

Transcript Prepared by Clerk of the Legislature Transcribers Office  
Revenue Committee March 1, 2019

**LINEHAN:** Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn, Nebraska, and represent the 39th legislative District. I serve as Chair of this committee. The committee will take up bills in the order posted. Our hearing today is for the public part of the 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 rules. Please turn off cell phones and other electronic devices. Move to the chairs at the front of the room when you're ready to testify. The order of testimony is introducer, proponents, opponents, and neutral, and then 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 then hand them to the page to distribute. You will need 11 copies for all committee members and staff. If you need additional copies, please ask the page, who I'll-- pages, who I'll introduce in a second, to make copies for you now. When you begin to testify, please state and spell your name for the record. Please be concise. I'm going to limit us to three minutes today and if you've got-- I know, because we usually go five, but we-- we have five bills and I know there's going to be-- I am assuming everybody who's going to testify is not here already. So let's go three minutes. And please, when the yellow light comes on, try to wrap up. If your remarks were reflected in previous testimony or if you would like your position to be known but not-- do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. I'd like to introduce the committee staff. To my immediate right is legal counsel, Mary Jane Egr Edson. To my immediate left is research analyst Kay Bergquist. And to my far left, at the end of the table, is committee clerk, Grant Latimer. I would at this time like the committee members to introduce themselves, starting at my far right.

**KOLTERMAN:** Senator Kolterman, Seward, York, and Polk Counties.

**GROENE:** I'm Mike Groene, District 42, Lincoln County.

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

**McCOLLISTER:** John McCollister, District 20 in central Omaha.

**CRAWFORD:** Good afternoon. Senator Sue Crawford, District 45, which is eastern Sarpy County.

**BRIESE:** Tom Briese, District 41.

**LINEHAN:** Thank you. Our pages for the day--can you stand up, ladies-- we have "Sunny" Gidehee [PHONETICALLY] who's a UNN [SIC] --

**MARY JANE EGR EDSON:** Ghidey.

**LINEHAN:** I'm sorry?

**MARY JANE EGR EDSON:** Ghidey.

**LINEHAN:** Ghidey, I'm sorry, Ghidey, a UNN [SIC] senior poli-sci major, and Katherine, a fifth-year student at UNL, majors in political science and English. So they can make you copies if they need-- you need them. Please remember that the senators may come and go during our hearing as they may have bills to introduce in other committees. Please refrain from applause or under-- other indications of support or opposition. I'd also like to remind our committee members to speak directly into the microphones. Also, for our audience, the microphones in the room are not for amplification but for recording purposes only. Lastly, we are an electronic-equipped committee and information is provided electronically as well as in paper form, therefore, you may see committee members referencing information on their electronic devices. Be assured that your presence here today and your testimony are important to us and critical to state government, so thank you. And with that, we will open on LB441. Welcome, Senator McCollister.

**McCOLLISTER:** Yeah, thank you. Good afternoon, Madam Chair and members of the committee. I am John, J-o-h-n, McCollister, M-c-C-o-l-l-i-s-t-e-r, and I represent the 20th Legislative District in Omaha. Today I'm introducing LB441. This bill was requested by the city of Omaha. I know the revenue manager for the city of Omaha's finance department, Donna Waller, and one or two additional individuals will testify as proponents. Since 1987, the state of Nebraska has supported economic incentive programs starting with the passage of LB775. Even though LB775 was replaced by another program, some applicants under the original incentive act are still making

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claims for income and sales tax credits. In 2005, Nebraska Revised LB775 incentives with passage of the Nebraska Advantage Act. The Advantage Act is set to expire at the end of 2020, but successful applicants can continue to claim income and sales tax credit for up to 20 or more years. LB441 was not introduced to take issue with the benefits generated by economic incentive programs. Instead, I'm offering LB441 to help cities budget for local option sales tax refunds. Under these incentive bills, successful companies may claim to both state and local sales tax credits. When a company decides to ask for these credits in the form of refunds, cities do not have enough time to budget for them. LB441 will continue to practice-- the practice of notifying cities when refunds are over \$1,500. The bill will allow the cities Lincoln and Omaha to have a one-year cushion in order to budget and, therefore, pay for their local sales tax refunds over the course of one year if those refunds are over \$1 million on an annual basis. Nebraska allows this type of protection for smaller cities and villages if more than 25 percent of the local option sales tax is refunded in a prior year. I believe we should offer the same type of protection to our larger cities. City officials tell me that they do their best to budget for these refunds. However, the exact amounts can fluctuate widely and leave the city facing a budget deficit if too much of their local sales tax revenue is refunded in a given year. LB441 would be helpful to those cities as well as the larger cities. The proponents for LB441 will follow me and describe in more detail the objectives of this proposal. I would be happy to answer any-- answer any questions if I can.

**LINEHAN:** Thank you, Senator McCollister. Are there questions for Senator McCollister? Seeing none, thank you.

**McCOLLISTER:** Thank you.

**LINEHAN:** Proponents? Good afternoon.

**DONNA WALLER:** Good afternoon. Senator McCollister and members of the Revenue Committee, my name is Donna Waller, W-a-l-l-e-r, and I am the treasurer and revenue manager for the city of Omaha. I want to thank you for the opportunity to offer testimony in support of LB441. The city of Omaha is supportive of the state incentive refund programs. The concern is not with the programs but with the difficulty in estimating the amount of refunds during the budget process. Each year, the city reviews the previous and current year's refund numbers and calculates a refund amount that is expected in the following year. With sales tax receipts being our largest general fund revenue source,

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accounting for over 42 percent of total general fund revenues and 16.2 percent of total fund revenues, this can create a tremendous burden for the city if not budgeted correctly. Here are some examples of variances between past budgeted amounts and actual refunds. In 2013, the budgeted amount was \$7,683,309, the actual refunds for that year were \$12,538,799; 2016, the budget amount was \$9,500,000, the actual refund was \$7,720,964; 2018, the budgeted amount was \$9 million, actual refund was \$9,440,691. The budget for 2019 is \$8,500,000 and as of March, the year-to-date refunds are already \$8,369,351. The city of Omaha uses sales tax revenue to pay for the city's day-to-day operations, including various city administrative and service departments, such as police, fire, library, planning, parks and recreation, law, finance planning, human resources, and the operation of the city council and mayor's office. Without an accurate budget, that could lead to delays in police and fire recruit classes, layoffs of civilian personnel, and diminish other city services as well. LB441 would provide the city the ability to budget more efficiently for the future. Thank you again for the opportunity to testify. That includes my testimony.

**LINEHAN:** Thank you very much for being here. Are there questions from the committee? OK. Thank you.

**DONNA WALLER:** Thank you.

**LINEHAN:** You have no idea right now, is that my understanding?

**DONNA WALLER:** That's correct.

**LINEHAN:** You just-- so your-- your projections are just based on what you've done in the last few years and you're assuming--

**DONNA WALLER:** Right, and then we try to come up with a--

**LINEHAN:** Get very close some years.

**DONNA WALLER:** Some years we were close. And, you know, not every-- yeah, we're close some years--

**LINEHAN:** OK.

**DONNA WALLER:** --and some years we're-- we're very far off.

**LINEHAN:** Thank you. Senator Groene.

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**GROENE:** Thank you, Chairman. Those numbers you gave us, that was what the state budgeted for the entire--

**DONNA WALLER:** Those are our budget-- budgeted number for our budget, for the city's budget. We budget each year a certain amount--

**GROENE:** So--

**DONNA WALLER:** --what we think it will be.

**GROENE:** Oh, that was what you-- and then the difference was you didn't get paid--

**DONNA WALLER:** The actual amount that came in.

**GROENE:** --because the state didn't tell you ahead of time which ones were refunded.

**DONNA WALLER:** Right. Yeah.

**GROENE:** OK.

**DONNA WALLER:** So then when we actually get the amount--

**GROENE:** But part of it was your-- could have been a budgeting error and then some of it was--

**DONNA WALLER:** Right.

**GROENE:** But the state withheld.

**DONNA WALLER:** Right.

**GROENE:** All right. Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions? Seeing none, thank you for being here.

**DONNA WALLER:** Thank you.

**LINEHAN:** Next proponent. Hi.

**JACK CHELOHA:** Good afternoon, Madam Chair and members of the Revenue Committee. My name is Jack Cheloha. That's J-a-c-k. Last name is spelled C-h-e-l-o-h-a. I'm the registered lobbyist for the city of Omaha. I want to testify in favor of LB441 this afternoon. First let

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me thank Senator McCollister for introducing the bill on behalf of the city of Omaha, and I appreciate your time this afternoon. I know you have a number of bills to hear, so I'll try to be brief. I think I'll probably be the last supporter of the bill because I know the city of Lincoln and the League of Municipalities have sent letters of support for this measure, and, likewise, I am authorized testify on behalf of the League of Municipalities. Ms. Rex and her staff have other commitments today. I just wanted to, if I could, try to address a little bit of the history of this. I mean we've been in the economic incentive game since the 1980s. Omaha has been supportive of those programs. We've tried to do our best to keep businesses here in Nebraska. However, as you heard, it's simply a matter of budgeting and it's-- it makes it very tough where we estimated an amount of \$8 million and the actual refunds are \$13 million or more, it really blows a hole in our budget. And as you heard, then the squeeze begins. We have to shut pools early. We have to stop hiring, etcetera. Omaha runs on a calendar year and so it makes it tough on us. We-- this Legislature has done something to help the smaller cities. If you look at the page 2, above the language, so it would be lines 10 through 24, we've already set up a program and put it in place where we can help the smaller cities. If they have refunds of 25 percent of their prior year sales tax, then the state will carry them for a year. All we're asking for is for Omaha and Lincoln, if the refunds are going to be over a million dollars, then this one-year notice would kick in for us as well and we would have a year to pay our refunds accordingly. Finally, I want to address the fiscal note. It shows some-- a number there that looks pretty high. However, you need to remember that this is a one-time charge only, because once that first year is covered, then every year thereafter the city will be paying it back and there won't be any financial hits. And after the final year, of course, the state will be reimbursed in total for all of their refunds. We'll-- we'll catch up, you know, on the final year. So that's what I wanted to tell you about and I'll try to answer any questions.

**LINEHAN:** Thank you very much, Mr. Cheloha. Senator Friesen.

**FRIESEN:** Thank you, Chairman, Linehan. So, you know, Gage County was here recently with an issue, too, where they couldn't come up with the money, and so if that would pass, they-- they get to borrow money from the state, so to speak, at a low interest rate. So if this is a city's obligation, I mean, should the state charge a nominal interest rate

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because we're delaying, because we have make the payment, I take it, to the business that's earned the credit, would you-- is that right?

**JACK CHELOHA:** Right. Your-- you would cover the first year. Let me add this. On local option sales taxes right now, Senator, the State Department of Revenue does keep a 3 percent processing and collection fee, so in a sense we are already paying a fee for that.

**FRIESEN:** That's-- that's operating cost, or it's been there forever. I'm just-- I'm just laying out that, I mean, if you're delaying this payment for over a year now, or the business expects their money, you've got the sales tax money in your coffers already, you've collected it--

**JACK CHELOHA:** Well--

**FRIESEN:** --now it's-- now it's up to--

**JACK CHELOHA:** --technically it goes to the state first.

**FRIESEN:** --and--

**JACK CHELOHA:** They hold our refunds, then they send them back to us.

**FRIESEN:** Yeah, but it gets-- I don't know how fast that turnaround is. Do you have any idea?

**JACK CHELOHA:** It's about a two-month lag, it's my understanding.

**FRIESEN:** OK. Or you build a cushion in there, but just curious if that would be an idea that would be--

**JACK CHELOHA:** I think it's something to talk about. I mean it'd be only a one-year I'd have to look at, I mean, yet at the same time I think, you know, we're-- we're doing our part by giving up our local option sales tax for the state incentive program, so--

**FRIESEN:** Well, when the-- when the business is located-- located in your-- your city, too, I mean, you get the benefits from it, so--

**JACK CHELOHA:** All right. Thank you.

**FRIESEN:** All right. That's all. Thank you.

**JACK CHELOHA:** Appreciate it.

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**LINEHAN:** Thank you, Senator Friesen. Senator Groene.

**GROENE:** I'm confused-- confused here. When you do TIF, I keep getting told that was business that would never have happened, so the taxes really didn't exist because the only reason they build it is TIF. Isn't it the same here? So why are you budgeting money that you would have never got in the first place anyway without this incentive?

**JACK CHELOHA:** Well, let's see, you know, TIF is meant for blighted and substandard areas, Senator, and we work--

**GROENE:** Is that a joke?

**JACK CHELOHA:** No, no, no.

**GROENE:** Oh.

**JACK CHELOHA:** It's serious. That's-- that's what we use it for in the city of Omaha--

**GROENE:** Yeah, sure.

**JACK CHELOHA:** --east of 72nd Street, yet at the same time it's my understanding, since cities don't have knowledge of who qualifies necessarily for the Nebraska Advantage Act or the LB775 programs, it's kept confidential at statutory language, so we don't know, but yet at the same time we have a hunch and we want to do our part to help grow Nebraska and keep it healthy. So that's why we participate not only in the state program, but we do our own through--

**GROENE:** Your local chamber pushes these programs. Your mayor pushes these programs. You recruit these businesses. You lose, what, 1.5 percent?

**JACK CHELOHA:** We're-- right. That's what Omaha's sales tax is, 1.5 percent.

**GROENE:** The state loses 5.5. Who covers us? That's money for my streets, my roads, my state government.

**JACK CHELOHA:** Absolutely. That's-- that's a policy decision, Senator.

**GROENE:** So would Omaha want to help us out because-- since you've got the business?

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**JACK CHELOHA:** Well, I mean, we could-- we could debate this for the afternoon. I would say, yes--

**LINEHAN:** Thank you.

**JACK CHELOHA:** --Omaha helps Nebraska.

**GROENE:** Thank you.

**JACK CHELOHA:** So--

**GROENE:** Thank you.

**LINEHAN:** Thank you--

**JACK CHELOHA:** --that was rhetorical.

**LINEHAN:** --Senator Groene.

**JACK CHELOHA:** Thank you.

**LINEHAN:** Are there other questions? Senator Crawford.

**JACK CHELOHA:** Yes.

**CRAWFORD:** Thank you, Chairwoman Linehan. This provision doesn't change any amount or obligation of the city, correct?

**JACK CHELOHA:** Not at all, no.

**CRAWFORD:** It's just-- it's just allowing you to-- to receive your sales tax money over a period of time as opposed to--

**JACK CHELOHA:** Right, absolutely, if--

**CRAWFORD:** --a lump sum, or have it withheld over a period of time.

**JACK CHELOHA:** Right, withheld, because right now a business takes in the sales tax from a customer, they remit it to the State Department of Revenue, that includes the state's 5.5 percent and Omaha's 1.5 percent, and then the state will remit our 1.5 percent back to us. However, should there be credits that are pulled in by a business, they now immediately withhold those amounts from our sales tax refunds. All we're asking for is a year cushion so we can budget for it because we run on a yearly budget. OK.

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**CRAWFORD:** Thank you.

**LINEHAN:** Thank you, Senator Crawford. Other questions from the committee? What-- what percentage is, let's say, \$10 million of your budget, of the-- Omaha's budget.

**JACK CHELOHA:** Well, \$10 million of our-- our sales tax revenue would be roughly, let's see, what would it be, about .7 percent. It's not 10 percent. It would be-- where's my revenue man at the--

**LINEHAN:** Point-seven percent?

**JACK CHELOHA:** Yeah.

**LINEHAN:** So less than--

**JACK CHELOHA:** We bring in roughly \$150 million and if we refund \$10 million, that's--

**LINEHAN:** So it's less than 1 percent of your budget.

**JACK CHELOHA:** Right. But yet at the same time, as I explained, it makes a big difference as we're going through the fiscal year.

**LINEHAN:** Would you be-- would this city be interested in some kind of amendment where you keep budgeting what-- your average for the last two years, average for the last three years, and if there's some spike or somehow, that the state would step in and help you work on the spike.

**JACK CHELOHA:** I think-- I think that would be helpful if we would get that year's lag time to pay the spike back.

**LINEHAN:** OK. So instead of just giving you a holiday for a year--

**JACK CHELOHA:** Right.

**LINEHAN:** --we could look at-- I-- I-- it would be up to Senator McCollister, but some way to help you--

**JACK CHELOHA:** Right.

**LINEHAN:** --not be on a roller coaster so much.

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**JACK CHELOHA:** Right, because we would continue to budget the amounts we do, but then you would cover the uncertainty for that year, that's all, the state meaning you, the state, would.

**LINEHAN:** I don't know if there would be support for that, but it's something.

**JACK CHELOHA:** Something to think about.

**LINEHAN:** There would be less-- it wouldn't have a \$6 million--

**JACK CHELOHA:** Right. Nope, I under--

**LINEHAN:** --on the fiscal note--

**JACK CHELOHA:** Right.

**LINEHAN:** --which is pretty hard right now.

**JACK CHELOHA:** Right, and we're willing to work with Senator McCollister and the committee to find anything that could help us.

**LINEHAN:** OK.

**JACK CHELOHA:** Thank you.

**LINEHAN:** Thank you. Are there other questions from the committee? Thank you very much for being here.

**JACK CHELOHA:** Thank you.

**LINEHAN:** Are there other proponents? Are there any opponents? Is anyone wanting to testify in the neutral position? Senator McCollister, would you like to close?

**McCOLLISTER:** Thank you, Madam Chair. Don't have any closing statements, although I am prepared to answer any questions if committee members have any.

**LINEHAN:** Thank you. Are there any questions from the committee members? Senator Crawford.

**CRAWFORD:** Thank you, Chairwoman Linehan, and thank you, Senator McCollister. I'm-- I'm trying to figure out why this costs \$6 million

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dollars if it's just-- if it's changing when the money is withheld but doesn't make a change in how much is withheld.

**McCOLLISTER:** That's correct. It's just a lag year. And so, you know, the state expects the city to make that money back up because the city's already been paid. And so when that occurs, that's typically the amount. Did I answer your question?

**CRAWFORD:** But it's-- it doesn't change the city's overall obligation.

**McCOLLISTER:** No.

**CRAWFORD:** It just changes the timing of their obligation.

**McCOLLISTER:** It's a timing issue--

**CRAWFORD:** Right.

**McCOLLISTER:** --only.

**CRAWFORD:** OK. Thank you.

**LINEHAN:** Other questions from the committee? Thank you very much.

**McCOLLISTER:** Thank you.

**LINEHAN:** Letters for the record, as were mentioned, are from Brandon Kauffman, city of Lincoln, in support; Lynn Rex, League of Municipalities, in support. There were no opponents and none in neutral. And with that, we close the hearing on LB441-- thank you, Senator McCollister-- and open the hearing on LB614. Senator Crawford, welcome.

