get those credits and the expenditures, the credits and the certificates?

DAVID LEVY: You know, in, in some of the bigger projects it has taken over a year. And, and that's not a criticism necessarily of the Department. There are a lot of invoices and, and things to look through and, and they've chosen to really do an audit function. Some of the smaller projects get their credits in a matter of a few months. But I actually think that this would give the Department of Revenue a little bit of certainty and a half an FTE potentially and, and help them as well. But it's really that certainty the developers that's as important as well. But there are definitely are cases where it has taken a year or more to get finally get the credits issued.

McCOLLISTER: Even with the extra money, are they gonna be able to comply with this legislation?

DAVID LEVY: I, I would think so given that that was their report to the fiscal office. And, and certainly again there are ways to streamline their process like I mentioned with the federal program. And I, and I think that's what they would have to do. And I think frankly, Senator, you know there's a, there's a-- an economy of scale or something. If you're reviewing every single invoice, you're probably spending more time in staff time than you might be catching an invoice that wasn't a qualified expenditure. The, the big items are gonna be very obvious. And I think there could be a streamlined process and a process that focuses on the big items, the big expenditures, History Nebraska has already done a lot of work. It's-- the architect goes through line by line and says, OK, the-- you know, the windows will cost this much, the, the, the beams will cost this much, etcetera.

McCOLLISTER: Instead of an audit kind of procedure, could they do a review using accounting terms?

DAVID LEVY: Sure.

McCOLLISTER: Yeah. And I think that's what they, they would do. And, and again-- you know, on the projects that are also using the federal credit they're already submitting that federally accepted cost certification on those the Department of Revenue could accept that and do a spot check of it or whatever. And I think that would be pretty quick and pretty efficient.

McCOLLISTER: Thanks, Mr. Levy.

DAVID LEVY: Thank you.

LINEHAN: Thank you, Senator McCollister. Are there other questions? Senator Briese.

BRIESE: Thank you, Chairwoman. Thank you for being here.

DAVID LEVY: Sure.

BRIESE: How, how utilized is this program?

DAVID LEVY: It's been very utilized. So as, as Meg mentioned, there is a cap of $15 million per year. The first year it was oversubscribed.

BRIESE: OK.

DAVID LEVY: The second year it was more or less fully subscribed. It has slowed down a little bit. I think there was a pent up group of projects and I think it'll kind of come back up. As I mentioned, it's, it's, it's proliferating into the smaller communities. And a lot of those are smaller projects. But I don't have the number, Trevor Jones from History Nebraska is gonna to testify. He may-- I believe in the four years of the program there have been over 80 state historic tax credit projects.

BRIESE: And you anticipate it will be fully utilized again at some point?

DAVID LEVY: I do. I, I think it, it will or will be close to that. You know, at some point you sort of start to run out of these. Although, every old building started as new so other opportunities come along.

BRIESE: OK. Thank you.

DAVID LEVY: Sure.

LINEHAN: Thank you, Senator Briese. Are there other questions from the committee? Senator Briese. I mean, Senator Friesen. I know who you are.

FRIESEN: Thank you. Thank you, Chairman Linehan. So when companies use this program, how many other programs do they access? Or do they have access to other local or state, federal tax credits?

DAVID LEVY: They do. Some-- sometimes this is the only program they use and sometimes they use additional programs. As, as I mentioned and I think you know there's a federal historic tax credit program. And, and they may use other local incentives as well.

FRIESEN: So those federal-- the federal program you're talking about is approved very quickly. Is our guidelines, do they follow the same as the federal? So does it make sense to approve them the same as the federal or are they-- is there different criteria under our--

DAVID LEVY: Sure. In, in terms of what's a qualified expense?

FRIESEN: Yes.

DAVID LEVY: Yeah. When we worked on the legislation originally we wanted to make sure that this program wasn't merely an add-on to the federal program. And for smaller projects, the federal program can be very difficult to use. And we heard from people in small communities who said, hey, we don't have any federal historic tax credit programs here because it's, it's too hard to use. And so they, they are not identical. If, if you do everything that the federal program requires, you do qualify for the state program. But there are other ways to also qualify for the state program so they're not identical. But if somebody is using the federal then their use of the state will likely and, and largely mirror that.

FRIESEN: OK. Thank you.

DAVID LEVY: Sure.

LINEHAN: Thank you, Senator Friesen. Other questions? I have one. So is this-- this can be a private enterprise like an old hotel in, I don't know, Beatrice, Nebraska old hotel, and somebody goes in and remodels it. So they-- it's, it's to help-- it's supposed to kind of help revitalize downtown. Is that part of the goal of this?

DAVID LEVY: Absolutely.

LINEHAN: So it's another thing and then they could use TIF, too, probably if the community agreed?

DAVID LEVY: Potentially, yes.

LINEHAN: OK.

DAVID LEVY: Yep.

LINEHAN: All right. That's helpful to know. Any other questions? Thank you very much. I'm gonna be gone for five minutes so Senator Friesen's gonna take over.

DAVID LEVY: Thank you. Thank you.

FRIESEN: Are there are other proponents for LB310?

MICHAEL SOTHAN: Hello, yes, my name's Michael Sothan, M-i-c-h-a-e-l, Sothan, S-o-t-h-a-n, and I'm actually from Main Street Beatrice, so it's nice to be here and hearing Beatrice being mentioned quite a bit here today and we've definitely been very proud of a lot of the things that have been happening in our community. We've really got some good momentum going on and we're here in support of LB310 as this is one of those tools that's actually been helping out with some of our, our recent successes and certainly is going to be able to lead to continued success in our, our community. Our organization as a Main Street program is a nonprofit and we are there to support our downtown small businesses, support historic preservation, and really economic development through the historic preservation work. And that's one of the things that LB310 certainly does achieve is economic development for our commercial centers and I'll definitely want to highlight a little bit of some of the benefits that that is. But there's no doubt that our downtowns, our historic places are oftentimes a location where our small businesses get their start. It's definitely the kind of the front door, the curb of the community and so we certainly think that incentives like this are much different than a lot of the other incentive programs that are out there and the fact that these incentive programs are oftentimes, at least in our rural communities, are being used by truly the little guy. And Beatrice, the ones that are looking at it, they're oftentimes employing-- you know, just 2, 3, 4 people. You know, these are mom-and-pop businesses that really without this we would be losing some of the structures that, that we do have and that certainly again make up that front curve of our community. Here just a couple of years ago, actually a little bit beyond that now, just about three or four years ago we had a building collapse in our downtown. It was a small building, but yet because the property owner was judgment proof, the city of Beatrice had to spend $200,000 to demolish that property and remove it because it had a roof collapse. Something that was relatively simple-- a relatively simple fix that really if the property owner would have had access to certain tools that might have actually been able to alleviate that burden and that really that liability on the community. So I guess what I'm trying to get at is tools like this really do help us to protect an already existing investment. It tries to keep those existing investments from becoming liabilities. And communities like Beatrice, our downtown right now, is really property value depressed. This is a way for us to increase the property value in our downtown. Here over the last year, we actually saw $3 million spent on downtown building improvements. Now one of those projects is actually has applied to be a part of historic tax credits and that will be coming on-line hopefully here in the coming year. So we're certainly looking forward to that. But some of the folks that have taken on these projects, honestly, it was the tax credits that actually helped them even think about getting started. They themselves did not actually end up partaking in the tax credits but they said if it was not for this program being out there they would not have bought a downtown building, they would not have invested thousands of dollars into it. This kind of gave them peace of mind once they got into it they found out that, hey, you know what I can do this my-- on my own. Great for them, but this was one of the things that brought them to the table to be able to see that happen. And so there's definitely a lot of great things. Here in the packet that I gave you guys is a letter that highlights several more points that I think you guys might have interest. I'm not gonna go through all of them. I'll let you guys have an opportunity to read that. I hope you do. But one thing I do want to definitely point out is beyond just the, the UNL report and those economic benefits. When our small businesses invest into their properties, they see a lot more return on their investment. Oftentimes, we're seeing on average a 20 percent increase in business sales year-to-year and going forward-- you know, in the continuum. And so we're talking about being able to create a lot more economic impact in our small communities. These downtowns, these historic properties are part of the attraction for people of my generation and also for

baby boomers and whatnot. We are seeing them move back into the downtowns. Unfortunately, these properties are expensive. Communities like Beatrice, some of our upper floors have been vacant since the 1940s and 1950s. So they are extremely expensive. They are a challenge. This helps equal that and helps protect an already existing investment that our communities have made and certainly helps us with recruitment and retention of both young people and small business. And so I do hope you'll take a look at that. The last thing is just take a look at the list of-- I showed you a sample of the federal historic tax credits. You'll notice that definitely that they have been dominated at the course-- at the time of this publication in 2016 by Omaha and Lincoln. But the rural communities like Beatrice, they are starting to really be able to grab hold of these mainly because of the impact of the state historic tax credit. So this is showing where federal tax credits have been. And the nice thing is with the state tax credit it actually makes it easier for rural communities. Most of the time the federal tax credit really only made it open to Omaha and Lincoln. The state historic tax credit has really created an even playing field for us in our small rural communities and we're just starting to take advantage of that. But I guess with that, I'd like to certainly answer any questions you guys might have.

FRIESEN: Thank you, Mr. Sothan. Any questions from the committee? Seeing none, thank you for your testimony.

MICHAEL SOTHAN: Thank you.

FRIESEN: Any other proponents who wish to testify? Seeing none, does anyone wish to testify in opposition to LB310? Seeing none, anyone wish to testify in a neutral capacity on LB310? Welcome.