**CRAWFORD:** Thank you. Good afternoon, Chairwoman Linehan and fellow members of Revenue Committee. For the record, my name is Sue Crawford, S-u-e C-r-a-w-f-o-r-d. I represent the 45th Legislative District of Bellevue, Offutt, and eastern Sarpy County, and I'm here today to introduce LB614 for your consideration. LB614 is one of many property tax relief measures before the committee this session. As a committee member, I know that we are all familiar with the problems facing local property taxpayers. LB614 has elements in common with some other proposals but other specifics that are different than the bills we've seen before. Generally speaking, LB614 expands the income and sales tax bases to generate revenue to be distributed to school districts with the intention of driving property taxes down. Additionally, the

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bill provides for a property tax transparency plan for the school districts. The revenue measures in the bill include expanding the income tax base through eliminating itemized deductions, except medical, repealing the S-corp LLC exclusion, and repealing the special capital gains election. The personal property tax exemption is also repealed. The sales tax base is expanded through taxes on candy, soft drinks, and bottled water, cigarettes, and taxes on spirits are also increased. Taken together, these measures generate an expected nearly \$300 million in revenue. This revenue is then distributed as supplemental aid to school districts, an increase in the special education reimbursement, an increase in the allocated income tax, an increase in the Earned Income Tax Credit. The final component of the bill is the property tax transparency plan for school districts. This requires school districts and ESUs to publish a summary of revenue sources and expenditure reductions or increases, along with a future cost savings if the proposed budget were to be adopted. This is published electronically. Nebraska has a property tax problem and LB614 is a responsible solution on the table that provides structural reform while protecting key services like healthcare, roads, and K-12 schools. With the distribution of revenue generated under LB614, property taxes can be immediately reduced. We all want our state to have a strong economy comprised of thriving communities across Nebraska. LB614 recognizes that both agriculture and education are critical components of Nebraska's economy. Under LB614, we can do right by them both. In 2013, the Tax Modernization Committee, chaired by Senator Hadley, released LR155, a report to the legislature containing a review of Nebraska's state and local tax revenue system. This is the most comprehensive and systematic review of Nebraska's tax code in recent history. LB614 implements the priority recommendation made by this committee in that report. It increases state aid commitment to schools to offset property tax use and reduce property taxes as a share of total state and local taxes. It increases the allocated income tax to 20 percent, as originally envisioned in TEEOSA. This will broaden the definition of resources to include income as well as property, helping property tax payers in nonequalized districts. It increases the special education reimbursement from about 50 to 80 for all school districts. This will help reduce reliance on property taxes while mitigating the large budget fluctuations in smaller school districts and disparities in services between districts. Finally, it's our intent that LB614 would generate supplemental state aid for school districts amounting to an expected \$487.54 per student, which would help all school districts reduce their reliance on property taxes. Each of these components

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mirror recommendations presented in the Tax Modernization Committee report. The bill is paid for by eliminating loopholes and tax breaks and it increases taxes on cigarettes and spirits, both of which are taxed at rates low compared to other states. I have an amendment that leaves the cigarette tax revenue in the General Funds so that General Fund revenues exceed expenses by 2021. I still have some adjustments to make in '19-20 after seeing the fiscal note to get revenues and spending and balance. The bill also holds-- holds schools responsible for spending and saving through a property tax transparency plan. We-- we've just learned the Appropriations Committee proposes to cut TEEOSA by \$38 million, so that's another issue for us to consider as we consider the balance of revenue and-- and school spending. I present LB614 as a menu of components for the committee's consideration in hopes that it might be able to offer some helpful pieces that could be incorporated into a package along with pieces of other bills this committee has recently heard. Thank you.

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

**GROENE:** You didn't mention anything about this increase in the Earned Income Credit, the 15 percent of the federal credit. What's that--

**CRAWFORD:** I believe I did--

**GROENE:** --have to do with schools?

**CRAWFORD:** That is-- that is not-- that is to help address some-- the-- some of the increases in sales tax. It increases the Earned Income Tax Credit from 10 percent of the federal credit to 15 percent. Sorry, I missed that sentence. Thanks.

**GROENE:** Aren't you increasing the sales tax on candy and pop so that-- just like we increased cigarettes, so they're buying less of it? So why would you need to give them an income credit? They should buy less of that stuff.

**CRAWFORD:** I think those-- well, those-- that and the cigarette tax also tends to target-- hit lower income people more.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Senator Kolterman.

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**KOLTERMAN:** Thank you, Senator Linehan. Thank you for bringing the bill, Senator Crawford. Sections 11, 12 14, we talked about those quite extensively with Senator McCollister's bill--

**CRAWFORD:** Sure.

**KOLTERMAN:** --a couple weeks ago. Have you given any thought to changing that at all?

**CRAWFORD:** I think those are the pieces that we're all going to have to discuss. I'm sure we're going to hear some of that same discussion today in terms of what the implications are of those pieces of the bill, yes.

**KOLTERMAN:** So-- so you are open to--

**CRAWFORD:** Open to conversations about that.

**KOLTERMAN:** --conversation about that?

**CRAWFORD:** Right, absolutely.

**KOLTERMAN:** Thank you.

**LINEHAN:** Thank you, Senator Kolterman. Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. Do you know what the cost is for the Earned Income Tax Credit to go up that much?

**CRAWFORD:** I won't-- I don't think I can put my fingers on it right this minute, but I can try to get that to you, I expect.

**FRIESEN:** OK. I just-- so when we've talked about putting sales tax on food, the impact to an average person would be about \$500, \$550.

**CRAWFORD:** OK.

**FRIESEN:** Would-- and you're-- you're saying there's already an impact with some of these sales tax increases. But would you consider putting a sales tax on food if that Earned Income Tax Credit made up for the difference?

**CRAWFORD:** I'd have-- are-- the food, food amount is \$500?

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**FRIESEN:** Yeah, the-- I think the average family that was one of the estimates was around \$500-600. Let's--

**CRAWFORD:** Yeah.

**FRIESEN:** --use a number like that. That was the-- you know, I mean, some-- quite a bit of food is already eaten out of the home and so people are already paying sales tax on prepared food. So with the estimate, I think that was a USDA estimate of-- it was around \$500-some. So if you're-- I don't know what your income tax credit at that 5 percent was.

**CRAWFORD:** Right.

**FRIESEN:** But if--

**CRAWFORD:** I'll have to check and see how it compares.

**FRIESEN:** -- if that-- say we even-- it makes up that difference, would you be amenable to looking at sales tax on food? Because you're getting soft drinks, some of those things--

**CRAWFORD:** I'm--

**FRIESEN:** --if you're rebating some back, it just-- be worth looking at?

**CRAWFORD:** If it's enough-- you have to make sure that it's sufficient, yes, to make up for any-- the multiple impacts that there might be, yeah.

**FRIESEN:** OK.

**LINEHAN:** Thank you, Senator Friesen.

**FRIESEN:** Thank you.

**LINEHAN:** Other questions from the committee? Seeing none, thank you.

**CRAWFORD:** Thank you.

**LINEHAN:** You'll be here to close?

**CRAWFORD:** Yes.

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**LINEHAN:** Proponents?

**RENEE FRY:** Good afternoon, Senator Linehan, members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We support LB614 because it implements the Legislature's Tax Modernization Committee's number-one recommendation. It increases state aid commitment to schools to offset property tax use and reduced property taxes as a share of state and local taxes. While much attention has been paid to the property tax relief bills put forward by Senators Friesen, Groene, and Briese, we think that there are worthwhile elements that are included in LB614, as well as Senator Bolz's circuit-breaker bill and local option income surtax that should be considered as part of your overall package. Given limited time, I'll focus on the components that make LB614 unique. Most notably, all of the revenue raised in LB614 would go to K-12 education through increased allocated income tax, an increase in the reimbursement for special education, and supplemental state aid which will be distributed to all students. The allocated income tax would be new dollars for nonequalized students only, while reimbursement for special education and supplemental aid would go to all school districts. I've handed out a spreadsheet showing the impact of the allocated income tax and supplemental state aid for all school districts, and you can see if the supplemental state aid were set at 4.33 percent, property tax levies could be reduced from between 2 cents and 34 cents across the state. On average, property tax levies would be reduced by 8 cents per \$100 dollars of valuation. Please note, this does not include the increased funding for special education as we don't have this in our model. There's other bills that would impose limits on spending by school districts and other local governments beyond the spending lids and levy limits that they are already subject to. LB614 takes a different approach. Instead of mandating additional limits that would likely have a negative impact on many school districts, it requires that school districts and ESUs provide a budget summary that includes the percent of the budget that comes from federal, state, and local sources, along with any budgeted reductions or additions to staff programs or services. This additional level of transparency would hold local officials accountable without treating all school districts with a one-size-fits-all approach. I feel the need to address repeated claims that we have a school spending problem. A 2015 report from the Legislative Fiscal Office found school spending in Nebraska has grown because many Nebraskans are moving from rural to urban parts of the state. The shift has resulted in enrollment surges in many urban school districts and

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decline in many rural school districts, both of what-- what-- both of which have implication for what schools cost. Obviously, costs will rise in districts with rising enrollment. Among other things, they need more teachers and more physical space to educate more children. But that doesn't mean spending automatically goes down in districts with declining enrollment. Unless enrollment drops dramatically, you still need teachers and support staff to educate the remaining students, and the cost of maintenance or heating a school building in the winter doesn't go down if there are fewer students. This can be seen when looking at per-pupil spending. Lower enrollment combined with steady fixed cost have caused per-pupil cost to increase in many rural areas. This increase has driven up Nebraska's per-pupil spending as well. However, overall school spending growth over the past decade was the lowest in the last 30 years, the report pointed out.

**LINEHAN:** You're--

**RENEE FRY:** And with that, I can answer the EITC question, if you'd like, and I would be happy to answer questions.

**LINEHAN:** Thank you, Ms. Fry. Are there questions from the committee? Senator Groene.

**GROENE:** You've said this four or five times and I never asked you this. Thank you, Chairman. You say that the migration is towards the bigger-- to the east and to the urban areas cost \$9,900 or something like that. In Millard, it cost \$20,000 at Hayes Center.

**RENEE FRY:** Right.

**GROENE:** You just saved \$11,000 because that student going to Millard is less than the rural, so the overall cost should go down.

**RENEE FRY:** So what the report lays out, there's a 2015 report by Legislative Fiscal Office.

**GROENE:** Um-hum.

**RENEE FRY:** So what they've said in the report is that because you have your fixed cost, right, in your rural districts, and when you have the-- them moving to an urban district, so what happens in those urban districts is that they have to add new buildings, they have to add new teachers, so their cost is inflation plus enrollment.

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**GROENE:** Ninety-nine-hundred dollars a student, not \$12,000. You-- you also mentioned-- you leave out the variable of the consolidation that's happened over the last 15-20 years of school districts, made them more efficient. Cost should go down, should have gone down a lot. So the growth should be slow because we've had massive consolidation in rural Nebraska and their students are less costly and the economy is the size schools. So--

**RENEE FRY:** So--

**GROENE:** --that argument don't hold much water.

**RENEE FRY:** Well, so it's a Legislative Fiscal Office report that I'd be happy to send to you. But they also--

**GROENE:** That's fine.

**RENEE FRY:** --they also found that overall spending growth over the past decade was the state's lowest in 30 years.

**GROENE:** Of course. Had a lot of consolidation. We have migration to the lower-cost schools. That makes sense.

**RENEE FRY:** Yeah, so--

**GROENE:** It should have went down. The cost should not have gone up at all.

**RENEE FRY:** So growth, growth is going down, growth in spending is going down, and has over the last ten years in schools.

**GROENE:** Because enrollment has tapered off and has not increased at such rates. So anyway--

**LINEHAN:** Thank you, Senator Groene.

**GROENE:** --a lot of variables involved and you can twist them the way you want.

**LINEHAN:** Thank you, Senator Groene. Are there other questions from the committee? On the-- and I'm not saying it's the most transparent, but there is an annual financial report that every school district has to turn in to the Department of Ed which is available to anybody on-line. And it-- it is too difficult to read, but their-- actually, their revenue is not that difficult. The spending is very hard. So did you--

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or maybe this is a question for Senator Crawford. Have you looked at just making that report more readable?

**RENEE FRY:** I think that would work, too, and the idea--

**LINEHAN:** Because the information is all there. You just have to understand 500 different codes to read it.

**RENEE FRY:** Right. So the idea I think in the-- in the bill, and if you look at the language, it has to be filed three-- at least three days before the budget hearing, so the idea is that you're providing the public with more information that's accessible and transparent.

**LINEHAN:** But it-- but-- but you can provide the public all the information you want, but if it's not in a readable format--

**RENEE FRY:** Right.

**LINEHAN:** -- that anybody can understand unless you're a school finance officer, it's not going to do the public any good.

**RENEE FRY:** Yeah, agreed.

**LINEHAN:** So is there language in the bill that makes it readable so the layperson can actually look at it and say this is what our costs are?

**RENEE FRY:** Well, if you look at the bill as written, that section is near the end of the bill.

**LINEHAN:** OK.

**RENEE FRY:** So if you take, let's see, page-- page 60, so it's that second-to-last-page, Section 23, so it lays out that they have to provide a budget summary that includes the percentage of the budget that comes from federal sources, that comes from state sources, local sources. They have to include budget reductions or addition to staff, programs, or services, and a reasonable estimate and description of all the current and future cost savings that a district or ESU will realize if the proposed budget were to be adopted and that it's published at least three days prior to the hearing and that it's on the Web site of the school district or the ESU.

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**LINEHAN:** OK. All right. Well, it'll be very-- I mean I'm all for transparency. That would be wonderful. But we-- however we do this if it's not readable for the layperson--

**RENEE FRY:** Sure.

**LINEHAN:** --it's not going to be helpful.

**RENEE FRY:** Sure. I would assume that Department of Education maybe could put together-- you could have them put together a template that school districts would all fill out.

**LINEHAN:** That would be wonderful if we could ask them to do that. Maybe we can ask Senator Groene if we can get. The other thing, have you seen, because you didn't say a couple of things you usually say when you testified today, have you seen the study that the Institute of Agriculture and Natural Resources has done? I guess they released it yesterday, maybe, morning on the 2019 Nebraska property tax school funding issues.

**RENEE FRY:** I haven't seen it, no.

**LINEHAN:** OK. Well, I'm not going to ask you about it today but-- or at least not at this hearing, maybe at the next hearing, if you could look at it, because some of the numbers they use in here don't match the numbers that are frequently quoted.

**RENEE FRY:** What was-- can you show me the source again?

**LINEHAN:** It is the Institute of Agriculture and Natural Resources, Agricultural Economics, released February 27, 2019. The title is 2019 Nebraska Property Tax-School Funding Issues.

**RENEE FRY:** OK, so is that IANR at UNL? Is that-- is that right?

**LINEHAN:** Yes.

**RENEE FRY:** At UNL? OK. Great.

**LINEHAN:** Yes. It's University of Nebraska.

**RENEE FRY:** Great.

**LINEHAN:** Right.

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**RENEE FRY:** OK. I'll see if I can find that and--

**LINEHAN:** All right. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Madam Chair. As you look at LB614, it's in two components, a revenue section and an expenditure section. Would it be possible to enact one without the other?

**RENEE FRY:** Well, you could enact the revenue section without the spending section--

**McCOLLISTER:** Could you do the spending without revenue?

**RENEE FRY:** Not in our current fiscal situation.

**McCOLLISTER:** Could you utilize the Property Tax Credit Fund to fund that, the expenditure section?

**RENEE FRY:** You could fund some of it, yeah, um-hum, not all of it, but, yeah, you could use that to fund parts of it.

**McCOLLISTER:** Yeah, just like you say, it's \$249 million so, you know, that would account--

**RENEE FRY:** Yeah.

**McCOLLISTER:** --for almost all of it, not quite, but OK. Thank you, Madam Chair.

**LINEHAN:** Thank you--

**McCOLLISTER:** Thank you, Ms. Fry.

**LINEHAN:** Thank you, Senator McCollister. Senator Groene.

**GROENE:** One more question I asked the hearing yesterday, the day before. I keep hearing we don't fund special education. It's 50 percent. The state overall don't fund the classroom more than 33 or 40-- 40 percent, so we're doing pretty good on special education. Why is that special that we should be 80 percent when the basic funding the state only is at about 35 percent? On average, most that goes, of course, to the equalized school districts.

**RENEE FRY:** So in talking with school districts, one of the biggest challenges that they have is predictability, right? That's a huge problem for budgeting purposes is predictability, knowing what their

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state aid is going to be. But from what I understand, particularly for smaller schools where you could have a big change in your special education enrollment, that can cause challenges for budgeting. I mean, I think this is probably a good question for school folks behind me. This is certainly not my area of expertise, but in talking with folks--

**GROENE:** Isn't that what a cash reserve is for, for those exceptions to the rule?

**RENEE FRY:** There are limits on how much schools can put in their cash reserve.

**GROENE:** I wouldn't know whether they could-- you know, whether they would have enough in cash reserve to be able to use it for that purpose. The other piece of it is that I think the state used to fund it 80 percent and has declined since that point and so trying to get back to that level.

**GROENE:** One hundred and seventy-five districts used to get state aid too.

**RENEE FRY:** What's that?

**GROENE:** One hundred and seventy-five districts used to get equalization.

**RENEE FRY:** And the special education would go to all school districts, not just those that are equalized, so--

**GROENE:** Well, thank you.

**LINEHAN:** Thank you, Senator Groene. Are there other questions? Seeing none, thank you for being here.

**RENEE FRY:** Thank you.

**LINEHAN:** Next proponent.

**ASHLEY FREVERT:** Good afternoon. Chairperson Linehan, committee members, my name is Ashley Frevert, that's A-s-h-l-e-y F-r-e-v-e-r-t, and I am the executive director of Community Action of Nebraska. We are the statewide association for Nebraska's nine Community Action agencies. We have over 1,200 employees across the state. Community Action is a part of a national network of nonprofits dedicated to

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helping people achieve economic stability and mobility. Community Action supports LB614 and we want to thank Senator Crawford for introducing it. Our programs are robust and they change depending on the local needs of the community. This is what makes us unique. Our agencies provide assistance with housing needs, healthcare, food and nutrition, transportation, employment programs, disaster relief, and child development. You might be aware of our largest successful Head Start program. We also provide education and support around financial literacy, budgeting, credit counseling, and individual development accounts. Notably, our VITA program connects qualifying taxpayers to the Earned Income Tax Credit for free. We see that increasing the credit would help offset their aggressive effects of other tax changes. And we know the value of EITC and what it means for families working toward economic mobility. From October 2016 through September 2017, we served 84,585 low-income individuals. Our most recent data shows that between October 2017 and September of 2018, our agencies served 16,888 households statewide. Our staff across the state see the needs of Nebraskans firsthand and what they need to not just survive but to thrive. Community Action is not just a grouping of programs for those in need, for those who have a desire to thrive. We are in the business of alleviating poverty by helping those who cannot help themselves. We are their voices and we feel their passion and their pain. Nebraska's communities need adequate revenue to support good healthcare, quality education, and a skilled work force. We understand the complications within communities and with families because they-- we are a part of them. Smooth paths to higher education and good jobs, healthy Nebraskans and good schools give our families a fair shot at economic success. This legislative session and this legislation are incredibly important to raise much-needed revenue for school aid, special education, and increasing the EITC. We encourage the Revenue Committee to advance this legislation. It has the ability to support Nebraskans and foster healthy, thriving families. Thank you for your time and consideration, your leadership and continued service. I'm happy to answer any questions you have.

**LINEHAN:** Thank you very much. Are there questions from the committee? I have one.

**ASHLEY FREVERT:** Sure.

**LINEHAN:** So how many-- because we've talked about the-- whether it would be a credit for sales tax or EITC. How many Nebraskans don't file income tax?

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**ASHLEY FREVERT:** I think that question can be better answered by someone who has studied EITC more.

**LINEHAN:** OK. That would be-- because it seems like if there was a group that doesn't-- I don't know who wouldn't file because it would seem you would file because you get money. But there-- that has been brought to me several times and I don't have an answer for it, so hopefully maybe somebody will give me an answer.

**ASHLEY FREVERT:** Right. Right. Yes, and I-- and I do think-- so the stats that are on the EITC portion of the IRS Web site show that in 2018 Nebraska had 126,000 number of EITC claims, and then it has a total EITC amount and then the average EITC amount as well . So that's on the EITC portion of the IRS Web site.

**LINEHAN:** Thank you very much. That's helpful.

**ASHLEY FREVERT:** You're welcome.

**LINEHAN:** Other questions from the committee? Seeing none, thank you for being here.

**ASHLEY FREVERT:** Thank you.

**LINEHAN:** Other proponents?

**JACK MOLES:** Good afternoon, Senator Linehan and members of the Revenue Committee. I am Jack Moles, J-a-c-k M-o-l-e-s. I'm the executive director for the Nebraska Rural Community Schools Association. Today I am also speaking on behalf of the Nebraska Council of School Administrators. On behalf of NRCA and NCSA, I would like to testify in favor of LB614. We believe the concepts contained in LB614 would provide funding to all school districts that should lead to real property tax reductions. We believe the revenue-raising measures contained in the bill are reasonable, especially when we compare them to the current system in which we're overreliant on property taxes, especially those levied on our ag landowners. We're appreciative of Senator Crawford's vision of moving past-- or most of the revenues created by the bill to our public schools. We especially thank her for assuring that all school districts benefit from the mechanisms included in the bill. And I'd especially like to say that we appreciate the-- the move to raise SPED up to 80 percent because SPED costs have risen dramatically and are less controllable for our districts. When 175 of our public school districts receive no

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equalization aid, we believe there is a funding issue and this is-- and this bill helps to address that problem. We do not believe that this creates a windfall for districts that they will use to dramatically increase their spending. We do believe that the funding increases provided will offer real opportunity for districts to reduce their property tax asking, which will help to loosen demands on property owners. We believe that is a fair expectation. We also believe that the property tax transparency requirement in the bill is a good way to provide more information to local patrons about the budget process and the decisions that the board of education and administration make in developing the district's budget. I would recommend that the notice of publication that is required in the bill be set up five days so that it is in coordination with the current five-day requirement for both budget hearing and levy request hearing. In closing, we appreciate Senator Crawford's approach to provide meaningful funding assistance to all school districts, especially for those districts that currently-- currently receive no equalization aid. It is expected that these mechanisms will create real property tax relief for the local property owners, especially our ag landowners. We encourage you to move LB614 forward.

**LINEHAN:** Thank you.

**JACK MOLES:** Thank you.

**LINEHAN:** Thank you for being here. Other questions for Mr. Moles? On the transparency--

**JACK MOLES:** Yeah.

**LINEHAN:** --so would you envision this transparency would-- how detailed do you envision the transparency would be?

**JACK MOLES:** You know, I don't know what it would look like. The thing that I know is, when we advertise the budget hearing, it's a one-page document. The state budget document is much longer than that. Well, there are worksheets that are included in--

**LINEHAN:** Right.

**JACK MOLES:** --that you don't have to publish or anything. But most districts, when they do a budget, it's much longer than that. I-- I had a line-item budget, for example, in my last district that I developed that was over 400 lines long. The state document is nowhere

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near that long. With the new accounting principles, that document now that I had developed, as I was leaving, we developed a new document. It was-- I think we were close to 1,600 lines long. So there's more, a lot more information out there. Yeah, I don't know what the best way to-- to get that out toward people is.

**LINEHAN:** It's-- it's almost like information overload. There's plenty of information--

**JACK MOLES:** It would be if they saw my--

**LINEHAN:** Yeah.

**JACK MOLES:** --my budget, yeah.

**LINEHAN:** Right, so finding--

**JACK MOLES:** It'd be a lot clearer, though, I would tell you that.

**LINEHAN:** Break it down into the big pieces like salaries, benefit packages, retirement. I mean I think-- I'm all for transparency. I think it would be hugely helpful. It's just figuring out a way to do it that's transparent and yet readable.

**JACK MOLES:** And-- and I would tell you, I think our districts would agree with you. We have-- they're-- districts don't have anything to hide. They would like to put more out there, but-- and--

**LINEHAN:** I think it would be helpful to the school board.

**JACK MOLES:** Yeah.

**LINEHAN:** Yeah. Thank you. Other questions from the committee? Seeing none, thank you for being here.

**JACK MOLES:** Thank you.

**LINEHAN:** Hi.

**DAVE WELSCH:** My name is Dave Welsch, D-a-v-e W-e-l-s-c-h. Good afternoon, Senators. I'm here to testify in support of LB614. I am a farmer and currently serve as president of Milford Public Schools Board of Education. I've served on the board for 20 years. More state resources are needed to lower the reliance on property taxes, especially when it comes to funding public education. I am in support of all of the revenue measures outlined in LB614, especially ending

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the S corp LLC income tax exclusion. It is simply a tax loophole that should have never been approved. History will show that when state revenues have decreased, the Legislature has turned to lowering spending, which you have already done. Many of those spending cuts have been pushed onto property taxes to make up the difference. Past Legislatures also use savings from the Cash Reserve, again, which you have already done, and unfortunately our Cash Reserve is that half the level it should be, so today we don't have the option of dipping further into the Cash Reserve. But past Legislatures also turned to increasing taxes and other revenues when faced with hard times. There is no shame in this. This is simply the reality of the state we are in. According to the Legislative Fiscal Office, since 2006, legislation has been passed which has lowered our revenue base to the tune of \$800 million. Much of this lost revenue needs to be recovered. I'm sure when those revenue cuts were made, there was plenty of testimony stating that these cuts will stimulate the economy and pay for themselves. So the other day I went on-line and Googled, do tax cuts pay for themselves through economic growth? I was curious. There were plenty of reports that had a definitive, no, that they don't pay through-- through economic growth. There are a few that said economic growth would cover part of the revenue cuts but certainly not all of them. I couldn't find one article that had an absolute, definitive "yes" to answer the question do tax cuts pay for themselves through economic growth. Many of these articles did have a clear statement though. If you cut taxes, you cut revenue. If you increase taxes, you raise revenue. This is exactly where our state is today. We need to generate more income. Much of the new or, should I say, reenacted revenue, should be used to lower property taxes. Therefore, I am in support of LB614 and its efforts to increase revenue and distribute it to schools to help lower property taxes. I'd be happy to take any questions, especially with the chart that I attached to my testimony.

**LINEHAN:** Thank you, Mr. Welsch, for being here. Are there questions from the committee? Senator Groene.

**GROENE:** Thank you, Chairman. You've got a contradiction there. So it's not good to lower income and sales taxes for economic reasons, but we should lower property taxes for economic reasons?

**DAVE WELSCH:** Lowering property taxes is more of an equity issue. It's where are you going to fund public education in Nebraska, where is the funding source going to come from, is it going to be-- continue to be on the backs of property taxpayers or are we going to try to rebalance

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our three-legged stool so that at least three types of revenue will help fund our public schools in Nebraska.

**GROENE:** But it-- but lowering all taxes will help everybody with-- so I agree with you balancing three-legged stool, but-- but what's good for the goose is good for the gander. You cut taxes, it's good for everybody.

**DAVE WELSCH:** But you still have to provide services.

**GROENE:** Yes, you do.

**DAVE WELSCH:** So if you cut too far, you're going to restrict the services that are provided.

**GROENE:** [INAUDIBLE]

**DAVE WELSCH:** And I think the last place we want to restrict services in our-- is in our public schools. Our kids deserve a good education.

**GROENE:** Thank you. Efficient and effective use of dollars helps too.

**DAVE WELSCH:** Right. Yeah.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? Senator Briese.

**BRIESE:** Thank you, Chairman Linehan. Thank you for your testimony here today. Do you think that the budget summary and the additional transparency provided by-- well, in Section 23 anyway, the budget summary, do you think that reduces the need for additional controls on school spending? Obviously, amongst many of us, you know, there's been discussion about additional caps and controls on spending. I introduced a bill the other day, a tax income cap.

**DAVE WELSCH:** Right.

**BRIESE:** Do you think additional transparency reduces the need for something like that?

**DAVE WELSCH:** There's never a negative to increased transparency. I would say that we've-- in probably all school districts, like was stated earlier by Mr. Moles, there's-- you know, we have to publish our budget each year, you know, our property tax askings, what those are going to be. They're in the newspaper, they're on-line. I would

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hesitate to guess that there are very few people that actually take the time to read those, and that's unfortunate. I've tried to encourage people to attend our school board meetings, but very few if-- hardly any do each week. Usually it's when we invite somebody to share from within our school about accomplishments that they've had.

**BRIESE:** OK.

**DAVE WELSCH:** But, yeah, it's--

**BRIESE:** OK.

**DAVE WELSCH:** And I-- I believe we have enough restrictions already in place to help control education spending, and I think I addressed that fairly well a couple of days ago that, yeah, it--

**BRIESE:** OK. Thank you.

**DAVE WELSCH:** Appreciate it. Thank you.

**LINEHAN:** Thank you, Senator Briese. Other questions? Do you want to just speak to your chart here? I find it very interesting.

**DAVE WELSCH:** Sure. Thank you.

**LINEHAN:** I mean, I would think others on this committee would [INAUDIBLE] explain it.

**DAVE WELSCH:** Yeah, and this-- I mean this is a chart of-- among many that are provided to our school board each year so that we have a pretty good handle on how we compare to the other school districts within our athletic conferences.

**LINEHAN:** OK.

**DAVE WELSCH:** This is the Southern Nebraska Conference numbers. And-- and I think to the reporting, like Senator Briese and Senator Crawford's bill addresses here, we've-- we've got several one-page documents that would probably provide the transparency that you're looking for, the detail on teacher salaries and other, you know, extra benefits, you know how much we spent on books and, you know, busing, things like that. It-- it would-- most districts probably have that. It would be easy to do if-- if you just want to define what it should be for us. This chart basically shows, column B, enrollment within our districts. I'm just mainly going to look at the first few columns,

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taxable property valuation, but look at column E. That's-- yeah, I guess it's E. I think I moved that one over there so they're a little bit out of sequence there, but taxable property valuation per student, at Milford we're just under \$1 million of valuation per student. And I put those in order. Wilbur gets a little bit more valuation per student. And you go on down to Centennial, it has almost \$4 million of valuation per student, quite a discrepancy there. That's why there is such a need for equalization aid within Nebraska, because the resources that local districts have to draw upon are quite different. If you move over to column F, you can see that the general fund pretty much goes hand-in-hand with what the valuation per student is. As you move down that list, you'll see that levies go down; same way as when you go down the list of valuation per student, it goes up. And I did some work this morning on some spreadsheets for the entire state. That pretty much holds true for the entire state. As valuation per student goes up, the levies are generally lower. So it's-- again, that's why I want to reinforce that as we distribute new revenues to public schools, I think the first step is to lower ag land valuation within the formula and put money back where it was lost to the greatest degree and the most recently.

**LINEHAN:** Do you know if Heartland is equalized? I'm assuming it's not, right?

**DAVE WELSCH:** No, it's not.

**LINEHAN:** How did--

**DAVE WELSCH:** I don't believe any of the--

**LINEHAN:** How did they survive with 299 children and the revenue that's being generated is only a little less than \$13,000 a kid. You know what their cost per pupil is?

**DAVE WELSCH:** Their-- you mean far right, their revenue per student, at \$12,900? I would assume that-- I mean, Senator Groene had some numbers last-- a couple days ago on the cost per student but I didn't bring that with me today.

**LINEHAN:** Because what would be interesting here is the next column would be what they're spending per student. We know what you're spending per student.

**DAVE WELSCH:** Right.

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**LINEHAN:** But it would-- it'd also be interesting to see what the rest of these are and see how it, you know--

**DAVE WELSCH:** Right.

**LINEHAN:** So but--

**DAVE WELSCH:** Yeah.

**LINEHAN:** --this is very helpful. Thank you.

**DAVE WELSCH:** Yep, plenty of numbers to crunch.

**LINEHAN:** Yeah. Senator Kolterman.

**KOLTERMAN:** Thank you, Senator Linehan. David, thank you for coming.

**DAVE WELSCH:** Sure.

**KOLTERMAN:** You make a good point. You run a-- I know your superintendent very well and I know your board very well.

**DAVE WELSCH:** Yeah.

**KOLTERMAN:** I'm proud to you have you in my district.

**DAVE WELSCH:** Thank you.

**KOLTERMAN:** Let me ask you this though. This bill is promoting the idea of eliminating the pass-through, S corps. Have you received any philanthropy in the last five years at Milford Public Schools?

**DAVE WELSCH:** Yes, we have, and we almost--

**KOLTERMAN:** Is this--

**DAVE WELSCH:** --we probably have for 20, 30 years through our Milford Schools Foundation scholarship fund.

**KOLTERMAN:** Are they-- are they significant amounts?

**DAVE WELSCH:** The ones more recently have been more significant than previously.

**KOLTERMAN:** Millions of dollars?

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**DAVE WELSCH:** Sure.

**KOLTERMAN:** You think you would have gotten those if we didn't have this pass-through?

**DAVE WELSCH:** Yes.

**KOLTERMAN:** OK, thank you.

**LINEHAN:** Thank you, Senator Kolterman. Senator Groene.

**GROENE:** Your-- thank you. You make a good argument which I finally came to realize we need the TEEOSA formula because of equalization and that's-- it's the property tax valuation each school district has that causes the need for it.

**DAVE WELSCH:** Right.

**GROENE:** But lowering the level of the valuation, just level proportionately everybody's valuation.

**DAVE WELSCH:** It-- could you repeat that, please?

**GROENE:** If you lower ag land valuation 75/65 proportionately, all of these school districts that are dominated by ag land, it just proportionately lowers the overall and you're still in the same place.

**DAVE WELSCH:** The districts it probably would have no effect on, or very little, would be from like Sutton on down because I haven't-- I don't believe that they receive any equalization aid. Therefore, if ag land values go down, I don't believe they'll even be in a position where they would be reinserted into that formula. But I could be wrong there. But--

**GROENE:** Superior would probably gain, and maybe Wilber, but--

**DAVE WELSCH:** Oh, yeah. I've got those numbers.

**GROENE:** That's--

**DAVE WELSCH:** If ag land valuation went down to 40 percent, Milford would receive approximately \$1.35 million. And as I testified on Wednesday, we lost \$1.6 million in state aid over the last seven years. Wilber would gain about \$1.95, Superior, \$1.7, and Fairbury, about \$0.2 million. Those are the rough numbers that I've calculated.

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You could probably get more definitive answers from other research analysts.

**GROENE:** Thank you. There's other ways to do that too.

**DAVE WELSCH:** Yeah.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? Thank you--

**DAVE WELSCH:** Thank you.

**LINEHAN:** --very much for being here, appreciate it. Other proponents? Again, if you're going to-- if you're going to testify, it's helpful if you move up close, unless you want to be here until 7:00 tonight.

**KARI LOSEKE:** Chairperson Linehan, members of the revenue committee. Good afternoon. My name is Kari Loseke, K-a-r-i L-o-s-e-c-k-e, and I'm here today in support of LB614. I'm currently serving as president of the Blair Community School Board. I'm a farmer's daughter and I am a business owner in Blair. My family has a privately owned grain elevator and I merchandise corn and soybeans. As you might imagine, serving on the school board has kept me in the hot seat with my family and customers as they've seen their property taxes increase as much as 300 percent in our community. Ag property taxes in our area are currently over \$90 an acre and this is primarily-- primarily on nonirrigated dryland property. Upon hearing how high our property taxes are, you might think our school district is in a good financial position. However, our reality is quite the contrary. I hate to admit it, but quite frankly we're hanging by a thread. In 2015, we went through an expenditure reduction, cutting \$1.2 million from our general fund. Right now, just four years later, we're doing it again and we need to cut about \$1.5 million from our general fund. Our levy is at the max, \$1.05, and it has been at or near the max since 2008. In the last eight years, our budget has only increased 1.8 percent, and right now, we're ranked number nine in the state for the least cost per pupil. We do not have a spending problem in Blair. Eighty-four percent of our budget is dedicated to payroll and benefits. And unfortunately, it appears that we've fallen to the bottom of our array in teacher's pay. So I'm very worried as the next time that we negotiate salaries, which will be next year for 2020 and '21, we're going to have to play catch-up to get our salaries in line with other districts who seem to have been in a position to give more liberal raises than we have. Another frustration that I have as a

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board member is that we're the only district in our ESU that hasn't got a one-to-one technology program going. Six years ago we started a one-to-one iPad pilot project with eighth graders. The eighth graders now actually have Chromebooks, but we haven't been able to expand the program to the high school as we intended. I want to thank Senator Crawford for bringing this bill forward as it will help our district tremendously. Initial studies lead us to believe that we may be able to lower the levy from \$1.05 to \$0.86. This would provide obviously significant property tax relief to all of our property owners. The bill recognizes that revenue will need to be allocated from other sources to fund education and we believe expanding the income tax base, repealing some exemptions, and increasing certain consumption taxes seems to be a sustainable way to immediately fund public education. Finally, I also want to note that the provision that increases special education funding to--

**LINEHAN:** Can we--

**KARI LOSEKE:** Oh, I'm out?

**LINEHAN:** Yeah, you're out--

**KARI LOSEKE:** Sorry. Thank you.

**LINEHAN:** --but that's okay. Somebody will ask you a question.

**KARI LOSEKE:** OK.

**LINEHAN:** Thank you for being here.

**KARI LOSEKE:** You're welcome.

**LINEHAN:** It's very nice when school board members come. Do we have questions from the committee? You want to explain finally what you were going to say?

**KARI LOSEKE:** I just wanted to mention that I think it's also important-- we appreciate the increase of 80 percent for special education funding as being part of this bill. I think it's something-- it's-- you never know who's going to move into your district. And for an example, we've had in the last couple years some very high-need students move in which are costing us out-of-the-blue things we didn't budget for, hundreds of thousands of dollars of unexpected expenses, so that would really help when people do move in.

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**LINEHAN:** Well, who-- who are the other schools in your ESU? Or you don't want to say that. Well, you're pretty brave to be here with what you've already said so I won't put you out--

**KARI LOSEKE:** I'm sure-- I can give you some--

**LINEHAN:** --I won't throw you there. I can look that up, so--

**KARI LOSEKE:** Our-- our superintendent is going to be testifying also, so I'm sure he can answer that more definitively than I can.