TREVOR JONES: Thank you, Senator Friesen, Senator Linehan, members of the committee. My name is Trevor Jones. I am the director and CEO of History Nebraska. Also the Nebraska State Historical Society also known as. My name is spelled T-r-e-v-o-r J-o-n-e-s. We're here to testify in a neutral capacity for this bill because we know that this has a cost for our partners in revenue. As you've heard described the way that this process works is that we basically-- our office handles the front end of any applications and then once all the work is approved and vetted on our end, we turn it over to Revenue that handles the actual money side of it. We have deadlines depending on which stage of the process of a 30-day or 60-day review. If we don't review it in time then the application just stands and moves on to the next part. That's the way the law is written. So we think that, that our customers would certainly like there to be certainty for terms of how when they're gonna get the credits but we also realize that there is a burden that gets put on the Department of Revenue by doing so. But I would also just like to briefly reiterate that this has been a really amazing program for the state of Nebraska. We're at over a 700 percent return on investment. We've got really solid research that supports that and we are seeing less money used but we're seeing more projects because at the beginning they were all-- there's a million dollar cap that you can use. And now we're seeing a lot of smaller projects that are using under a million dollars but they're in more rural areas. One of the really neat ones we did was the Palace Hotel in Pender which became-- I think it's about 15 units-- apartment units and was out there meeting with the city officials and they said they could use ten more projects like this at any time because part of the problem is you guys know is work force housing is a real issue in rural communities. And so these kinds of projects supply that the downtown created density bringing in small businesses and we've seen that happen around and around the state. So we-- you know, we acknowledge that there is a cost to revenue and so that's why we're neutral on this but we also think that our customers would like it.

LINEHAN: Thank you. Are there any questions from the committee? I have one. You're being very nice being neutral but they have to do this work sooner or later, right?

TREVOR JONES: Correct.

LINEHAN: So we're not asking them to do more work. We're just asking them to do it faster.

TREVOR JONES: Right.

LINEHAN: OK.

TREVOR JONES: And, and we have a time limit. It doesn't have a time limit on the other side.

LINEHAN: OK. All right. OK, thank you very much.

TREVOR JONES: Yep.

LINEHAN: Others wishing to testify in a neutral position? Seeing none, Mandy [SIC] do you want--

MEG MANDY: I'll waive closing.

LINEHAN: OK, let me-- letters for the record first here. This is what happens when you leave for five minutes, you disconnect. Proponents: Elizabeth Chase, National-- excuse me, Elizabeth Chase, Nebraska Main Street Inc.; Megan Sothan, Gage County Museum; Nick Juliano, Director of Boys Town. With that, we close the hearing on LB310. And we'll open the hearing on LB477.

MEG MANDY: Caught my breath now so enjoy that. OK. Good evening, Chair Linehan and members of the Revenue Committee. My name is Meg Mandy, M-e-g M-a-n-d-y. I'm the legislative aide for Senator Vargas who represents District 7, the communities of downtown and south Omaha. LB477 is a bill to provide a tax exemption for Segal AmeriCorps Education Awards. Similar to the benefits provided by Pell Grants or the GI Bill, the AmeriCorps Education Award provides recipients with the opportunity to seek and pay for higher education. Unfortunately, unlike the Pell Grant and benefits from the GI Bill, the AmeriCorps Segal Education Award is taxed in some states including ours which places a financial barrier in front of young people who provide a public service to our communities and have to pay education expenses. Through their service, AmeriCorps members build communities and solve their needs by helping with local challenges. It is essential that we recognize and ensure that every member has the opportunity to maximize their Segal Awards for their public service and volunteer efforts and leverage them towards higher education. As a previous AmeriCorps member myself, that would be Senator Vargas who was an AmeriCorps member. He understands the hard work and sacrifice that are required. He served with AmeriCorps for two years and was able to use the award money to repay some of his student loans. Through his experience, he learned the value of public service and firsthand witnessed the impact that an individual can have on the communities that we serve which is what called him to a career as a public servant. In Nebraska, AmeriCorps partnered with ServeNebraska and 66 educational and financial partners across the state. Currently, members and more than 11,000 alumni have served in more than 400 locations across Nebraska. Members have used more than $35 million in Segal Education Awards to Nebraska-based institutions including the University of Nebraska and Nelnet. AmeriCorps members continue to serve their local communities and foster a growing economy after their formal term of service has ended. About 66 percent of AmeriCorps members are employed within six months following their term and 42 percent of members have found employment due to their connection with AmeriCorps. In addition, for every $10 that is spent on AmeriCorps it generates $15 in return. You'll notice that the fiscal note on this bill is very minimal. The impact to the General Fund due to the tax exemption is very small and the only other cost associated is a one-time programming costs for mainframe and Web site updates for the OCIO. The economic benefit and public service benefit to our state that AmeriCorps members bring are what has inspired Senator Vargas to bring this bill. We look forward to the conversation today and continuing to work with you on this bill and would be happy to take any questions at this time. Thank you.

LINEHAN: Thank you very much. Are there questions from the committee? Yes, Senator McCollister.

McCOLLISTER: Yeah, thank you, Madam Chair. I noted just a one-year expenditure. Can you explain? This apparently is not an ongoing program.

MEG MANDY: So the term of service, I believe, is about ten months. And then after the completion of services, the members receive the Segal Education Award. Does that answer your question?

McCOLLISTER: Not exactly.

MEG MANDY: OK.

McCOLLISTER: You turn to the second side of the fiscal note and I see no fiscal notes for '20-'21 and '21-'22.

MEG MANDY: Yeah, so the fiscal note costs indicated there is just the cost for the programming and mainframe update. The Department of Revenue didn't provide a specific cost of what the income tax exemption would be year-after-year. They just stated that it would be minimal.

McCOLLISTER: OK.

MEG MANDY: Does that make sense?

McCOLLISTER: So the benefit to a particular tax payer is de minimis. Is that what you're saying?

MEG MANDY: I would say that-- and there will be AmeriCorps members testifying behind me so you can ask them what the impact would be. But when members serve they typically earn about $14,000 per year, and then upon completion of their service they get this Education Award similar to a scholarship from a public or private institution which they then use to repay education costs. So for someone making $14,000 a year and serving the public to be able to have this Education Award tax exempt, I wouldn't say is inconsequential for somebody making that amount of money.

McCOLLISTER: So-- just so I understand.

MEG MANDY: Yeah.

McCOLLISTER: The pay is, is still subject to tax,--

MEG MANDY: The income is, yeah.

McCOLLISTER: --but then it's the award that occurs--

MEG MANDY: Correct.

McCOLLISTER: --afterwards.

MEG MANDY: Yeah, the Segal Education Award occurs after the service. And that's what's used to repay education costs. And so we're, we're asking in this bill for that Education Award to be exempt from income tax.

McCOLLISTER: How much are those awards typically?

MEG MANDY: It's, it's about equal to a Pell Grant which this year is just over $6,000 I think.

McCOLLISTER: OK.

MEG MANDY: Yeah.

McCOLLISTER: Thank you very much.

MEG MANDY: Yeah.

LINEHAN: Thank you, Senator McCollister. Other questions? Thank you. So we will have proponents. Thank you for long patience.

MATT CLOUGH: Yeah, yeah. Good afternoon. Before I get started, I'd like to recognize my friend Callum Core [PHONETIC] who has been-- has an interest in learning how ideas go from an idea to solve a problem to statute. And so learning about the hearing process today is, is of interest to him and I appreciate that you're here. So my name is Matt

Clough, and last name is spelled C-l-o-u-g-h. I'm the former chief operating officer of the Department of Health and Human Services. During the Heineman Administration and during my service at DHHS, I had the opportunity to learn the inward working of ServeNebraska, the operating name of the Nebraska Volunteer Service Commission. The Commission is the implementing state agency of the mission for the Corporation for National and Community Service which funds a portion of AmeriCorps members here in Nebraska. Currently, I had the privilege of serving as a gubernatorial appointed commissioner for ServeNebraska. And as a commissioner, I've gotten to know the outstanding Nebraskans that provide thousands of hours of voluntary service serving a wide variety of areas in the state. Meg, in her opening statement, mentioned a few of those and, and just the quantity of them. They make a difference in the Nebraska Juvenile, Juvenile Justice System, neighborhood gardens, the lives of young Nebraska scholars, children with autism, and the opioid epidemic. And those are current initiatives that Nebraska organizations are making an impact with through AmeriCorps members. When their service commitment is completed in full and, Senator McCollister, to your point that's 1,700 hours in a calendar year represents a full commitment. These Nebraskans receive a Segal Education Award which is equal to the Pell Grant, and currently that's approximately $6,095. These funds can be used to pay educational debt or further their secondary education and the funds are predominantly received by Nebraska institutions of higher learning. One of the challenges with the fiscal note has to do with you don't have to spend the full $6,095 at one time. So I could-- I might choose to take one class and, and spend a portion of that. However, all the funds do have to be expended within a seven-year period of time. AmeriCorps Nebraska implemented by great Nebraska organizations and administered by ServeNebraska is teaching the limitless value of serving our Nebraska communities by mobilizing terrific service members that often go on to highly successful careers in Nebraska benefiting our economy and our commun-- communities. The Segal Education Award is key to recruiting these motivated volunteers and setting them on a course for future success. AmeriCorps members give these educational award dollars in full to educational institutions. Yet, they're required to pay in Nebraska income tax on the award after giving a year of voluntary service to our communities. And so the money-- they never take constructive receipt of the dollars so the dollars go to the higher education. And then they receive a tax bill or required to pay tax. And oftentimes for the individuals that we're talking about, that, that can-- although, the amount may be de minimis it's significant within their budgets. The AmeriCorps members-- let's see-- so this is not only wrong for the economic growth of our state, we're trying to-- we've heard testimony here today, we're trying to attract people in, increase our tax base, and grow our businesses. These individuals do that through the type of individuals that we want in our state. But at the time, it's a financial hardship for these young volunteers. So as a proponent asking that you support LB477, and correct this hardship on our Nebraska volunteers. Any questions, I'd be happy to respond.

LINEHAN: Thank you, Senator McCollister.

McCOLLISTER: Yeah, thank you, Madam Chair. When I used the term de minimis, I was referring to the aggregate reduction in revenue to the state.

MATT CLOUGH: Gotcha.

McCOLLISTER: So I know the awards are significant to the awardees.

MATT CLOUGH: Yeah, thank you.

McCOLLISTER: Thank you.

MATT CLOUGH: Um-hum.

LINEHAN: Other questions from the committee? Just a point of clarification or maybe not clarification, knowledge. These ServeNebraska-- that's all-- isn't that all funded by federal dollars?