**LINEHAN:** OK. All right. OK. Thank you very much for being here.

**KARI LOSEKE:** Yep.

**LINEHAN:** Other questions? Thank you very much.

**KARI LOSEKE:** Thank you.

**LINEHAN:** Good afternoon.

**RANDY GILSON:** Good afternoon. Chair Linehan and members of the Revenue Committee, good afternoon. My name is Randy Gilson, R-a-n-d-y G-i-l-s-o-n. I'm the proud superintendent of Blair Community Schools. We're a member NASB and STANCE. Blair is a proponent of LB614. We appreciate Senator Crawford for developing a bill to provide immediate property tax relief. Blair falls in between being equalized and unequalized, and this has had a devastating effect on our taxpayers who have had a maximum \$1.05 levy imposed since 2008. Blair is equalized this year, but still 77 percent of the general fund is funded through property taxes. Having to rely so much on property taxes can be-- and especially since we're at the maximum levy, presents many risks to provide a quality education for our 2,200 students. Since 2013, six area companies have qualified for the Nebraska Advantage tax incentive. This has reduced our personal property taxes by \$183 million, which has generated an annual loss of \$385,000. Another high cost that we incur is 80 percent of our certified staff has a master's degree or higher, as compared to the state average which is around 56 percent. Don't get me wrong, we highly value our staff and their willingness to continue education, but the TEEOSA formula does not account for this factor. Finally, special ed cost in our district has increased by \$468,000 since 2011, or 16 percent. All those factors mentioned caused Blair to reduce \$1.2 million as part of a cost-reduction plan in 2014 and '15. What has this meant for students? We've had to eliminate two buildings. We've

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had to cut cost drastically, cut teachers, cut programs. Our class sizes have risen to 25 or higher. Also, they've risen to that high in the elementary. In fact, one of our current principals covers three buildings right now. Our bus fleet averages 14 years with over 155,000 miles, and our small vehicles are older yet, averaging 17 years. We would love to replace some of those vehicles. We just don't have the revenue-- revenue to do it, so now we're jeopardizing the safety of our students who travel in those vehicles every day. Since 2011, Blair has increased spending by less than a half a percent per year, and even at that, it hasn't been enough to balance our budget. The current deficit we face has forced us to implement a second cost-reduction plan where we'll cut another \$1.5 million out of next year's budget, or 7 percent. Neither cost-reduction plan alone has been the answer in lowering property taxes. Senator Crawford's LB614 is that answer. We'll continue to cut costs and be efficient, but we could immediately reduce our total levy from \$1.05 to \$0.86. The most important component of this bill is the 20 percent allocated income tax credit. We need to have--

**LINEHAN:** All right. Sir--

**RANDY GILSON:** --this property tax relief in every bill. Yeah.

**LINEHAN:** I've got to be fair, so--

**RANDY GILSON:** OK.

**LINEHAN:** --maybe somebody will ask you a question.

**RANDY GILSON:** OK.

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

**GROENE:** You're in a growing area, aren't you?

**RANDY GILSON:** Yes.

**GROENE:** I don't have the numbers in front of me, but your-- but your student enrollment is growing, isn't it?

**RANDY GILSON:** Our enrollment is down 90 over last year. We did have a growth between '16 and '17 of 30 students, but our trend is a decline. Like I said, we lost 90 students from last year to this year, so last year, based on last year's number, we really-- we received

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equalization aid. We will no longer receive that. We're unequalized again. So we're seeing projections. This year's junior class has 203 students. We had five years of high kindergarten numbers, but the last year of that group is in their junior year now, so we're projecting--

**GROENE:** But you're in the metro area, growing urban, suburbia is your-- I think you're one of the school districts that's landlocked, right, within the city? You don't have any of the farmland that would be in-- you don't--

**RANDY GILSON:** We-- 25 percent-- one of the issues, we have 25 percent of our ag land is farm ground and it decreased this year in 10-- 10 percent in value. So while we've maxed the levy since 2008, we don't have any room to gain revenue. But we, for-- for whatever reason, we-- we're-- we're trending to lose enrollment over the next several years.

**GROENE:** Where's the growth at? Where's the kids in all the new homes and--

**RANDY GILSON:** They're going to Bennington and Elkhorn right now. I mean it just hasn't hit Blair.

**GROENE:** It isn't the-- it isn't option enrollment that's hitting you.

**RANDY GILSON:** No. In fact, we're closed-- we've closed an elementary building and we'll be closing another building this next year. There's-- we're not projecting growth in the future so that's why we were one of the schools, like other STANCE schools, that fall right in between being equalized and nonequalized. And that's why this bill, especially with the 20 percent allocated income tax relief, it really benefits our district. The special education incentive does as well.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? I'm going to be quick here, but your school board member, who was very nice to come with you, I think it said in her testimony that 84 percent-- is it 84 percent of your budget is salaries and benefits?

**RANDY GILSON:** Yeah, and we're projecting it to reach 90 percent without a cost-reduction plan. What's really happened over time is we just-- we haven't had room, like we-- we haven't had growth in our property valuations. And where we lost \$180 million in personal

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property tax, a lot of that is due to the Nebraska Advantage incentives.

**LINEHAN:** Right.

**RANDY GILSON:** We just-- just the national inflation with staff, and especially our staff where not only 80 percent have a master's degree, 27 percent have-- are bottomed out on our scale. They have a master's plus 36, so those costs aren't really controllable for us. And so it's been hard to keep up with.

**LINEHAN:** So here-- we had a hearing a couple of days ago where we had a lot of people saying they couldn't control their cost. We have to figure out where to control cost. I mean--

**RANDY GILSON:** Well, we have. We've reduced. We-- like the first cost--

**LINEHAN:** But if the biggest cost is salary and benefits and you can't control it, that-- that's hugely problematic.

**RANDY GILSON:** Well, our-- yes, and likewise, when we-- when we-- and we've had a couple of board work sessions with our community to notify, I mean, the community publicly that we're projecting and trending to have our staff represent 90-- up to 90 percent by 2020-22. So we've started reducing. We'll cut our maintenance in half next year and we'll reduce nurses next year, so those are just a couple of things we've done to try to get our personnel to be closer to 78 percent of the overall general fund. But right now it is at 84 percent and with contracted costs, it's at 86 percent.

**LINEHAN:** OK. Thank you. Other questions from the committee? Senator Kolterman.

**KOLTERMAN:** I might have missed this, but did I hear-- was it your president said that you're lowest in your array on salaries?

**RANDY GILSON:** We-- we're projecting to be low, toward the bottom of our array. We had a 300 base increase for this year and we negotiated two years out, so it's a 500 base increase for next year and we're-- so we're-- I mean a lot of districts are giving 800 in one year, so we're-- we--

**KOLTERMAN:** So what's-- what's your base, just out of curiosity?

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**RANDY GILSON:** It's \$34,000-- just under \$35,000.

**KOLTERMAN:** Thirty-five thousand plus benefits?

**RANDY GILSON:** Yeah, um-hum.

**KOLTERMAN:** OK.

**LINEHAN:** Thank you, Senator Kolterman. Senator Groene.

**GROENE:** In your array, where do you sit with student population?

**RANDY GILSON:** Well, the array is-- I mean we're-- we're right-- because all the schools kind of-- one of the-- part of the--

**GROENE:** [INAUDIBLE]

**RANDY GILSON:** --requirements in a negotiated array is to be within the same, so enrollmentwise we're-- yeah, we're within that realm of students. We're-- we have 2,200, so I'd say 1,500-2,400.

**GROENE:** So you're on the top and so you should be more efficient than the one with 1,500.

**RANDY GILSON:** And we-- and we are. I think we're in the top ten most efficient districts, you know, in Nebraska.

**GROENE:** I mean in your array.

**RANDY GILSON:** Yeah.

**GROENE:** You got to live within that array.

**RANDY GILSON:** Right. Right.

**GROENE:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions from the committee? Thank you for being here.

**RANDY GILSON:** Thank you.

**LINEHAN:** Appreciate it.

**AL DAVIS:** Good afternoon, Senator Linehan, members of Revenue Committee. I am Al Davis, A-l D-a-v-i-s, here today to represent the Nebraska Farmers Union in support of LB614. We want to thank Senator

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Crawford for introducing a comprehensive proposal to bring relief to Nebraska's hard-pressed property owners. You've heard all the grim data about struggling farmers, increased bankruptcy, and forced sales on the farm, and projections of low prices for the next several years. And you surely know that the state of Nebraska can never be prosperous if our ag sector is suffering because 90 percent of the state's communities are tied to the health of the ag community and the ag economy. You've also heard that the Nebraska farmer or rancher pays the highest per-capita property tax bill in the United States, according to MarketWatch, the UNL publication. Our per-capita tax is over \$22,000, which is \$13,000 more than the third place, Iowa. Urban dwellers in Nebraska also pay high property taxes and depending on the place you go to look, you know, we may be at the seventh highest in the country or fifth. The primary reason Nebraska's property taxes are so high is due to inadequate school funding. Very few rural districts receive TEEOSA funding. In urban districts also, TEEOSA is declining as property values rise in these communities. And just today we learned that Westside is resorting to levy overrides and cuts as it struggles with a program which is no longer equalized. Rebellion is occurring among property owners all across the state. Senator Crawford has identified several income and sales tax exemptions and deductions which should be abolished to bring additional revenue to the state which will help provide much-needed property tax relief for every Nebraskan. She correctly assigns the funds raised to school funding. Thank you, and that concludes basically the written testimony that I submitted. I'm just going to touch on a couple of things that were mentioned earlier. I do think the allocated income tax, which was a promise of LB1059 back in the '90s, should certainly be restored. It does bring equity. It was a promise made to everybody in the state that that income tax would come back. It will help every district. Senator Groene asked about SPED. When I was on the school district in Hyannis, we had three very severe SPED students and it just wreaked havoc with the budget. So it-- that's an important piece, too, that needs to be strengthened.

**LINEHAN:** Thank you, Senator--

**AL DAVIS:** Thank you.

**LINEHAN:** -- for being here.

**AL DAVIS:** Thank you.

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**LINEHAN:** Appreciate it. Are there questions for the senator? Seeing none--

**AL DAVIS:** Thank you.

**LINEHAN:** --thank you very much for being here.

**JOEY ADLER:** 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 am here on behalf of the Holland Children's Movement, a nonpartisan, not-for-profit organization that believes in the vision of Nebraska becoming the national beacon of economic security and opportunity for all children and families. I'm here today in support of LB614 and want to thank Senator Crawford for introducing this bill. Research conducted in December of 2018 by the Holland Children's Institute and its public polling initiative shows that 55 percent of Nebraskans believe the state should be focusing on expanding opportunities instead of cutting taxes. The research also found that 58 percent of Nebraskans believe that the Legislature and state government are focused on giving tax breaks to the rich and big corporations. LB614 would help the state of Nebraska focus on what Nebraskans are asking state government to prioritize. The first is increasing aid to schools. The research found that an overwhelming majority, 86 percent, of Nebraskans believe that properly funding our schools would help grow Nebraska's middle class and develop our work force. More than six in ten voters believe Nebraska's state government underfunds education, while only 36 percent believe that the state government properly funds our schools. We are strong proponents of increasing the Earned Income Tax Credit. According to the National Conference of State Legislatures, people who work in the retail trade, healthcare, food services, as well as those in accommodation, construction, and manufacturing industries, are most likely to receive and benefit from an increase in the EITC. We've heard time and time again about the need to continue-- the need to continue to invest in these industries and increasing the EITC is a way to do that. We believe that LB614 will help grow the middle class and help focus our state's effort on middle-class Nebraskans and their policy priorities. Thank you for your service to the state of Nebraska and I'd welcome any questions.

**LINEHAN:** Thank you very much, Mr. Adler, for being here. Senator Kolterman.

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**KOLTERMAN:** Thank you very much. So you work for the Holland-- what was the name of the organization?

**JOEY ADLER:** Children's Movement.

**KOLTERMAN:** Children's fund? Where did the money come from for that fund?

**JOEY ADLER:** Most of our money is donated by individuals or other foundations.

**KOLTERMAN:** Where did the-- where did the corpus come from?

**JOEY ADLER:** Say that again?

**KOLTERMAN:** The corpus of the organization-- who started it?

**JOEY ADLER:** Dick Holland did.

**KOLTERMAN:** Is that philanthropy at work?

**JOEY ADLER:** I would assume so, Senator.

**KOLTERMAN:** All right. I'm just trying to make a point.

**JOEY ADLER:** Yeah. And I think that most of the people who donate to our organization would agree with our mission, so they know that when they're donating to our organization that our mission is to maybe raise their taxes, potentially, you know, so--

**KOLTERMAN:** All right. Thank you.

**LINEHAN:** Other questions from the committee? In your poll that you've used, did you tell people how much we're spending per student on children or did you just ask them their opinion?

**JOEY ADLER:** We just asked their opinion. I'd be happy to go over the results with you if you'd like.

**LINEHAN:** Because I have seen polls where people in Nebraska think we're spending \$5,000 or \$6,000 a student versus the \$13,000 that we're spending.

**JOEY ADLER:** Right, and you--

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**LINEHAN:** So if that's what they think, then--

**JOEY ADLER:** Yeah.

**LINEHAN:** So you polled people but you didn't tell them how much we were actually spending.

**JOEY ADLER:** We just asked their perspective on it.

**LINEHAN:** Did you define "rich" in your poll, what people consider to be rich?

**JOEY ADLER:** No.

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

**JOEY ADLER:** Thank you.

**LINEHAN:** Hi.

**LISA WAGNER:** Hi. My name is Lisa Wagner, L-i-s-a W-a-g-n-e-r. I'm the school board president of Central City Public Schools, as well as a member of the NASB Board of Directors and legislation committee. I am here today representing both Central City Public Schools and NASB to support LB614 from Senator Crawford. I am in my 11th year on my local school board, and my husband and I farm and own land-- land outside of town. We have two older sons who have chosen to remain in the state and attend college in Lincoln and Fremont. We understand the need for property tax relief. We also understand the need to keep public education in the state of Nebraska competitive and strong. Over the last few weeks and into the next few weeks, you all have the ingredients in front of you to combine the multitude of tax bills and ideas to ideally come up with one amazing meal that will satisfy the state for years to come. The ingredients found in LB614 would go a very long way in a final tax package to this state. As a school board member, I represent my district. As a member of the NASB Board, I represent a larger region of Nebraskans. As a member of the NASB legislation committee, I represent the entire state, a diverse state, as you are all more than aware. That is why it is so important that whatever comes out of this committee does not harm some districts at the benefit-- at the benefit of others. The items within LB614 do just that. You've heard how increasing special ed reimbursements from 50 percent to 80 percent benefits all districts and is outside of the formula, in turn lessening the need for property taxes to make up the

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difference. This bill also includes supplemental state aid for all districts by allocating just under \$500 per student. Add in the property tax transparency which requires student districts and ESUs to publish a summary of revenue sources and expenditure reductions, or increases along the current and future cost savings, helps to ensure that every board across Nebraska is doing what they were elected to do, and that is to make sound, smart financial decisions to their constituents, all the while making sure public education in Nebraska continues to remain competitive and strong. The items within LB614 definitely need to be included into this committee's recipe. Thank you for your time and for allowing me to testify.

**LINEHAN:** Thank you very much for being here. Are there questions? Seeing none, thank you very much. Oh, I'm sorry. Senator Friesen, I'm sorry. I wasn't-- I didn't mean to.

**FRIESEN:** That's OK. You didn't hurt my feelings.

**LINEHAN:** I'm sorry. Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. What is the-- what is the levy at Central City?

**LISA WAGNER:** Ninety-nine cents.

**FRIESEN:** Ninety-nine? And so you're not equalized. Have you tried to get a-- are you growing?

**LISA WAGNER:** We are.

**FRIESEN:** And--

**LISA WAGNER:** The last five years we've increased our enrollment.

**FRIESEN:** --you've tried to get a bond issue passed and--

**LISA WAGNER:** We have tried and we just failed.

**FRIESEN:** OK. Are there other-- what are the options you're looking at?

**LISA WAGNER:** We're retrying our bond at a lower rate, and that will come up in March here.

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**FRIESEN:** What's your growth rate there? I mean it's kind of unusual for a school. You are kind of in a unique spot, but you are growing compared to a lot of other schools are not and that size.

**LISA WAGNER:** Why, or how many, did you say?

**FRIESEN:** I guess, what percent growth do you project in the future?

**LISA WAGNER:** I think we're-- I don't know off the top of my head, but the superintendent has said that, I think, we grow approximately-- I think we've grown 30 or plus students in the last few years, and each year it's continued to go up from there.

**FRIESEN:** So from the-- from the ag producers' side, do these-- does this bill go far enough to provide property tax relief? Take your school hat off, I guess, and--

**LISA WAGNER:** I don't know. I don't know if anything is far enough, but anything helps.

**FRIESEN:** OK. Thank you.

**LINEHAN:** Thank you, Senator Friesen. Senator Kolterman.

**KOLTERMAN:** Thank you. So what-- what's causing Central City to grow? What do you--

**LISA WAGNER:** It's the center of it all. [LAUGHTER]

**KOLTERMAN:** That's a good catch phrase, "It's the center of it all." Do you have-- do you have new industry?

**LISA WAGNER:** Pardon me?

**KOLTERMAN:** Do you have new industry coming in?

**LISA WAGNER:** We do. We have a new hospital that will be being built in the next few months. We just had-- we don't have a big growth of like one major company coming in, but we have several small ones that are coming in and investing in our community.

**KOLTERMAN:** Thank you.

**LINEHAN:** Thank you, Senator Kolterman. Senator Groene.

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**GROENE:** What did you say your levy was?

**LISA WAGNER:** Ninety-nine cents.

**GROENE:** Does that include a bond?

**LISA WAGNER:** That--

**GROENE:** Because I've got you down for 87.9, the most recent one.

**LISA WAGNER:** The building fund has .051 in the general.

**GROENE:** Maybe-- maybe I'm a year behind here. I don't think I am, but anyway.

**LISA WAGNER:** Let me see.

**GROENE:** But you are pretty close to totally--

**LISA WAGNER:** Our general is \$0.88 and then our building is \$0.05.

**GROENE:** That's what I thought. All right. But so you guys have tried to lower your levy.

**LISA WAGNER:** Yes. When we've lowered-- stayed the same the last three years.

**GROENE:** But your valuations have gone up, ag land, like everybody else's.

**LISA WAGNER:** Um-hum.

**GROENE:** All right, just curious. Thank you.

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

**LISA WAGNER:** Thank you.

**LINEHAN:** Other proponents?

**ANN HUNTER-PIRTLE:** Good afternoon, Chair Linehan, members of the committee. My name is Ann Hunter-Pirtle, A-n-n H-u-n-t-e-r, hyphen, P-i-r-t-l-e. I'm the executive director of Stand For Schools. We're here to support LB614, and we thank Senator Crawford for introducing it because it would provide much-needed property tax relief while also

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introducing a number of revenue-raising measures that will sustainably fund schools for years to come. After years of shortfalls and uncertainty surrounding the state budget and, therefore, state aid, LB614 is fiscally sound and aligned with the principles of good tax policy. Nebraska has consistently ranked 48th or 49th in the nation for state support of K-12 funding and yet Nebraskans understand a strong K-12 system strengthens our state's economy and considers school funding a priority. LB614 would provide an increase in state aid of approximately \$487 per student along with allocated income tax allocations and would be a strong step toward adequately funding our school districts. In addition, we appreciate that LB614 calls for an increase in special education reimbursement to 80 percent. Stand For Schools understands the need for property tax relief and transparency and we also strongly believe it's time for Nebraska's leaders to recommit to our state's future by investing in their students and schools. For these reasons, we support the bill and urge you to advance it to General File. Thank you. I'm happy to take questions.