MATT CLOUGH: Currently, general funds in the amount of $30,000 dollars.

LINEHAN: But their budget's like $1.5 million.

MATT CLOUGH: Correct. Yeah, the majority are federal dollars.

LINEHAN: Right. OK. Thank you very much.

MATT CLOUGH: Yep.

LINEHAN: Other questions? Thank you for being there.

MATT CLOUGH: Your welcome.

LINEHAN: Other proponents? And welcome your friend and colleague. Thank you for being here. You've had a long day about how hard this is.

STEPHANIE MUELLER: Good afternoon, Madam Chair and members of the committee. My name is Stephanie Mueller, S-t-e-p-h-a-n-i-e M-u-e-l-l-e-r. I'm a commissioner with ServeNebraska and ServeNebraska oversees the AmeriCorps program in Nebraska. And I am here today to testify in favor of LB477. Created by Congress in the National and Community Service Trust Act, the Corporation for National Community Service provides civilians opportunities through AmeriCorps and other national service programs to address the nation's most pressing unmet needs including emergency disaster response or the opioid epidemic. The Segal AmeriCorps Education Award is a post-service benefit earned by individuals who complete an approved term of national service in AmeriCorps programs. The award is named after Eli Segal, a pioneer of national service and the first CEO of the Corporation for National and Community Service. The award may be used to pay educational expenses at eligible post-secondary institutions including many technical schools and GI Bill approved programs or to repay qualified student loans. The dollar amount of the Education Award is equal to the maximum amount of the U.S. Department of Education Pell Grant as we've previously discussed and may change year-to-year. Currently, under the law, the Segal AmeriCorps Education Award is treated differently than other education awards and scholarships designed with a similar purpose. The Segal AmeriCorps Education Award is considered taxable income and recipients are prohibited from withholding a portion of the award to cover any resulting taxes. And as a result the tax creates a financial burden for Americorps alumni discouraging some from using their award and forcing others to delay their education plans. Not unlike the GI Bill, the World War II era and later post 9/11 program that empowered returning veterans to pursue an education that otherwise would not have been possible. AmeriCorps members are awarded a small post-service education benefit to help defray the increasingly steep cost of college. Since the program's launch two decades ago more than 11,000 Americorps alumni along with 66 educational and financial partners in Nebraska have received over $35 million in Segal Education Award payments. This speaks volumes to the importance of the AmeriCorps program financial awards and the impact in our state. But unlike the GI Bill, that education award is taxed as income for AmeriCorps members whose tax brackets are often adjusted upwards as a consequence. Hit with this unexpected liability, some young people are forced to take out huge loans or new credit cards to pay this bill.

And in some cases students spend years paying their tax bill. The Nebraska Legislature should encourage and facilitate the full spectrum and ethics of service, military, and civilian alike. Currently, students who commit themselves to strengthen our-- strengthening our communities and civic landscape through national service are unexpectedly punished by the current tax framework. Service is a strategy to solving problems, needs, and gaps. We support education and work force development in Nebraska. Many AmeriCorps members who complete their post-secondary education in Nebraska stay to live, work, and raise families. Please don't make our future work force incur additional debt or delinquency for the love of their country and service. And please vote in support of LB477. Thank you for your time.

LINEHAN: Thank you very much. Do we have questions from the committee? Seeing none, thank you.

STEPHANIE MUELLER: Thank you.

LINEHAN: Next proponent.

MEGAN MOSLANDER: Good evening, Senators. My name is Megan Moslander, M-e-g-a-n M-o-s as in Sam l-a-n-d-e-r. I am the current development director and national advocacy leader at College Possible Omaha, a nonprofit helping students from low-income backgrounds get to and through college. We are currently serving 2,300 students in Nebraska. What makes College Possible unique is the fact that we are powered by AmeriCorps. The recent-- these recent college graduates join us in Omaha from all over the United States for a 10-month term of service in order to help address the issue of education equity. Some individuals actually served two terms with College Possible. This year we are blessed to have 34 AmeriCorps members that act as coaches for students as they work to reach their goal of graduating with a four-year college degree. AmeriCorps members earn a modest living stipend of approximately $13,000. After completing their service, as we've heard here today, members receive the Segal Education Award that is equal to the Pell Grant which is currently $6,095. In the last three years that I've worked for College Possible, I have seen our AmeriCorps members go on to medical and law school, achieve their graduate degrees, as well as pay back their student loans. Many choose to continue their education and/or employment here in Nebraska. Each of these members have provided our city and state a great service by spending a year or two of their life giving back to address a community need. However, once they use their Education Award, they then must pay both state and federal tax. Currently, there is a push to eliminate the federal tax and two states have already provided an exemption for the state tax. So we ask you to consider doing the same in Nebraska. The fiscal note has shown the minimal impact of this exemption. But I can assure you of the immense benefit AmeriCorps members make throughout our communities. LB477 is a way of thanking hundreds of AmeriCorps members for their commitment to making Nebraska a stronger state. And also can be used as a recruitment tool to consider-- for others to consider Nebraska as their service location. So today I ask you to support LB477. Any questions?

LINEHAN: Thank you very much. Are there questions from the committee? Seeing none, thank you for being here.

MEGAN MOSLANDER: Um-hum.

LINEHAN: Appreciate it. I'm sorry, go ahead. Thank you.

JAMIE MOORE: Good afternoon. My name is Jamie Moore, J-a-m-i-e M-o-o-r-e, and I am a former commissioner for ServeNebraska and an advocate for AmeriCorps programs. ServeNebraska oversees the AmeriCorps program in Nebraska. I am here today to support in favor of LB477. The Segal AmeriCorps Education Award is a post-service benefit that is earned by individuals who complete an approved term of national service in the AmeriCorps programs. The award, as you've heard earlier, may be used to pay educational expenses at eligible post-secondary institutions or to repay qualified student loans. Under the current Nebraska law, the Segal AmeriCorps Education Award is considered taxable income and members are prohibited from withholding a portion of the award to cover any taxes. This tax creates a financial burden for AmeriCorps alumni discouraging some from even using their award and forcing others to delay their educational plans. The Nebraska Legislature should encourage and support all types of service in our state. AmeriCorps members are in a way punished with the tax on their Segal Award. Service is a solution to some of our most pressing community needs. Nebraskans time and time again have opened their doors and hearts to help others. The AmeriCorps program is one way in Nebraska we work together to address issues, grow our residents, and our state. These programs support education and work force development in Nebraska. Many AmeriCorps members who complete their service and education remain in Nebraska. Please help serve Nebraska and AmeriCorps continue to grow in Nebraska. Vote in support of LB477. Remove the tax on the Segal Award. Do not make our AmeriCorps members incur additional debt to use the benefit that they earned because of their love of service and Nebraska. Please vote to support LB477. Thank you.

LINEHAN: Thank you very much. Do we have any questions from the committee? Seeing none, thank you very much. Are there any other proponents? Are there any opponents? Is there anybody wanting to testify in the neutral position?

CARRA THOMPSON: Good evening, Chairperson Linehan and members of the Revenue Committee. My name is Carra Thompson, C-a-r-r-a T-h-o-m-p-s-o-n, and I am employed by the Nebraska Supreme Court Administrative Office of the Courts and Probation as the program officer for the Rural Improvement for Schooling and Employment, RISE Program. I am before you today to provide testimony in the neutral capacity for LB477. To begin, as others have stated tonight that the AmeriCorps Segal Education Award is available to individuals who successfully complete a year of service in an AmeriCorps program. The award could be used to pay education costs at institutions of higher learning, for educational training opportunities, to repay qualified student loans, or to transfer to children or grandchildren of those members who are 55 or older. I served as an AmeriCorps member for the RISE Program from 2010 to 2011. I can attest to how important the Education Award is to AmeriCorps members, as I was one of those more than 11,000 members who earned an AmeriCorps Segal Education Award. By law, members have seven years to expend their award funds. If the award is not used in full within those seven years, they will no longer be eligible. Each year that I utilize my Education Award that I had earned, I was taxed on the amount that I put towards my student loans. As a result, I chose to break up the amount of awards that I earned towards my educational, my educational loans each year. I see firsthand the implications on members and their families. Our RISE specialists are given a small or no monthly stipend and look forward to the Education Award at the end of their service term. I would like to share one situation of a current AmeriCorps member with the RISE Program who is serving their third consecutive year. As they are very grateful for their opportunity to serve their community and earn an Education Award, they have expressed their negative experience with the tax liability. This particular AmeriCorps member is over the age of 55 and has chosen to transfer their education award to one of their children who is a full-time student. Each time the funds are expended the tax liability is placed on the child who is gifted the Ameri-- the AmeriCorps Education Award and not the AmeriCorps member. This caused a financial hardship for this family as the child who is gifted the award was not employed and was living off their spouse's income. I appreciate everyone's time today and effort to provide AmeriCorps members an additional incentive for their service as they are giving back to local communities throughout our state. I would be happy to answer any questions you may have.

LINEHAN: Thank you. Senator McCollister.

McCOLLISTER: Yeah, thank you, Madam Chair. Maybe I missed it, and thank you for your testimony. How many years do you have to, to serve to receive the Segal Award?

CARRA THOMPSON: One service term. So that's one year.

McCOLLISTER: No, it's not three years?

CARRA THOMPSON: No, at the end of your contract completion-- if you successfully complete your service contract, you're eligible to earn that AmeriCorps Segal Education Award.

McCOLLISTER: Yeah, so if you choose to renew, do you get a second award?

CARRA THOMPSON: You would get a second award. That is correct.

McCOLLISTER: OK. Thank you.

LINEHAN: Thank you. Other questions? So you're in the neutral position. Are you saying you like the idea, but whoever gets the money, even if it's not-- if the awardee gives it to the grandchild or child that they shouldn't be taxed either so that that's where you're neu-- you believe in the cause but you want this added. Is that--

CARRA THOMPSON: I'm in the neutral capacity for the position that I'm currently in with the Probation and Courts.

LINEHAN: So you can't be for or against because of your job?

CARRA THOMPSON: Correct.