**LINEHAN:** Thank you. Are there questions from the committee? I'm going to ask you the same question I asked Ms. Fry. Have you read the study that the Nebraska-- University of Nebraska did titled 2019 Nebraska Property Tax-School Funding Issues?

**ANN HUNTER-PIRTLE:** I have not seen that study.

**LINEHAN:** Why-- which is reasonable because it only came out yesterday.

**ANN HUNTER-PIRTLE:** OK.

**LINEHAN:** But some of the numbers they use from the same census data that you use, they-- they don't-- they aren't-- they're not saying the same thing.

**ANN HUNTER-PIRTLE:** OK.

**LINEHAN:** So just a heads up if you guys would look at that. I'm not going to ask you about it today but--

**ANN HUNTER-PIRTLE:** Sure. Happy to take a look at it and happy to discuss it with you.

**LINEHAN:** Thank you.

**ANN HUNTER-PIRTLE:** Thank you.

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

**ANN HUNTER-PIRTLE:** Thank you.

**LINEHAN:** Other proponents? How many more proponents do we have? Are there other proponents in the audience that haven't testified yet? OK. Hi.

**MARY SPURGEON:** Mary, M-a-r-y, Spurgeon, S-p-u-r-g-e-o-n. Senator Linehan and members of the Revenue Committee, I am speaking today as a citizen of Nebraska. I support the philosophy and provisions in LB614. The philosophy is that a responsible, responsive state government can be a force for good and in fact is required for civilized and productive relationships among people. That helpful, effective government requires adequate and transparent funding and that the necessary funding should be derived from a wide variety of sources so that those taxes are fair and stable. I support the provisions included in this bill. I especially appreciate LB614 because it includes no provisions that constrain the powers of future legislators or political subdivisions to act to bring in more revenue if deemed wise and necessary in the future. It contains no magical thinking. Example: A person announces to their spouse and children that their family needs more income so he or she is going-- quits their job to stay home because the dollars will then flow in. That thinking is illogical. It seems, however, that-- that when very wealthy people in tall pants and positions of power promote ending sources of revenue for a state with the promise that the money will then flow in, it is viewed as logical. It is not. It is fairy-tale economics, magical thinking, and it is absent from this bill. Hooray for legislation created by mature thought and good mental health! It reflects the interests of the vast number of Nebraskans who are of modest and low incomes. Those of us in that position must pool our resources by contributing our fair and proportional measure of funds toward the well-being of the common good. Our own well-being is thereby enhanced. In closing, I empathize with this committee. You gave away your income tax tool so that Governor Ricketts could have the honor of being in the same tax bracket as me. Meanwhile, the demands on the state's resources continue to go up and the state's savings account is alarmingly low. You are legislating at a time when the proportion of the nation's wealth is held by the top 1 percent of households and is more than the wealth of the bottom 90 percent combined--small wonder that an economy that works for all is difficult to achieve when the flow of our economic lifeblood is so imbalanced. Were that true of the

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lifeblood of a human body, its very survival would be in jeopardy. This problem is bigger than our state. But to the extent that it could be rectified within our state, I encourage you to do so. LB614 contains logical and fair provisions that can help. Thank you for your attention and thank you for your service.

**LINEHAN:** Thank you very much. Are there questions? Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. So when you say that the top 1 percent of the households have all the wealth, more-- more wealth than the bottom 90 percent, do you know what percent the top 1 percent pay of our taxes?

**MARY SPURGEON:** No, I don't.

**FRIESEN:** OK.

**MARY SPURGEON:** I don't-- I don't think it's-- well, I don't know the answer to that. I know that proportion to income, the lower quintile, I think it is, pays quite a bit more than-- than some other sections.

**FRIESEN:** But-- but you --I mean I think there is a lot of data that shows that the top 1 percent probably pay 80 percent of the taxes so it--

**MARY SPURGEON:** I don't know the answer to that.

**FRIESEN:** --there's-- there's-- it's relative, so I mean it's--

**MARY SPURGEON:** Sure.

**FRIESEN:** When you're looking at numbers, you need to look at all the numbers, but--

**MARY SPURGEON:** Sure.

**FRIESEN:** --thank you.

**MARY SPURGEON:** I'm-- I'm addressing or attempting to address the fact that things don't flow when-- when-- when it's all-- you know, if all the blood is in the tip of my little finger, the rest of my body is going to be kind of unhappy, and-- and I think we're seeing that in our economy as well.

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**LINEHAN:** Thank you, Senator Friesen. Other questions from the committee? Thank you for being here.

**MARY SPURGEON:** Thank you.

**LINEHAN:** Are there opponents? Because nobody raised their hand when I said--

\_\_\_\_\_ : Opponent?

**LINEHAN:** Yeah, are--proponent? Because-- OK.

**KOLTERMAN:** Go ahead.

**LINEHAN:** Opponents, yes. Or-- I don't care who, but we-- we're-- because when I asked if there were any more proponents, nobody raised their hand. We're done with proponents, right? OK, opponents.

**BOB VAN VALKENBURG:** Madam Chairman, members of the committee, I'm Bob Van Valkenburg. I would have been on that side of the-- the-- the--

**LINEHAN:** You need to spell your name, sir.

**BOB VAN VALKENBURG:** I'm sorry. I'm going to spell it.

**LINEHAN:** OK.

**BOB VAN VALKENBURG:** It's difficult.

**LINEHAN:** OK.

**BOB VAN VALKENBURG:** V-a-n V-a-l-k-e-n-b-u-r-g. I had a hard time, Senator, when I read this bill last night. I was trying to decide whether I was going to be for or against because frankly it has merit if it is substantially amended. Otherwise, it has a lot of difficulty. So I'm right on the edge, and so let me just share some thoughts with you and then you can throw rocks or ask questions or whatever. But we hear-- hear a lot about draining the swamp in Washington. What I would like to have the opportunity sometime to tell you, how we need to drain or lower the level of Salt Creek here in Lincoln because, Senator, there is so much fraud and so much corruption in the collection of property taxes in Nebraska that if this was corrected, and it could be corrected--ask me how, Senator--it could be corrected, and-- and I would say that the revenue that could be generated would make a substantial difference in perhaps funding Medicaid, perhaps

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schools perhaps the university, wherever, but property tax has been abused, that subject has been abused for the 50 years I've lived in Nebraska. I used to be a lobbyist but then I turned honest, and so-- so I'm here today to share with you some-- a little bit of historical thought and-- and maybe, maybe some-- something that help to be--

**LINEHAN:** You've only got a couple minutes here, or not even a minute.

**BOB VAN VALKENBURG:** I know. That thing goes on-- if I had a hammer, I'd hit it. But-- but here's the situation. Less than two blocks from where we sit is a building that is going to be exempted from paying property taxes and it's going to be exempt from paying about \$15,000 worth of property taxes. Now, Senator, members of the committee, that's only one building. There's two in my district, the 26th District, that will avoid paying well over \$2,000 property taxes. And this is an article that was printed in the Lincoln paper, and there are hundreds of-- hundreds of properties that will not be paying property taxes, and I would say substantially half of those will be doing it fraudulently. Now we have-- I hope-- I hope this Legislature doesn't adopt the song, "The Ides of Taxes are Upon Us," but we really, really need to address that. And when I get down to the bottom-- if I were to get down to it--

**LINEHAN:** OK. No, I'm sorry.

**BOB VAN VALKENBURG:** Real quick, if you--

**LINEHAN:** Real quick.

**BOB VAN VALKENBURG:** --really have an interest in solving the problem--

**LINEHAN:** Yes.

**BOB VAN VALKENBURG:** --do an interim study that covers the whole spectrum of property taxes.

**LINEHAN:** OK.

**BOB VAN VALKENBURG:** If you have any questions, I'd be delighted.

**LINEHAN:** Thank you. Thank you very much for being here. Are there questions? Senator Groene.

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**GROENE:** Explain to me how they're avoiding paying their property taxes.

**BOB VAN VALKENBURG:** Pardon?

**GROENE:** How are they avoiding paying their property taxes--

**BOB VAN VALKENBURG:** How are--

**GROENE:** --that list?

**BOB VAN VALKENBURG:** The question how or what-- about what?

**GROENE:** That list of individuals on that newspaper column, how are they avoiding paying their property taxes?

**BOB VAN VALKENBURG:** I'll tell you. One of them that's two blocks from here avoided by falsifying the document where they request an exemption. Now it's very interesting because I sat on the board of directors of that corporation years ago and I know about their finances. They are no more charitable than I am a well-qualified piano tuner with a hearing problem.

**LINEHAN:** OK, so--

**GROENE:** That's good.

**BOB VAN VALKENBURG:** It is deceitful.

**LINEHAN:** OK, so I would-- why don't we set up an appointment and you can show that to me, OK?

**BOB VAN VALKENBURG:** I'm sorry, I can't hear you.

**LINEHAN:** That's OK. I'll send you a note. Thank you. Thank you for being here. Appreciate it.

**BOB VAN VALKENBURG:** OK.

**LINEHAN:** Thank you.

**BOB VAN VALKENBURG:** It'll be on vansopinions.com.

**LINEHAN:** OK, thank you very much, sir, for being here.

**BOB VAN VALKENBURG:** Thank you. Thank you.

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**LINEHAN:** Other opponents?

**RUSSELL SMITH:** Senator Linehan, members of the committee, thank you for the opportunity to speak to you today. My name is Russell Smith, R-u-s-s-e-l-l S-m-i-t-h. I am a CPA speaking on behalf of the Nebraska Chamber of Commerce and Industry, the Lincoln Chamber of Commerce, the Greater Omaha Chamber, and the Nebraska Bankers Association. With the limited time today, I'm going to focus my-- my comments on the non-Nebraska S-corp and LLC exclusion repeal. I'm opposed to that change for the following reasons. First of all, the-- I believe that the non-Nebraska S-corp and LLC exclusion is sound tax policy. It creates horizontal equity in the tax code, meaning that S corporations and LLCs are treated similarly to C corporations when determining Nebraska taxable income. It also is neutral tax policy in that it does not impact a business's economic decision making by favoring one form of business or another. Simply put, Nebraska, without the non-Nebraska exclusion, picks C-corps as winners and S corps as-- LLCs as losers. I don't believe the state should be in the position of picking winners and losers. Second, there's been some-- some comments that the Nebraska-- non-Nebraska exclusion isn't quite as unique-- isn't quite as unique as it may seem, or in my-- I guess let me phrase that another way. There's a handful of states that do offer similar exclusions to Nebraska. But the argument is there's not that many. Why are-- why do we have this and other states don't? And really that comes back to, how are you-- how are you viewing these taxes? There's a lot of states that impose business activity taxes at the entity level and they only tax those businesses, regardless of entity type, based on the income derived from that state. So when we talk about Nebraska being unique, it's not quite as unique as you would think. In some other states, it's not an all-inclusive list, but Delaware, Nevada, Ohio, Texas, Washington, among others, are states that have entity-level taxes on business activity. And I'm not talking about sales tax. These are entity-level taxes based on either net income or revenue of the-- of the business. As an aside, kind of related to that, if the non-Nebraska exclusion is eliminated, then Nebraska S corp and LLC owners would potentially be double taxed on the income that is taxed in these other states because Nebraska would not allow credit for tax paid to those states since it's an entity-level tax, so just another reason why we're against it. Finally, I believe that the revenue projections for this bill are a little bit overstated. For one reason, I think it's reasonable to expect that a lot of businesses will switch to C-corp status. That's a very easy, easy fix. As a CPA,

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I would advise my clients to strongly look at that. So once you're a C corp, then the expected revenue would not be there.

**LINEHAN:** Okay. Thank you.

**RUSSELL SMITH:** I'm open to questions.

**LINEHAN:** Thank you very much. Are there questions from the committee? Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. When you mentioned double tax, if-- if-- if I remember right in previous testimony, though, if you pay the tax in another state, you get credit for that tax paid, don't you?

**RUSSELL SMITH:** You do, but only if it's individual income tax paid. So those states I named, plus a few others, would not-- you would not get a credit for those taxes.

**FRIESEN:** So it's a different kind of tax, then it's not--

**RUSSELL SMITH:** It's a different-- yes.

**FRIESEN:** OK. Thank you.

**LINEHAN:** Thank you, Senator Friesen. Senator Groene.

**GROENE:** Thank you, Chairman. I think I got the S corp down. But the C corp now, why wouldn't a C corp have to pay income taxes on income generated in Texas or South Dakota or Wyoming where there is no state income tax and--

**RUSSELL SMITH:** Well, it would pay-- it-- if a state has some kind of other business entity tax, it would-- it would pay that tax. Is that what you're--

**GROENE:** Right now an S corp, if-- in Nebraska, if they generate income in Texas, they don't have to pay income taxes here on it. Is that correct?

**RUSSELL SMITH:** Correct.

**GROENE:** That's fine. But you said everybody would switch to a C corp. Why?

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**RUSSELL SMITH:** Well, because it's-- the non-Nebraska exclusion is specific to S corps and LLCs because it's an individual-level tax. If it's a C corp, C corps get to apportion their income, and so there's no-- they only pay tax on the apportioned income to Nebraska. That's just how the law works. So C corps are in a special class--

**GROENE:** Plus the federal level is less.

**RUSSELL SMITH:** --where they apportion at the business level and are taxed at the business level, whereas individuals are taxed at the individual level, and your starting point is federal taxable income less the non-Nebraska S corp exclusion.

**GROENE:** And C corp is, with the federal level, is lesser now than S corp, right, because [INAUDIBLE]

**RUSSELL SMITH:** it is. I-- yeah, that's another reason, you know, companies might want to switch to C corp status.

**GROENE:** But most of their income comes from someplace where the tax-- state tax is less than Nebraska's. They can funnel it through and save money and still be a Nebraskan, is that correct?

**RUSSELL SMITH:** That is correct.

**GROENE:** All right. Thank you. [INAUDIBLE]

**LINEHAN:** Thank you, Senator Groene. Are there other questions from the committee? Seeing none, thank you very much for being here. Good afternoon.

**RON QUINN:** Good afternoon, Madam Chairman and members of the Revenue Committee. My name is Ron Quinn, R-o-n Q-u-i-n-n, and I'm here today representing Tenaska Energy Inc., where I serve as executive vice president. Our company is organized as a combination S corp/LLC company and I'm here to share strong opposition to LB614 and some aspects of it. I will be brief and simply make three points. Several companies were here two weeks ago, including Tenaska, to testify in hearing LB276, and we shared the material negative impact that the changes proposed in apportionment taxation would have on Nebraska owners of S corps and LLCs. The same provisions are included in LB614. In the interest of your time and to avoid duplication, I would simply ask that you incorporate the opposition testimony of that hearing into this hearing and summarize it by saying changes to the apportionment would severely penalize Nebraska companies organized as S corps and

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LLCs that do business outside the state. In my view, this change will not raise the projected revenue and in fact, as many have testified at LB776 hearing and here today and I emphasize in my follow-up letter, I believe it would have a negative-- counterproductive in raising revenue. For these reasons we would urge you to oppose the changes to the current law with respect to S corps and LLCs and tax C corps, S corps and LLCs all the same, as you just heard. In terms of the capital gain treatment, repeal of the capital gain exclusion in LB614 would likewise have a negative impact on companies like Tenaska and Nebraska resident owners of a business in which they are employed. Passage would take Nebraska back to the time prior to 1987 where companies were leaving the state due to its high income tax, antibusiness environment. When businesses were leaving, guess what happens? People leave and so do jobs, capital investment, tax revenues of all kind, including sales, income, and property taxes, so there's a net negative, as well as the significant philanthropic support. that these businesses and their employees, leaders, and owners provide financially in a community and nonprofit leadership and support and volunteerism. As with the appointment provision, this is another example in which the projected revenue benefit would simply not be realized. If LB614 would pass, employee owners would be incented to leave the state at or before retirement, and establish their residency elsewhere so the revenue will not ultimately be revenues-- realized. It's in the fiscal note. I would urge the committee to oppose attempts to repeal the employee owner capital gain provision. It has been a significant net plus for the state in attracting and retaining people and in helping businesses stay and grow here, and both C corp and S corp businesses large and small. Lastly, in terms of the incentives, finding ways to grow the population and economic base of Nebraska and creating and maintaining a probusiness environment is the way to help address the high property and income taxes and work force shortage that impacts the state statewide. Nebraska needs a probusiness environment and incentives. And you can read the rest of this here, but I would say that in response to one of the questions you asked, at a federal level, I don't know about state, but seven--

**LINEHAN:** Mr. Quinn, let's let him just ask--

**RON QUINN:** Ok. All right. Thank you.

**LINEHAN:** --the question so I'm fair.

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**RON QUINN:** Thank you very much for being here. I appreciate the job you do.

**LINEHAN:** Senator Friesen, do you have a question?

**FRIESEN:** I do. It goes back to answer the question that I-- that you were working on.

**RON QUINN:** Well, at a federal level, the 2017 statistics that I saw were that 10 percent of the taxpayers in the country pay 70 percent of the federal income tax revenue.

**FRIESEN:** OK.

**RON QUINN:** Senator Kolterman.

**LINEHAN:** Senator Kolterman, yes.

**KOLTERMAN:** Yeah, thank you.

**LINEHAN:** I'm supposed to say that.

**RON QUINN:** Sorry.

**LINEHAN:** It's OK. Thank you, Senator Friesen. Senator---but of course I have to be awake to do it.

**KOLTERMAN:** Thanks for coming.

**LINEHAN:** Senator Kolterman.

**KOLTERMAN:** Thanks for coming again, Mr. Quinn. A couple of questions. Tenaska has a big presence in the state, in Omaha especially. When you decided to expand in Omaha, what were some of the significant reasons for that?

**RON QUINN:** Well, actually, it's when we were formed in Omaha. The significant reason is we happened to-- it's coincidental, but post the merger between InterNorth and Houston Natural Gas, which became Enron, and that departure, LB8-- LB775 and LB773 and LB772 in front of the Legislature and those bills all dealt with trying to change the economic environment for business in the state because ConAgra was threatening to leave, Union Pacific was going to go to St. Louis. A lot of the big corporations were going to leave. They couldn't get executives to come here and reside here because of the taxation of capital gains if they had employee stock ownership and those kinds of

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things. And there was going to-- we were on the precipice of a mass exodus. And I would say that that incentive legislation was critically important to the state of Nebraska in a major turnaround in 1987. That LB775 bill became important to us because we were looking at whether to locate in Texas or here. A lot of us lived here. We wanted to stay here. The energy base was in Dallas and Houston but with that bill, we could count on the fact that even though we were paying payroll taxes and income taxes and other kinds of taxes, that at least we would get back credit for sales taxes and lease payments on buildings and that kind of stuff and it was a way to kind of bridge the gap between what is otherwise a negative economic environment for Nebraska compared to other states. And I think that's the other thing that we're talking about here is, is that I feel for all the people that have testified today. I think we've got a problem. We're all residents of the state. We all need to work together on these issues and these problems. The thing about it is, is that we need to work together and we need to work to maintain business. Without jobs, without employment, without people being here to be in the schools and to pay the taxes, that takes jobs and that's what we're trying to provide. The other thing I would say is, is that this economic force that we have is-- it has been working, and taking that away now would be exactly the wrong thing to do so.