LINEHAN: OK, that's all--

CARRA THOMPSON: But I, I do see the benefit to whether it's the AmeriCorps member or if it's gifted to another individual. There is-- that is an incentive to the AmeriCorps member.

LINEHAN: I get it now. Thank you very much--

CARRA THOMPSON: Thank you.

LINEHAN: --for that clarification. Any other questions? Thank you much for being here today.

CARRA THOMPSON: Thanks.

LINEHAN: Anyone else in the neutral position? Meg, do you want to close?

MEG MANDY: I just forgot to give you all a handout. So that is why I am closing. But if you have any other questions, I would be happy to take them.

LINEHAN: Any other questions?

MEG MANDY: Thank you.

LINEHAN: We do have letters for the record. We have proponents: Traci Kirtley, College Possible, Lisa Lackovic, Chair College Possible Board of Directors; David Brown, Greater Omaha Chamber; Susan Rocker, ServeNebraska; Christine Chasek, Hildreth, Hildreth, Nebraska, I'm sorry; Cathleen Plager, Lincoln; Ron Bouwens-- Ronald, excuse me, Bouwens, Lincoln; Sheila O'Connor, Lincoln; Sarah O'Neill, Lincoln; Ray Rose; all proponents. There are no opponents. And neutral was Platte Institute. Letters for the record. Thank you very much. And with that, we close the hearing on LB477. And open the hearing on LB182 [SIC]. Right on time, Senator Walz. You're perfection. Oh, LB357, did I say the wrong one? Oh, sorry, it's been a long day. Put it in the wrong pile here. We need to change the sign, too.

BRIGITA: I'm the only one here.

LINEHAN: Oh, I'm sorry.

WALZ: OK.

LINEHAN: Hi.

WALZ: How are you?

LINEHAN: We're, we're having a grand slam of a time.

WALZ: I love being last because I know you're all so happy now.

LINEHAN: There won't be a lot of hard questions.

WALZ: Maybe you're delirious.

LINEHAN: I wouldn't put us quite that far. Well, go ahead.

WALZ: Good afternoon-- good evening, Chairman Linehan and members of the Revenue Committee. For the record, my name is Lynne Walz, L-y-n-n-e W-a-l-z, and I proudly represent Legislative District 15. I'm here today to introduce LB357, which is a bill to provide a $300 refundable tax credit to Frontline direct care workers whose job it is to support people with developmental disabilities. To qualify for this credit, staff would need to meet certain income and work requirements. The first is, that they must work an average of 20 hours per week for at least six consecutive months during the most recently completed taxable year. The second being, that his or her federal adjusted gross income for the most recently completed taxable year does not exceed 400 percent of the federal poverty level. This bill also provides a financial guardrail for the state. The amount of state-- of tax credits available under this Act would not exceed $1.2 million. If all of this money was used, if all of this money was used, 4,000 people or direct care support professionals would benefit from this Act. Some of you may know that I previously worked in this field so I understand that it's not an easy job. I worked probably about 15 years as a direct care provider. You are responsible for taking care of individuals with diverse needs. The people who work these jobs are using their time and effort to do whatever they can to help another human being. They are paid-- they are staff paid to support people with disability so they can live their lives to the fullest extent possible with the same opportunities and experiences as people without disabilities. They are sacrificing their time and energy for the benefit of others. Unfortunately, as I know, this is not a lucrative profession but it is definitely a necessary one. The average wage for a direct care service provider is $10.72 per hour and 37 percent of direct care providers are uninsured. It is not that their employees don't want to pay them more, they do-- they want to be able to pay them more but their hands are tied due to Medicaid provider rates. And since we seem to be decreasing provider rates and we seem to like tax credits so much, I figured that we might be able to use this or find it in our pocketbooks to give these individuals a leg up. I know that this may not seem like a lot of money to you but making $10 an hour-- but to people making $10 an hour it means a lot. This could mean that they would have a few months of groceries for a struggling family. This could mean a dent in a car payment when somebody needs to get to work. It could pay for kids' lunches. All of this help will-- could release the daily stress of the service providers' life so that they can continue to work in an already high stress job. Currently, we lack the work force necessary to do this job for many reasons I have already stated. This bill provides an incentive to stay in this profession. According to the National Core Indicators' 2016 survey of 17 states, the average turnover rate for direct care support professionals is 45 percent. This is very reflective of providers in Nebraska. And I just wanted to mention that I talked with a friend of mine this morning who works for a provider in Fremont. She is a residential care manager and she-- they have not had one application for a direct care support staff in over a month. Not one application. If we don't do something now, this will set our providers back even further than they already are. Thank you so much for your time this evening. I would encourage you to keep an open mind on this bill and listen to the following testifiers. They will be able to provide you with even more insight into their daily lives and the lives of residents they support. With that, I would be happy to try and answer any questions.

LINEHAN: Any questions from the committee? Seeing none, thank you very much. Do we have proponents for the bill? Thank you very much.

MARK MATULKA: Good evening-- excuse me, Chairperson Linehan, Linehan, members of the Revenue Committee. My name is Mark Matulka, M-a-r-k M-a-t-u-l-k-a, and I appear before you today representing Mosaic. Thank you for the opportunity to provide testimony on LB357 and also thank you to Senator Walz for introducing LB357. Mosaic is a mission driven organization serving 3,700 people with intellectual and developmental disabilities in 10 states including over 800 people in its home state of Nebraska. Together, Mosaic and Nebraska's 940 staff members and the people it serves work as partners in providing personalized residential, day, employment, and respite services. Mosaic in Nebraska has about a 40 percent turnover rate and employs over 600 direct care staff throughout its locations in Nebraska. The average starting wage for a Mosaic DSP in Nebraska is about $11 per hour. Mosaic respectfully requests that the committee advance LB357 because the tax credit would help providers address the severe direct care shortage by providing an incentive to join and stay in a valued public service profession. The need for Frontline workers is growing because of aging caregivers. The tax credit would help providers recruit and retain staff, maintain investments and training, and alleviate operational and programmatic disruptions caused by high-staff turnover. This temporary proposed tax credit would provide tax relief to Nebraskans and go a long way for low-wage earners. For example, as Senator Walz mentioned, it would help with a few months of groceries, fund a needed repair on a vehicle used to get to work, and provide for educational opportunities. People with disabilities, their loved ones, and the greater community, including the state of Nebraska, rely on disability service providers to achieve outcomes that promote meaningful lives in the community. Subsequently, providers rely on dedicated direct care staff to make their mission come to life. For years, direct support professionals have been filling the roles of teacher, social worker, community connector, in addition to providing personal care so that people with intellectual disabilities can live meaningful lives in the community. Like a Nebraska state senator, a direct support job boast long hours, irregular schedules, and low pay. Yet, it is satisfying, fulfilling, and provides an opportunity to make a significant difference in people's lives. Even those support workers are critical to the success of community-based services. Historically, the rates provided by the state and federal Medicaid partnership have not allowed DSP pay and benefits to reach a level to adequately compensate them for their work which causes recruitment and retention issues. To put my comments into perspective, Mosaic is 95 percent Medicaid funded. In Nebraska, 77 percent of its funding goes toward staffing costs. Mosaic has no ability to set prices, increase reimbursement rates, or shift any costs burdens to non-Medicaid funded constituencies such as private pay insurance. In economic terms, disability service providers are price takers and rely on this Medicaid partnership to ensure that its costs are covered. Medicaid reimbursement rates are directly connected to quality services. However, the rate seldom reflect the expenses of providing services to people with intellectual disabilities because increasing the costs of-- the, the increasing costs of business usually outpaces any Medicaid rate adjustments. LB357 is an alternative idea to support-- or to supplement rather, a raw appropriation for provider rates. To illustrate a potential benefit in 2016, there was an issue related to lost federal Medicaid funding in Nebraska. The Legislature graciously began restoring a portion of the funding to providers. Mosaic took that funding and passed it directly to the contracted staff who performed the underfunded task even if they were no longer with Mosaic. A few hundred dollars for each staff member went a long way in recruiting, retaining, and rehiring quality support staff. Mosaic believes LB357 would produce a similar result.

Again, Mosaic respectfully requests the committee to advance LB357. First, LB357 would benefit DSP's fulfilling a public service. Second, LB357 would benefit the community because the money would likely be reinvested back into the community. Third, LB357 benefits the state because it would put disability service providers in a better position to alleviate recruitment and retention issues. Finally, LB357 would help keep people with disabilities in the community, which is the goal of the developmental disability services waivers by providing stability to the disability services system. Thank you again for the opportunity to speak with you all today about an investment to ensure providers can better recruit and retain direct care staff. I'm happy to answer any questions that you may have.

LINEHAN: Your timing is exquisite. Thank you very much for being here. Do you have any-- are there any questions from the committee? Seeing none, thank you very much.

MARK MATULKA: Thank you for your time today, Senators. I appreciate it.

LINEHAN: You're welcome. Are there other proponents? Are there any opponents? Anyone wishing to testify in the neutral position? Senator Walz, would you like to close? We have some letters for the record, I'll just say real quick here. Proponents: Kristin Mayleben-Flott, Nebraska Council on Developmental Disabilities. No opponents. And neutral: Platte Institute.

WALZ: Thanks. I almost say thanks, guys. So I just want to reiterate that direct support professionals are vital-- are a vital element to our society and I just want you to think about for a minute as well, what we would do without direct support workers. I mean, where would people with disabilities be today if we didn't have people who cared enough to support them in their endeavors and in their communities. They do whatever they can to help care and support for people, people with disabilities and they are definitely not compensated well enough for their time. They deserve a lot more than what they get. As I mentioned before, the average wage for someone in the position is only $10.72 an hour. This bill is here to provide an annual $300 refundable tax credit to these selfless individuals in hopes of making other people's lives a little easier. I would ask that you take a minute to consider how important their work is to our society. Thank you for your time tonight. I know you're all tired. I'd be happy to answer any other questions that you have.

LINEHAN: Thank you very much, Senator Walz. Are there any questions from the committee? Not right now, but if we have some-- [LAUGHTER]

WALZ: Not right now, but we'll find you.

LINEHAN: Thank you very much for being here. Thank you, all. And with that, we close the hearings.