**KOLTERMAN:** So-- so back when you-- when you started the business in Omaha, you took advantage of LB775, and I believe you've taken some advantage a little bit of the-- of the Advantage Act, haven't you?

**RON QUINN:** We-- we-- I-- to the extent we did anything with the Advantage Act, it was limited. But with LB775, we certainly did and it was important to us in the early life of our company. And today we're this multi-billion dollar company. And I can tell you flat out, without LB775, this company wouldn't be in Nebraska today. And I think that's what's-- that-- that's the point is it's an investment. It's-- it-- these kind of incentives are an investment by the state and they do have a net plus benefit, their payback. And businesses, just-- states are competing just like businesses are competing. That's the other issue is this state isn't in a microcosm. It has to compete, much like a business has to compete.

**KOLTERMAN:** So-- so the growth has been-- you've had substantial growth and most of it-- a lot of it's here, but you have a lot of growth in Texas as well. Is that correct?

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**RON QUINN:** We have-- we have-- we're-- we're at-- we have activity in 15 different states. We have plants around the country, Alabama, Pennsylvania, the Pacific Northwest, windfarms, solar plants, gas-fired plants.

**KOLTERMAN:** So-- so when a-- when a state has incentives, do you take advantage of those?

**RON QUINN:** Absolutely. And in fact, I can give you a perfect example of the Oklahoma Legislature was going through much of what you were going through ten years ago and they passed an incentive bill for an Advantage-type act, and we located the plant in Oklahoma and built a transmission line to Texas to take advantage of that structure. It has worked out great for the state. I was there being grilled by the press one day for this giveaway program, and in fact my answer to that is we're paying payroll, we're the third largest property payer on our plant in the county, and they're railing on the fact that we're getting this income tax benefit or a sales tax benefit. And I said the plant would have been in Texas. I mean, it's-- it's that simple. You either do something to attract the business to reside there or reside somewhere else because we're all in this together, so to speak.

**KOLTERMAN:** One last question. Does Tenaska pay any property taxes in Omaha?

**RON QUINN:** Oh, certainly. Yes.

**KOLTERMAN:** Are they too high?

**RON QUINN:** I think everybody would say that the property tax rate is an issue. The other thing I would say, listening to the school districts here, and we all want great education, is, is that what I heard is there is a need for more revenue. And I don't-- what I would think would be happening is, is that if that revenue came, they would try to make up these shortfalls, as opposed to cut property taxes.

**KOLTERMAN:** OK.

**RON QUINN:** But, yeah, property taxes are high. And we pay property taxes, we pay sales taxes, we pay payroll taxes, we pay a lot of taxes--

**KOLTERMAN:** Thank you.

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**RON QUINN:** --and we're here doing that and happy to do so.

**KOLTERMAN:** Appreciate you taking time to come down again today. I know it's important to you.

**LINEHAN:** Thank you, Senator Kolterman. Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. So we've had quite a few bills in front of us already with property taxes and we all think we have too high of property taxes. But every time we want to raise revenue, we've got the Governor opposing us, we've got the chambers all opposing us. No one wants to raise revenue to do anything about it. How do you go about-- where do we go about looking for the answer and how do we fix our property tax problem?

**RON QUINN:** That is the challenge. I would say that I'm glad not to be on your side of the table facing those challenges. But I do think that it is in fact to grow business. The best thing we can do for this state is to have an economically sound base of business with which to have the revenue to be taxed or to be collected and to put in the schools. So retaining people in the state of Nebraska, holding onto the population, making sure we don't have a brain drain-- drain and a brain exit, keeping people in the state when they work here and when they retire, having a kind of incentive system to grow, because we are frankly a low-population, high-geography state that doesn't have a national-- natural resources, doesn't have tourism to a great degree. We've got a great zoo, got a world-class zoo. We've got some world-class things and from the Sandhills to the zoo, so we need to do more to attract tourism, more to attract outside participation in our state. But I would say that the worst thing we can do is create an environment in which it's not a friendly place to do business or it's not a great place to live.

**FRIESEN:** So we have created a very unfriendly environment for agriculture, which is our number-one business. And right now we're paying. I think the last I looked, there was a study, it was a 50 percent effective tax rate right now. There's no other business that would survive here. But we can't move. So again, we have to do something now. We've-- I've watched communities say over and over again we're going to grow our way into property-- you know, prosperity. But I haven't seen a city lowered their spending ever yet even though they're growing. There's growing pains. And so we can talk about growing the state and growing our way out of this. But how do you-- I've not seen that happen in any city or any state. I know we

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need to attract people to get back here and we need those jobs. I'm not-- not even going after the-- the tax incentives, so to speak. I'm just-- I'm just looking for a place to where we can make that tax shift that happened to agriculture to-- to put us in the spot we're at today, how do we shift it back without raising some revenue, and where do we go to find it, because every time we talk about raising any kind of revenue, we get push back and say we can't do it. So we're just supposed to accept it, and our number-one industry is just supposed to wait another 20 years and see if we grow?

**RON QUINN:** Again, I don't know-- fully know the answer to that. But clearly, being an agricultural state exporting our products out of state, the more demand we have for our agricultural products, the more the laws of supply and demand will prevail. So the kinds of trade missions to go overseas, to get products, soybean deliveries in Asia, the kind of things that I believe Governor Ricketts has been trying to do, which I have not been involved in, but, I mean, those kinds of things are a way to try to get our agricultural base to further expand outside our borders and--

**FRIESEN:** If we would add value to our products, I mean, that-- that would be good for all of us, it would be good for businesses. It's-- but we have to either focus on something, but right now we're-- we're in a short time frame to get something done before more permanent damage is done. We've already got people leaving the state and moving to other states to farm.

**RON QUINN:** Precisely my point--

**FRIESEN:** So--

**RON QUINN:** --precisely why we don't want to create an antibusiness environment and lose the eastern part of the state while we're already having this agriculture problem. That's part of the message I'm trying to deliver.

**FRIESEN:** Well, and I'm just looking for an answer.

**RON QUINN:** Yeah, I-- I wish I had one, Senator, I really do.

**FRIESEN:** Thank you.

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**RON QUINN:** I think we all do and that's why we're all here together because we love this state and we want it to grow and we want it to thrive.

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

**RON QUINN:** Thank you.

**LINEHAN:** Good afternoon.

**BRUCE GREWCOCK:** Good afternoon. Chairman and Linehan and members of the revenue committee. My name is Bruce Grewcock, B-r-u-c-e G-r-e-w-c-o-c-k, and I'm the chairman and CEO of Kiewit. I'm here today to oppose LB614, and specifically the portion that would eliminate the capital gains exclusion. Kiewit was founded in Nebraska in 1884. Today we are a 100-percent employee owned construction and engineering company. We employ over 20,000 people in our operations throughout North America. In Nebraska, we currently employ over 1,900 full-time workers with an average salary of \$85,000. Since 2012, Kiewit has added over 400 high-paying jobs in the state, centralized our entire business services for the entire company into Nebraska. We built a new training center in Omaha where we'd bring in and train employees from across North America. When our new headquarters office building is complete, Kiewit will have invested \$750 million over a ten-year period. Approximately 10 percent of our employee owners reside in Nebraska. The majority of our employee owners wear hardhats and boots every day. When they retire or leave the company for any reason, they have to sell their stock back to the company. This is where the capital gains exclusion becomes very relevant for us. I want to share two personal stories about Kiewit employees who continued to work, retire, and invest in Nebraska. My father, Bill Grewcock, who recently passed away, was a longtime senior Kiewit executive. And I grew up with Kiewit, spent much of my childhood in Grand Island while dad worked on building I-80. As dad neared retirement, before the capital gains exclusion, he and mom contemplated retiring in Wyoming because his savings, his Kiewit stock would not be penalized. Second story, a current employee, Scott Castle, is the president of our infrastructure group. Now Scott grew up in Vancouver, Washington, and moved 27 times in his Kiewit career. Today Scott is a rabid Husker fan and plans to retire here. He serves on the board of governors of Aksarben and on the Nebraska Game and Parks Commission. The capital gains exclusion allowed my parents, Scott, and other Kiewit employees to stay in Nebraska where they continued to contribute to the state. I

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know property taxes are a priority for the Unicameral, and rightly so, but the solution to reducing taxes should not drive businesses, people, and investment out. Other states actively recruit Kiewit operations and people. But Nebraska is competitive because of capital gains exclusion and other incentives. If the capital gains exclusion is eliminated, the state won't see a benefit. Wealth and talent are mobile. Corporation executives will move to states like Wyoming, Washington, Texas to sell their stock and retire. The state will lose jobs, capital investment, philanthropy, income, sales, and property taxes. Please keep Nebraska competitive and encourage businesses like Kiewit to continue-- to continue to grow. Please oppose LB614 and other bills that include similar language.

**LINEHAN:** Thank you.

**BRUCE GREWCOCK:** Thank you for your service to the state, and I'm available for questions.

**LINEHAN:** Thank you, Mr. Grewcock. Are there questions for Mr. Grewcock? Senator Kolterman.

**KOLTERMAN:** Thank you. Thank you for coming again today. You mentioned-- I think you said \$750 million investment in Omaha?

**BRUCE GREWCOCK:** Correct.

**KOLTERMAN:** Was that-- that was recently?

**BRUCE GREWCOCK:** Since 2012.

**KOLTERMAN:** Have you-- would you have made that investment if we had not had an incentive program and our tax program is the way it is today?

**BRUCE GREWCOCK:** Incentive programs are a very, very important consideration for us and we-- and Nebraska has a good program. You have to earn it, and so we made the investment. We've earned the credits. But a very key, key part of our investment decision, as I said, many other states were actively seeking for us to-- to-- to locate some of our operations that we've located here in Nebraska, Kansas, Colorado. Others in particular offer very lucrative incentives so it has very much helped level the playing field.

**KOLTERMAN:** And your average salaries are \$87,000?

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**BRUCE GREWCOCK:** \$85,000.

**KOLTERMAN:** Is an average salary?

**BRUCE GREWCOCK:** Excludes-- that excludes executive-level folks, so that's just for this mass of the-- of the-- about 1,900 people we have here in the state.

**KOLTERMAN:** What are you-- what are you seeing? You're in all 50 states and other countries. What are you seeing for incentives some these other states that are doing that we could learn from?

**BRUCE GREWCOCK:** You know, I'm not-- not an expert in all of that, so I'd be happy to-- to share information on what we're seeing. I know from the state of Kansas, Colorado and others are particularly aggressive. I'd be happy to share that with you. I don't have that information though.

**KOLTERMAN:** All right. But you are taking advantage of them.

**BRUCE GREWCOCK:** Yes, in other locations, yes, we are.

**LINEHAN:** Thank you, Senator Kolterman. Senator Groene.

**GROENE:** Sorry I missed it. I was getting some research. But you're an S corp?

**BRUCE GREWCOCK:** No, we're a C corp.

**GROENE:** All right then. So the S corp thing doesn't affect you but--

**BRUCE GREWCOCK:** No.

**GROENE:** --which part were you concerned about? I missed it, I guess  
[INAUDIBLE]

**BRUCE GREWCOCK:** It's the capital gains exclusion exemption--

**GROENE:** All right.

**BRUCE GREWCOCK:** --removing that.

**GROENE:** All right, thank you.

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**LINEHAN:** Thank you, Senator Groene. Senator, did you have a question? Oh, I'm sorry. Senator McCollister.

**McCOLLISTER:** Yeah. Thank you, Madam Chair. Had you ever given a thought to becoming an S corp, Mr. Grewcock?

**BRUCE GREWCOCK:** We have, but that is enormously complex and far beyond my capability to understand the intricacies of the tax code. But it's-- I-- we have explored it, but it is enormously complex.

**McCOLLISTER:** OK. Thank you. Thank you for coming.

**LINEHAN:** Thank you, Senator McCollister. Other questions from the committee? Senator Kolterman.

**KOLTERMAN:** But you indicated you're employee owned.

**BRUCE GREWCOCK:** Yes, that's true, active employees. There's about 2,800 active employees throughout the U.S. and Canada, Mexico, but -- and we have-- what is the stats here? We have about 1,900-- or, excuse me, about 400 of them work and reside here in the state in Nebraska.

**LINEHAN:** Thank you. Other questions? Thank you very much for being here, appreciate it. Other opponents?

**BRIAN GILLILAND:** Good afternoon. Chairperson Linehan and members of the Revenue Committee, my name is Brian Gilliland, B-r-i-a-n G-i-l-l-i-l-a-n-d. I'm the general manager of Chesterman Company in Lincoln. Chesterman Company is the state's largest local distributor of Coca-Cola products. I'm appearing here today as the president of the Nebraska Beverage Association in opposition to LB614. The Nebraska Beverage Association includes distributors of nonalcoholic beverages and includes distributors of Coca-Cola, Pepsi, and Dr. Pepper products. In 2018, Nebraska's nonalcoholic beverage industry had a direct economic impact of over \$982 million and employ over 14 people-- 1,400 people statewide. In addition, our members contributed-- our members and our employees contributed almost \$8 million to charitable causes. The Nebraska-- the Nebraska beverage Association's objection to Senator Crawford's LB614 is found in Section 9, subsection (c) on page 17. The bill provides that soft drinks, candy, or bottled water would be excluded from the definition of food. Existing tax laws define food as food and food ingredients means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by

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humans and are consumed for their taste or nutritional value. This bill does not define soft drink, so we don't know what products would fall into that category. Our industry offers nonalcoholic beverages with varying contents from juice, coffee, and dairy. It is not clear if these would be included in that definition or how a product like Pedialyte or Ensure would be categorized. The three items specified in LB614, soft drinks, candy, and bottled water, fit squarely within the definition of food. We do not believe our industry's products should be singled out and declared to not be food. For those reasons, the Nebraska Beverage Association opposes LB614. I thank you for your time today.

**LINEHAN:** Thank you. Very good timing. Are there questions from the committee? Senator Kolterman.

**KOLTERMAN:** Thank you, Senator Linehan. Thank you for coming today. Your last-- your last statement here says Nebraska beverage companies and their employees generously contribute \$7.9 million?

**BRIAN GILLILAND:** Correct.

**KOLTERMAN:** Is that-- is that through United Way? How would-- how would you know that? United Way or--

**BRIAN GILLILAND:** That's-- it's several and this is-- this is information that's provided by the American Beverage Association. But we support many, many local charities, United Way, Boys and Girls Club of America, Special Olympics through cash donations and product donations.

**KOLTERMAN:** Universities and--

**BRIAN GILLILAND:** Correct.

**KOLTERMAN:** --high schools and things of that nature?

**BRIAN GILLILAND:** Absolutely.

**KOLTERMAN:** All right. Thank you.

**LINEHAN:** Thank you, Senator Kolterman. Other questions from the committee? Senator Briese.

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**BRIESE:** Thank you, Chairman Linehan. Thank you for your testimony. By imposing sales tax on these items, do you expect a decrease in sales or a loss of market share?

**BRIAN GILLILAND:** Absolutely. Our-- our business has been-- soft drinks sales in general have been flat or in decline for probably the last 20 years. To-- to make us less competitive by imposing this sales tax would-- would certainly have a negative impact on our sales.

**BRIESE:** But isn't true, though, the majority of states do impose sales tax on soft drinks?

**BRIAN GILLILAND:** I don't know that the majority of states single out soft drinks for sales tax.

**BRIESE:** OK. And several of our surrounding states do tax bottled water, correct?

**BRIAN GILLILAND:** There are bottle taxes in some states, the recycling tax in Iowa.

**BRIESE:** OK.

**BRIAN GILLILAND:** Again, I don't know that soft drinks are singled out in those states.

**BRIESE:** And part of your concern was-- regarding soft drinks was uncertainty as to the language and what constitutes a soft drink. That could be--

**BRIAN GILLILAND:** The definitions, yes.

**BRIESE:** That could be corrected--

**BRIAN GILLILAND:** Correct.

**BRIESE:** --statutorily or-- or Department of Revenue regulations, it would seem, correct, to close-- to more closely define what we're talking about?

**BRIAN GILLILAND:** Yeah.

**BRIESE:** OK. OK, thank you.

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**LINEHAN:** Thank you, Senator Briese. Other questions from the committee? Seeing none, thank you very much for being here.

**BRIAN GILLILAND:** Thank you.

**LINEHAN:** Other opponents?

**JUSTIN BRADY:** Chairman Linehan, members of the committee, my name is Justin Brady, J-u-s-t-i-n B-r-a-d-y. I appear before you today as the registered lobbyist for the Nebraska Liquor Wholesalers Association in opposition to LB614, specifically the section that increases the tax on spirits. There's three sections of alcohol, if you will, beer, wine, and spirits. This bill only raises it on spirits. The current tax rate is \$3.75 per gallon. When you look at our surrounding states, it was said, I believe Senator Crawford said in her opening that, you know, that this increase would put us proportionate to states around us. Well, currently, right now, the states around us, South Dakota is already at \$4.67. They're the one that's higher than us. Kansas is at \$2.50, Colorado at \$2.28, Missouri at \$2.00. Now Iowa is reported at \$13.07. There is not an excise tax on spirits in Iowa because the state of Iowa chose that they would rather be in the business as opposed to let private companies be in the business. So they report it as \$13 because they're trying to equate what would Iowa be if you took out "the profit" that the state of Iowa is making because they are the wholesaler there, so there's not an excise tax in Iowa, nor is there in Wyoming. They-- and so with this change going from \$3.75 to \$8.02, we would be-- again, depending on how you look at it, either 4th or 14th, and the variation is 4th if you take out the states, the 12 states that are control states that, again, they want to be in the business that the private industry is in, in Nebraska. They'd be 14th if you counted those and whether you try to equate that. The other thing I'd say with the increase in the excise tax is it's a double tax. I mean, as you heard in the previous hearings on LB314, you know from the wholesaler, that price, we sell it to the retailers. The retailers-- we obviously have a markup. The retailers have a markup. At the end, there's still sales tax paid on the whole thing, of which would include the excise tax, so really an \$8.02 excise tax equates to \$8.46 with sales tax, if you don't even add any market. So there's obviously a compounding effect that would have an impact on the industry. You would have more alcohol being purchased from out of state. Nebraska allows shipment of-- legally, you can ship wine, you can ship spirits into the state of Nebraska. There's limits on what you can do, but this, we feel, would increase that and bypass the

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system that these companies have invested in here. So with that, I'll try to answer any questions.

**LINEHAN:** Thank you, Mr. Brady. Are there questions from the committee? So I have one. So when you get these wine club things that you can order and it seems significantly cheaper than what you go to the grocery store, is that because there's-- they're operating from a state that doesn't charge these kinds of taxes?

**JUSTIN BRADY:** That's--

**LINEHAN:** I mean that's a pretty wide-open question, but--

**JUSTIN BRADY:** It is. Now part of it is, you know, one, they won't have to submit or collect sales tax. That help--

**LINEHAN:** Well, they should now, right?

**JUSTIN BRADY:** They-- well, they should.

**LINEHAN:** Well, once we get-- right.

**JUSTIN BRADY:** After Senator McCollister's--

**LINEHAN:** When we--

**JUSTIN BRADY:** --successful Monday moving his bill along, hopefully--

**LINEHAN:** Right.

**JUSTIN BRADY:** --then, yes. The other thing is, they are supposed to-- if you're shipping alcohol into this state, you are supposed to get a license, you are supposed to register with the Liquor Control Commission, say we're doing it, and remit the excise taxes. There are companies, and the-- Hobie is here. At some point he may testify, I think will tell you there are companies that don't do that. Now does our Liquor Control Commission have the resources to be able to travel around the country or the world and find where these individuals are? No. I mean he's lucky to have the money he has to do enforcement right here in Nebraska. So that's some of how they do that, that, yes, they are bypassing those taxes. They're also-- think sometimes they're selling them at reduced prices, hopefully-- remember the old tape or CD clubs you got ten for a penny but then you had to buy another hundred for a thousand bucks each or whatever it was?

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**LINEHAN:** Yes. Yes, I do remember that.

**JUSTIN BRADY:** That's similar what I would guess some of those wine clubs are attempting to do.

**LINEHAN:** OK. Thank you very much. And there are other questions from the committee? Senator Briese.

**BRIESE:** Thank you, Chairman Linehan. Thank you for your testimony. So if-- if given a choice, would you find a 3 percent surtax or additional sales tax at the retail level on spirits be more preferable to the-- this increase in excise tax?

**JUSTIN BRADY:** I would say, similar to the previous testifier before me, as opposed to single out one product, we would oppose-- if you just said we're going to do a 3 percent on alcohol at the end, yes, we would oppose that. If it was a we're going to increase the sales tax a half a cent, or whatever that is, across the board, no, you would not see me sitting in this chair opposed to that on behalf of the liquor wholesalers.

**BRIESE:** You would-- you would support a sales tax rate increase across the spectrum?

**JUSTIN BRADY:** Right.

**BRIESE:** OK. Thank you.

**JUSTIN BRADY:** Let me correct. We would not oppose it, Senator. To say we support it, that would say [INAUDIBLE] be here--

**LINEHAN:** Yeah.

**BRIESE:** Strike that from the record on the last one.

**LINEHAN:** He just lost five clients.

**BRIESE:** Refer to the first answer. Thank you.

**LINEHAN:** Thank you, Senator Briese. Other questions? Thank you for being here.

**DUSTIN ANTONELLO:** Good afternoon, Chairwoman Linehan and members of the Revenue Committee. My name is Dustin Antonello, spelled D-u-s-t-i-n A-n-t-o-n-e-l-l-o. I'm here on behalf of the Lincoln Independent Business Association. LIBA is testifying today mainly in

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opposition to the elimination of the-- the \$10,000 property tax exemption beginning in 2020. The personal property tax not only costs businesses financially but it is also cut costly in terms of the time and effort necessary to complete and file the appropriate tax returns, which are filed individually in each county in which businesses own personal property. To comply with tangible personal property taxes, businesses must keep a detailed schedule of all items at each of their locations, and these items must be inventoried, totaled, listed, and depreciated according to an approximate-- approximation of the fair market value over the lifetime of the product. This often entails a great deal of guesswork since determining the fair market value of miscellaneous office supplies, specialty machinery, and mundane objects can be difficult and time consuming. Many of Nebraska's nearby states don't impose any taxes on personal property, including Iowa, North Dakota, South Dakota, and Minnesota. Indeed, experts report a shift away from personal property taxes, including in states like Ohio and Michigan where personal property taxes have recently been phased out. Rather than eliminate the existing exemption, we believe the exemption value should be increased or personal property taxes should be eliminated altogether. Thank you, and I'd be happy to answer any questions.

**LINEHAN:** Thank you very much, Mr. Antonello. Are there questions from the committee? Seeing none, thank you--

**DUSTIN ANTONELLO:** Thank you.

**LINEHAN:** --very much. Other opponents?

**KATHY SIEFKEN:** Good afternoon, Chairwoman Linehan and members of the committee. My name is Kathy Siefken, K-a-t-h-y S-i-e-f-k-e-n, here today representing the Nebraska Grocery Industry and the Nebraska Petroleum Marketers Association. And I am sorry that I have to repeat the testimony that I gave you last week, but it is very important to our industry that you understand how it will impact our industry if the decision to tax candy, soft drinks, and water moves forward. It would be devastating to our small rural grocery stores. And the reason it would be devastating is because we use Streamlined Sales Tax definitions. Those definitions are very convoluted, and I'm going to read to you what they have in the Streamlined definition for candy. Candy means a preparation of sugar, honey, or other natural or artificial sweeteners in combination with chocolate, fruits, nuts, or other ingredients or flavorings in the form of bars, drops, or pieces. If it has flour in it, it is not considered candy, so a Kit Kat bar is

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not candy, licorice is not candy. However, you go down to the bakery aisle and the little sprinkles that you put on top of your cake, your cake decorations, they're candy. It's a convoluted definition that has been adopted by everyone that is part of Streamlined Sales Tax. The definition for soft drinks is just as convoluted. It means that every one of our stores individually would be required to read the label on every item in our store to determine if it is candy, if it is a soft drink, or if it is bottled water, based on the definitions in Streamlined. You can't just take a look at the product that's on the shelf and decide that it is or is not candy or a soft drink. A comment was made to me earlier that, well, if you don't know, just go ahead and tax it. In our industry, our customers are pretty savvy. They know what is taxable and what is not taxable. And I can tell you, in our family, when we find someone taxing items that are not taxable and we let that retailer know that that item should not be taxed, and if they don't correct it, we simply don't shop there anymore. And that is what the people in this state are like. They are smart, they're savvy, and they don't want to be taken advantage of. If our grocers were to take advantage of their customers in that way, by just taxing something if they don't know if it is or is not, we would lose our customer base. We can't win as a grocer in this state if you adopt these, if you go ahead and remove the exemption on candy, soft drinks, and water. With that, if you have any questions, I'd be happy to answer.

**LINEHAN:** Thank you very much. Senator McCollister and then Senator Briese.

**McCOLLISTER:** Yeah. Thank you, Madam Chair. Having been in business for 35 years, I think you're-- you're making an assertion that's not correct. It's normally up to the Tax Commissioner to figure out what products are taxable and which ones are not. The Tax Commissioner will figure out this flour, sugar business, honey, and they'll figure out whether the product is taxable or not and then relay that information to the retailers. Now I would then guess that the retailer will commission someone to automatically set their computers to tax those items and-- and not others. So I think that your premise just doesn't work with me.

**KATHY SIEFKEN:** It is not up to the Tax Commissioner to decide what items are taxable and what is not. It is up to the Tax Commissioner and through audits to determine if we have properly taxed items. So at the end of the day, if we go through an audit and we are not taxing items that are taxable, not only do we owe the tax that we did not

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collect, we owe that tax plus a penalty. So in addition to the labor that it would take to determine what all of these items are, our members, our grocery stores would be set up to fail audits because it is so difficult to determine what is and what is not taxable, and it is up to the retailer to determine that.

**McCOLLISTER:** I disagree. I've been through four or five tax audits and I know the process, and I know what retailers and wholesalers do and what products are-- end-- end up being taxable or not. In fact, I think most states put out catalogs that describe the products that are taxed and those that are not. So I-- I'm not sure-- I'm not sure your--

**KATHY SIEFKEN:** They do put out a pamphlet, but there is not a catalog.

**McCOLLISTER:** I'm not sure you're correct. Thank you.

**LINEHAN:** Thank-- thank you, Senator McCollister. Senator Briese.

**BRIESE:** Thank you, Chairman Linehan. Thank you for your testimony. Don't about 35 other states tax candy or--

**KATHY SIEFKEN:** Many-- there are several states surrounding Nebraska that do tax candy. And I'm going to use Iowa as an example. So Iowa has been doing this for 20 years. And what happens in our industry is, if you have a convenience store, their front-end system is not like the convenience store in one of our larger members that have six or seven lanes. So-- so what our members do is they purchase and install the type of front-end system that works for their customer base and for the things that they're doing. We have never collected sales tax-- or not never. We have not collected sales tax, sales tax on food, for years and years. So our front-end systems in the state of Nebraska, and especially in the rural areas, would require upgrades that are astronomically expensive. I talked to the grocery store in Callaway, Nebraska, that was mentioned in the hearing last week, and he checked on the cost of upgrading his-- his system so that he could do the things that need to be done, and he was told the cost was going to be \$25,000. And that's by his-- the people in this state that provide point-of-sale systems.

**BRIESE:** Um-hum. And I take back what I said earlier. My-- my data shows 30 states collect sales--

**KATHY SIEFKEN:** And that could be.

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**BRIESE:** --collect sales tax on candy. And I have a difficult time understanding how they can do it and we can't. You know, at one point or another, one time or another, they had to set up to do that, just like what we're talking about--

**KATHY SIEFKEN:** And they did.

**BRIESE:** --possibly having to do here in Nebraska. And why-- why can't we do it if 60 percent of the other states are doing it?

**KATHY SIEFKEN:** The reason we can't do it is because they grew up with it. They've been doing it for years, and so they have gradually added to their system. And as-- as time goes on, there are more and more product introductions. We have more products in our store today than we had ten years ago. And so now the-- the-- it's just a massive chore to go through those stores and identify that. There is no computer list. There is no catalog. Avalara is the only company that I have been able to find, in talking to other states, that provides any kind of a list. And when I talked to them earlier in 2018, as we got into the details of what their program does, they finally admitted through the question and answers that only 50 percent, half, only half of the taxable candy items are included in their list.

**BRIESE:** OK. Well, thank you for that. But, you know, we're searching for solutions here.

**KATHY SIEFKEN:** I understand that.

**BRIESE:** And we need some help from the business community and from stakeholders here in finding those solutions and-- but thank you for your testimony.

**LINEHAN:** Thank you, Senator. Briese. Senator Groene.

**GROENE:** Thank you. Most people run through the cash register, they keep inventory items. So you have a meat department, you have a produce department, you have milk-- milk department, right?

**KATHY SIEFKEN:** Sure.

**GROENE:** And usually you keep their inventory. Most of them have their-- their cash register is tied to their inventory. Is that correct?

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**KATHY SIEFKEN:** Their--

**GROENE:** Most grocery stores--

**KATHY SIEFKEN:** No, no, their-- their-- no, their inventory is not always tied--

**GROENE:** Not always, I asked most.

**KATHY SIEFKEN:** --to the cash register.

**GROENE:** OK.

**KATHY SIEFKEN:** The small stores in rural--

**GROENE:** All right.

**KATHY SIEFKEN:** --rural Nebraska have not done that. They can't afford to do that kind of an upgrade.

**GROENE:** Let's take another tack. If it's a whole product, if it's meat, milk, produce, we exempt them and everything else gets taxed, everything that's prepared, all the candy, because if you want to avoid and you're really buying groceries because you're poor, you buy the meat, you buy the milk, you buy the-- the cottage cheese, you buy the lettuce. If we take those three items out, if it's a whole-- if oats is 90-- if Cheerios is 96 percent oats, it's exempt. Why not do it that way?

**KATHY SIEFKEN:** Because you have to follow-- if you want to collect Internet sales tax, you have to follow the definitions set out in Streamlined.

**GROENE:** I'm not saying buying them on the Internet. I'm not buying at the Internet. I'm buying at the grocery store.

**KATHY SIEFKEN:** But the definitions, it doesn't make any difference if you're buying it at the grocery store or-- or anyplace else. The definitions of candy are set out in state statute.

**GROENE:** I'm not-- that-- I'm not doing that. I'm exempting certain products, not taxing certain products. I'm taxing--

**KATHY SIEFKEN:** They are in categories.

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**GROENE:** --everything else that isn't exempted.

**KATHY SIEFKEN:** Senator, they're in categories.

**GROENE:** OK.

**KATHY SIEFKEN:** So food is food, candy is candy, and what Streamlined Sales Tax allows us to do is tax or not tax based on category, not based on individual item.

**GROENE:** So when I-- I buy prepared food in a restaurant, I pay sales tax, right? If I buy a TV--

**KATHY SIEFKEN:** That is a category. Yes, it's a category

**GROENE:** Do-- do I pay sales tax at the grocery store for a TV dinner? It's a prepared food.

**KATHY SIEFKEN:** No, because it is not ready to eat. It is not a prepared food. It requires additional cooking.

**GROENE:** But at the end of the day, we're not taxing the grocery store, are we? We're taxing the consumer. So what's your concern?

**KATHY SIEFKEN:** The concern is the method that we are going to have to implement and develop to determine what is taxable and what is not taxable.

**LINEHAN:** Thank you, Senator Groene. Senator, are you-- Senator Friesen.

**FRIESEN:** Thank you, Chairman Linehan. So back in the day, your fee for collecting sales tax was a lot different than it is today.

**KATHY SIEFKEN:** Much lower--

**FRIESEN:** It-

**KATHY SIEFKEN:** it was much higher than it is. It's much lower today, correct.

**FRIESEN:** If changes were made there, would that help you purchase the equipment to do the tracking better? I don't remember what it was, but I know now you're capped at, what, \$75 a month?

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**KATHY SIEFKEN:** Seventy-five dollars a month, and it used to be a percentage of all-- all items sold.

**FRIESEN:** OK.

**KATHY SIEFKEN:** Most of the items that we sell are not taxable; therefore, they would not be included in that calculation. So to grocery stores, while we would like to see that go up, it wouldn't make that big of a difference. The only-- we collect sales tax on like paper goods and dog food and that type of thing.

**FRIESEN:** Well, it would make a big difference if we just taxed all food, right? Thank-- thank you.

**LINEHAN:** Thank you, Senator Friesen. Aren't there definitions of what-- what is part-- isn't part of the Streamlined Sales Tax Agreement? I mean, aren't there definite-- you said that Kit Kat is not. So if--

**KATHY SIEFKEN:** Kit Kat doesn't meet the definition of a candy bar because it has flour in it.

**LINEHAN:** I-- I know, but-- but so the Streamlined Sales Tax Agreement--

**KATHY SIEFKEN:** Yes.

**LINEHAN:** --it has categories.

**KATHY SIEFKEN:** It does.

**LINEHAN:** And we can argue about whether everything is in the right category, but there are categories. Is every food item in a category?

**KATHY SIEFKEN:** Every-- every item that is for human consumption will fall into one category or another.

**LINEHAN:** So when you see those numbers on-- I mean, is this industrywide? I assume-- you said it was--

**KATHY SIEFKEN:** Yes.

**LINEHAN:** --like 28 states.

**KATHY SIEFKEN:** Yes.

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**LINEHAN:** So the number that they use when they scan whatever I'm buying in at the grocery store, does that help figure out what category it's in?

**KATHY SIEFKEN:** That number that you scan in at the grocery store is a family number; in other words, it's a family of products.

**LINEHAN:** How do they know at the cash register that dog food is sales taxed? How do they know that?

**KATHY SIEFKEN:** Because it's programmed in initially as a taxable item. But we all know that dog food is taxable, so it's not hard to do. We can program it into the front end system.

**LINEHAN:** Right, but is it in a Streamlined-- the Streamlined definition, is it in there?

**KATHY SIEFKEN:** It's not on-- it's-- it's not in a food category, so it would be a taxable item. It is not--

**LINEHAN:** That's not my question. My question is, is, in the Streamlined Sales Tax Agreement, is there a category for dog food?

**KATHY SIEFKEN:** No, doesn't need to be, because it's not food.

**LINEHAN:** OK. How about for milk?

**KATHY SIEFKEN:** Milk is a food.

**LINEHAN:** Is there a category for milk in the Streamlined Sales Tax Agreement?

**KATHY SIEFKEN:** No, but milk falls under the category of food. So there are categories with definitions.

**LINEHAN:** How does Iowa do it? See, you keep going around, and you're doing a great job, by the way. But Iowa and all these other states tax candy and food, and they have little grocery stores. They're-- they've got rural areas. Kansas doesn't look that much different when you get to the western part than when you're driving across Nebraska. So they've figured out a way to do this, so to say we can't do it, there's no way to do it, that's-- that's not ringing true with the committee.

**KATHY SIEFKEN:** There is-- there is a way to do it.

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**LINEHAN:** OK. Thank you.

**KATHY SIEFKEN:** There is a way to do it. My point is it would be very, very labor intensive. You cannot have a high school kid do it. It would-- it would take a store probably 80 hours to go through, eight hours a day, and look at every label, and it would have to be one of the higher-paid items. And then that individual would have to determine what bracket it would go into. They would give that-- that number or-- or that product to the IT person, who would then either go in and tax it as taxable or not taxable.

**LINEHAN:** OK, thank you.

**KATHY SIEFKEN:** So it's the labor at the front end that-- that is the killer.

**LINEHAN:** OK, thank you. Are there other questions from the committee? Yes, Senator Briese.

**BRIESE:** Yeah, thank you, and just to follow up on that, so it is just basically the front-end labor is the big concern. Once you do it once and have it plugged in, life is good, isn't it?

**KATHY SIEFKEN:** Life is good for our bigger stores. For our smaller stores, it's not so good because they can't even find people to hire.

**BRIESE:** OK.

**KATHY SIEFKEN:** So that will fall to the store owner. And then you've got all of the new product introductions, and there's thousands of those a year that you would have to read all of those new labels. And then as-- and-- and some, the life of some products is only 12 months. It comes, it goes, no one buys it, so it's in and out and it's constant. It-- it would require a lot of labor to keep track of all of these things.

**BRIESE:** But once you make that initial determination, you're on your way, essentially, it would seem.

**KATHY SIEFKEN:** Once-- once you make the initial determination, then-- then the hard work is done.

**BRIESE:** Thank-- thank you.

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**LINEHAN:** Thank you, Senator Briese. Senator Kolterman.

**KOLTERMAN:** Thank you. Thank you for coming today, Kathy. Can you tell me, do you have on the top of your head what a point-of-sale system would cost per-- I mean you-- you buy it per cash register. The programming, I mean, you buy a whole system.

**KATHY SIEFKEN:** Yes, you do.

**KOLTERMAN:** So--

**KATHY SIEFKEN:** And it depends upon what system you purchase. For the smaller stores, it could be as much as \$6,000 for a small store or for a C store, \$8,000 for a larger store, and that is per lane.

**KOLTERMAN:** Per lane.

**KATHY SIEFKEN:** Um-hum.

**KOLTERMAN:** And then that's what-- and then that has ongoing maintenance and has to be "upkept."

**KATHY SIEFKEN:** Yes, it does, um-hum, and updates.

**KOLTERMAN:** So you buy a contract for that as well.

**KATHY SIEFKEN:** Yes.

**KOLTERMAN:** And you're saying-- I think what I hear you saying is that becomes prohibitive for some of these mom-and-pop stores that are trying to--

**KATHY SIEFKEN:** Yes, it does.

**KOLTERMAN:** --do business in rural Nebraska where there--

**KATHY SIEFKEN:** Yes, it does, because some of the front-end systems that you see in our grocery stores are really nothing more than a glorified calculator.

**KOLTERMAN:** Right.

**KATHY SIEFKEN:** In some of those systems they have what are referred to as four bins, or four keys, that you can break out different items. Those keys are used up. To add more things to that point-of-sale

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system that you're going to have to break out would require an upgrade.

**KOLTERMAN:** OK. Thank you.

**FRIESEN:** Thank you, Senator Kolterman. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Senator Friesen. Thanks for being here. We need to-- to resolve this issue if we can. My wife operated a couple of toy stores, small toy stores, and the-- and the cash registers they used were fairly sophisticated and could do any of the things that we've described here today. I guess I'd appreciate some documentation on some of the things you've said today, so you--

**KATHY SIEFKEN:** What kind of documentation do you want?

**McCOLLISTER:** How many-- I'd like to know how many of those smaller stores have absolutely no-- no ability to keep track of different food items such that that would be taxable or nontaxable.

**KATHY SIEFKEN:** No. Oh, all they can all do taxable and nontaxable.

**McCOLLISTER:** Oh, good. So I think we're done.

**KATHY SIEFKEN:** They can-- they-- well, but then you don't understand the problem.

**McCOLLISTER:** Well, I know. I-- you know, how will you define Kit Kat bars? You know, 30 states apparently, according to Senator Briese, tax candy. Now do they tax Kit Kat bars, which I really like to eat? But, you know, is it-- do they make a distinction of-- of candy as-- as you have asserted? That is-- that's the question. OK. You-- you're saying it's some kinds of candy should be taxable and other kinds should not. Correct?

**KATHY SIEFKEN:** It's not should or should not. It's they-- if they fit the definition in Streamlined, and in order to determine if they fit the definition, you have to read the label. Those labels are-- they're-- they're like in six-point font. You have to read the ingredient label to determine if a Kit Kat-- now everybody in the world knows that a Kit Kat bar is not a candy bar because we've all used it as an example. But you do have to read all of the labels of all of the-- the granola bars, the-- those health bars. Everything in the candy aisle is not necessarily candy. Everything in the cereal

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aisle-- the cereal bars could be considered candy if they have-- if they don't have flour in them.

**McCOLLISTER:** Well, one of us, we need to find out from the Tax Commissioner whether or not it's the obligation of-- of the Tax Commissioner or the Revenue Department.

**KATHY SIEFKEN:** I will call them. I will call them and clarify that--

**McCOLLISTER:** And we'll figure out--

**KATHY SIEFKEN:** and get back to you.

**McCOLLISTER:** That would be great. Thank you.

**FRIESEN:** Thank you, Senator McCollister. Senator Groene.

**GROENE:** Most of those stores, how many distributors do they have? Do they--Affiliated Foods, do most of them--

**KATHY SIEFKEN:** Affiliated Foods is no longer in existence.

**GROENE:** All right, which-- the small stores, who do they operate with?

**KATHY SIEFKEN:** The small stores could use a number of different wholesalers. In this state, I would say there's less than ten. And I'm going to jump ahead of your question and let you know that not one of those wholesalers reads the label and provides a list of what is taxable and what is not taxable. There is no list. They don't do that.

**GROENE:** Well, we do it with alcohol. The distributor collects the tax, not--

**KATHY SIEFKEN:** This is not alcohol. This is food and these are people that don't manufacture the items. They are people that have this stuff come into their-- they order this stuff into the warehouse and then it gets shipped out of the warehouse. It's just not something that they do--

**GROENE:** So I'll go back to--

**KATHY SIEFKEN:** --any more than WIC does it or SNAP does it.

**GROENE:** I'll go back to basic ingredients. If we exempted, took the opposite way and took meat, cereal-- flour, produce, milk products,

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none-- no ingredients added, and then everything else is taxed, that would seem to me very simple to do, very simple to do.

**KATHY SIEFKEN:** But then you're outside the definitions of Streamlined Sales Tax and you will not be able to collect Internet sales tax because you--

**GROENE:** Omaha Steaks sends out their steak, they don't get taxed.

**KATHY SIEFKEN:** Because--

**GROENE:** The pizza sends out a pizza, they get taxed, simple as that.

**KATHY SIEFKEN:** If it's a-- it's as simple as if it's a prepared food and it fits the definition and the category in Streamlined, and Omaha Steaks does, it is not--

**GROENE:** That's what--

**KATHY SIEFKEN:** --Omaha Steaks is not a prepared food.

**GROENE:** Good, they don't get taxed.

**KATHY SIEFKEN:** So they don't get taxed because they fit in the category-- because they fit in the category of what's in Streamlined Sales Tax. They fit in that category when you order a pizza, it is a prepared food. It fits into the definition of the category of things that get taxed.

**GROENE:** I'm talking about a grocery store.

**KATHY SIEFKEN:** You-- you used the pizza, so I followed up.

**GROENE:** Pizza? I can go buy a Tony's pizza in the grocery store.

**KATHY SIEFKEN:** And that is not a prepared food by definition of Streamlined Sales Tax.

**GROENE:** We can define it. We are the Legislature. We will define it for you. All right?

**FRIESEN:** Thank-- thank you-- thank you-- thank you--

**LINEHAN:** Are--

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**GROENE:** So you have trouble doing it--

**LINEHAN:** Are they--

**GROENE:** --we'll do it for you.

**FRIESEN:** Thank you, Senator Groene. I'm--

**LINEHAN:** Other questions? OK. Go ahead. I'm sorry, go ahead.

**FRIESEN:** Excuse me. I'm-- I've dealt a little bit with the Streamlined Sales Tax and we do have two representatives on there now.

**KATHY SIEFKEN:** Yes, we do.

**FRIESEN:** And so if we could go and change the definitions, that would be one way of doing it. But we have to--

**KATHY SIEFKEN:** It's national.

**FRIESEN:** --we do follow those definitions.

**KATHY SIEFKEN:** Yes, we do.

**FRIESEN:** And an example I'll give you is in our own cafeteria here. I go and buy a yogurt. If they hand me the spoon--

**KATHY SIEFKEN:** True.

**FRIESEN:** --I have to pay sales tax.

**KATHY SIEFKEN:** Um-hum.

**FRIESEN:** If I go get the spoon from the other side of the room, I don't.

**KATHY SIEFKEN:** No tax. That's true.

**FRIESEN:** That's how crazy this is.

**KATHY SIEFKEN:** You're right, I will agree.

**FRIESEN:** I'm not-- I-- I understand where you're going because you do have to read the label and the-- the Tax Commissioner does come and audit to see if you've been collecting taxes and if you have not, you pay.

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**KATHY SIEFKEN:** Yes.

**FRIESEN:** We've run into that in other issues now that the Tax Commissioner seems to be looking at a lot of other products and things out there and they're going back and auditing and if they see you've not been collecting, you pay plus a penalty. I understand that. I think that's pretty clear. I know that computer technology, we've not grown into this system so that's going to be a big item. I think we can kind of go from there and move forward hopefully.

**KATHY SIEFKEN:** Thank you.

**FRIESEN:** Thank you.

**LINEHAN:** Thank you, Senator Friesen. Any other questions from the committee? Thank you very much for being here.

**KATHY SIEFKEN:** Thank you.

**KEN SCHILZ:** Good afternoon--

**LINEHAN:** Good afternoon.

**KEN SCHILZ:** --Chairperson Linehan and members of the Revenue Committee. My name is Ken Schilz, spelled K-e-n S-c-h-i-l-z, and I'm a registered lobbyist for Nebraska Licensed Beverage Association, or NLBA. NLBA is a nonprofit trade association representing liquor retailers, bar owners across the state. Our members are small businesses who provide jobs in hundreds of communities throughout Nebraska, contribute to the revenues of the state and payrolls, and are good stewards and community leaders. Our members are also the last in line when it comes to alcohol taxes. Liquor taxes are added as products move through the three-tier system. Regardless of when the tax is imposed, it is the bar and restaurant owners who are forced to pass those costs on to the consumer. Any increase in the excise tax will be passed on to our members and customers. But that will not be the only increase. In addition to the excise tax, our members are also asked to assess state sales tax and any local occupation or restaurant taxes on its products at the time of purchase. Those taxes are based not only on the price of the alcohol, but also on the attached excise tax. Customers are taxed over and over again. LB614 does not just increase the liquor excise tax. In practice, it also increases the other taxes applied at the time of sale on the products that our members rely on to make their livelihood. For this reason, the NLBA is

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opposed to the increase in the excise tax proposed and in LB614. Thank you for the opportunity to testify before you today, and I'll try to answer any questions you may have.

**LINEHAN:** Thank you very much, Mr. Schilz-- Senator Schilz. Are there other-- are there questions from the committee? Think we're worn down. Thank you.

**KEN SCHILZ:** Thank you.

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

**BILL ROBINSON:** Senator Linehan, Senator Crawford, and members of the Revenue Committee, for the record, my name is Bill Robinson, B-i-l-l-R-o-b-i-n-s-o-n. I'm the associate superintendent of finance, facilities and maintenance for Norfolk Public Schools. And today I'm testifying in a neutral position to this bill as written on behalf of the 24 member school districts that comprise the Greater Nebraska Schools Association, otherwise known as GNSA. The GSA membership felt it was important to testify, even in a neutral position, on this bill because of some of the important aspects of the bill is trying to address. The GNSA also felt that testifying today would help explain why the organization could not fully support or oppose the bill at this time. I'd like to start out by reflecting on the strengths the GNSA believes this bill has in it. LB614 is a possible solution on the table that provides a mechanism of property tax reform while protecting key services, like healthcare and K-12 schools, by expanding the tax base. LB614 increases the state aid commitment to schools to offset property tax use. LB614 increases the allocated income tax to 20 percent, as originally envisioned in TEEOSA, will broaden the definition of resources to include income as well as property, helping property taxpayers and nonequalized school districts. LB614 increases special education reimbursements from around 50 percent to 80 percent for all school districts. This will help reduce reliance on property taxes but also mitigate large budget fluctuations, especially in smaller school districts, and disparities in services between districts. Even though there are many strengths to this bill, there are some areas of concern the GNSA believes would need more discussion and is cautious about at this point. LB614 does create new supplemental state aid for school districts, which is essentially a dollar amount each district would receive per student. GNSA would need to have more discussion on this piece and its effect on the entire revenue system and actual property tax relief provided.

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The GNSA also has some concern with overall liability-- ability to maintain the components of this bill if state funding is diminished in a given year. This possibly could cause more pressure on local resources. Thank you for your time and service as state senators. We do have a strong public education system in Nebraska which is an asset we do not want to compromise. Thank you for your time and for letting me testify on behalf of the GNSA.

**LINEHAN:** Thank you, sir, for being here. Are there questions from the committee? So your first bullet on why you're concerned, you want to expand on that?

**BILL ROBINSON:** To my knowledge, some years even before TEEOSA, years there was some component of-- would be otherwise known as foundation aid--

**LINEHAN:** There still is.

**BILL ROBINSON:** --and just some concerns with that, how that would look, and would it take away-- would it really be taking away from our current equalization aid pot of money to fund that, and how that would look.

**LINEHAN:** So what you're trying to say subtly is you don't want any money taken away from the Greater Schools to go to the STANCE schools or the NRCSA schools.

**BILL ROBINSON:** At this point, no, we do not want to lose any equalization aid.

**LINEHAN:** OK. Thank you. Other questions from the committee? Thank you for being here.

**BILL ROBINSON:** Yeah, thank you.

**HOBERT RUPE:** Good afternoon, Chairman Linehan, members of the committee. I wasn't planning on testifying, but Mr. Brady might have opened up a couple issues for me to discuss. My name is Hobert Rupe, H-o-b-e-r-t R-u-p-e. I serve as executive director of the Nebraska Liquor Control Commission. The commission has never taken a position as to what the actual tax rate is. We said we-- that's above our pay grade. That's why you guys get paid the big bucks. I am the entity that is in charge with collecting excise tax, or head of it, and I guess I-- I would sort of echo because people always like to know where do we compare, what's our tax rate, looking nationally or to

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other people. Excise tax on spirits are always one of the hardest to sort of calculate because of the-- there are 17 jurisdictions which are-- which are called control states. In a control state, the state itself serves as a wholesaler. You know, they buy the liquor and they sell liquor. Some, like Iowa, that's pretty much all they do, whereas you go all the way down to Pennsylvania where they actually run the retail locations, and so it's sort of hard to compare apples to apples that way. You have to come up with sort of an estimated tax rate, what that would be. So I would prefer just to look at comparing apples to apples. So if you look at the other 33 jurisdictions, currently we would be 19th among those other 33 at the-- or \$3.75. The proposal would put us at fourth amongst those licensing states. So the other issue I would bring up is we did put a fiscal note in there. That fiscal note is based upon the-- there is one large, I guess, assumption made that I'm not positive-- you know, that I'm not 100 percent sure on. That is that consumption remain the same. That is based on 2018 consumption rates. You-- you know, you assume it might stay the same or continue-- or continue to rise, but anytime you have changes-- price changes, you can't guarantee that. Combine that also with generally you're also seeing a shift in the demographics of consumption of alcohol, so, you know, younger-- younger millennials are not drinking as much and other people have shifted their products to other ways. The other issue that Mr. Brady sort of brought up on that one is there is direct shipping licenses, the S1 license. We have approximately 500 of those. Those are where you would buy-- if you're-- say you're buying a small winery. You could buy-- to have it direct shipped. They do pay an annual excise tax on it and they are supposed to pay a sales tax on it, too, as part of their license. That was part of the agreement when we redid that a couple years ago. I let the Department of Revenue handle the sales tax because I barely have enough resources to make sure that they're not shipping illegally. Is it happening? Yes. It's like playing Whac-A-Mole. We get a complaint. We generally do a controlled buy, who they service. We'll send them a cease-and-desist letter with me-- with me acting all threatening in it. And most times they then acquire a license, so-- which is our goal, is to bring them into compliance. We'd rather have them serving into the state legally and paying the excise tax appropriately. With that, I'd be happy to answer any questions regarding how the commission collects the excise tax.

**LINEHAN:** Thank you for coming up and explaining that. That's helpful. Are there any other questions from the committee? Seeing none, thank you very much, Mr. Rupe. Other opponents? Oh, I'm sorry. Neutral?

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Lost-- I lost my way here. Are there any other wishing to testify in the neutral position? With that, we have letters for the record, proponents Jenni Benson, Brian-- I'll just read-- because it's long, I'm going to read the-- the --what they-- who they represent: Nebraska State Education Association; American Heart Association; Project Extra Mile, Nonprofit Association of the Midlands, Cancer Action Network, Nebraska Farm Bureau, Nebraska Cattlemen, Corn Growers Association, Nebraska State Dairy Association, the Nebraska Soybean Association, Pork Producers Association, Nebraska Wheat Growers Association, Center for Rural Affairs, AARP-Nebraska, STANCE Schools, and Rich Patton. Opponents; George Kubat. Philips Manufacturing, Platte Institute, Nebraska Independent Community Bankers, National Association of Tobacco Outlets, Associated Beverage Distributors of Nebraska, RAI Services Company, HDR, and Alliance-- or Rich-- Rich Schommer from Alliance. There was no one test-- submitted a position of neutral. Thank you, Senator Crawford.

**CRAWFORD:** Thank you, Madam Chair. And thank you, committee members, for your patience and your good questions and your time and attention this-- this afternoon. I wanted to answer one question that Senator Friesen had asked earlier about the EITC. The average increase should be about \$118 for a person, so it would be quite a bit more if you were going to try to cover \$500 of food. So this would not be sufficient for that. I want to remind the committee that the-- the school components in this bill match the recommendations of the 200-- of the 2013 Tax Modernization Committee. Their priority recommendation was that a key step in reducing property taxes and reducing reliance on property taxes was to increase the funding to schools. And that's part of what this bill attempts to do. That raises the question of, where does that money come from? And as Senator Friesen noted, whenever you identify a place where you're going to raise revenue, whoever that impacts is going to be against raising revenue in that way. So we obviously have some tough decisions in front of us in terms of figuring out what that looks like in our-- in our discussions ahead. But I do think that it's important that we keep in the mix the components of LB614 in terms of thinking about and in those discussions of how we move forward and how we reduce property taxes in our state.

**LINEHAN:** Thank you. Senator McCollister.

**McCOLLISTER:** Yeah. Thank you, Madam Chair. As I reviewed that spreadsheet that we got early on in the hearing, it almost seemed to

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me that we-- there is an urban bias in that spreadsheet. Some of the urban school districts did rather well in that-- in that calculation. Is that an incorrect view of things?

**CRAWFORD:** I don't receive the handouts, so I guess I can't comment on that. I don't know what spreadsheet you're looking at, so--

**McCOLLISTER:** It's-- it was spreadsheet from Appleseed. I had presumed that you'd seen it.

**CRAWFORD:** No, I haven't seen it, so I'm sorry.

**McCOLLISTER:** OK. Thank you.

**LINEHAN:** Thank you, Senator McCollister Senator Groene.

**GROENE:** Thank you, Chairman. Senator Crawford, you said a couple times about that report at school that wanted-- was to increase funding to the schools. It's-- it increases state funding to the schools, not total funding.

**CRAWFORD:** Sure. Correct.

**GROENE:** Your bill increases total funding. And I repeatedly heard testifiers say we're underfunded, we're underfunded, we're underfunded. So I have a hard time understanding. There's no cost controls in your bill that's a heck of a lot of it isn't going to be spent before one dime of property tax is-- relief is given there. What's the mechanism in your statute to make sure that property taxes relief is-- is garnered?

**CRAWFORD:** You're right. The main mechanism, the spending mechanism in the bill is primarily the-- the transparency mechanism.

**GROENE:** I can-- I can tell you, I've studied enough spreadsheets that I can tell you where every school district spends its money right now. It's very vague, your transparency. It's just tell us-- I can go to a budget hearing and get that right now. So all they're going to say is we need more spending, I had to give raises and we're the top of the array, or they're going to tell us they're the top of the array or we needed to send a kid to Munroe-Meyer instead of hire an aide for \$25,000 or 30,000. But, you know, I don't know how that--

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**CRAWFORD:** But that's where we may pull in something from one of the other bills.

**GROENE:** I don't know how that-- that's transparency but that isn't good management. That doesn't encourage good management. I just don't see the spending--

**CRAWFORD:** OK.

**GROENE:** --or the transfer, one-to-one, of property tax relief in this bill. It's just-- unless you can tell-- show me otherwise, I don't see it. Thank you.

**CRAWFORD:** Thank you.

**LINEHAN:** Thank you, Senator Groene. Thank you very much.

**CRAWFORD:** Thank you.\*\*

**LINEHAN:** So with that, we close the hearing on LB614 and we will open the hearing on LB162.

**HUNT:** Is it me?

**LINEHAN:** It's you.

**HUNT:** OK, great.

**LINEHAN:** You're up. Welcome.

**HUNT:** Thank you, Senator Linehan.

**LINEHAN:** You need to sleep this weekend.

**HUNT:** What's that?

**LINEHAN:** You need to sleep this weekend, get over your cold.

**HUNT:** Oh, my gosh. I've got to go work my day job this weekend, so I don't know when I'm going to sleep, but thank you. Good afternoon, Senator Linehan and members of the Revenue Committee. It's nice to be back in front of you. I'm Senator Megan Hunt, M-e-g-a-n H-u-n-t, and I represent District 8 in midtown Omaha. Today I'm presenting LB162, which in its original form would have been imposed a sales and use tax on body piercing, tattooing, indoor tanning, and electrolysis hair removal services. However, after many of my constituents in the

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tattooing and piercing community reached out to me about concerns with this bill, I decided to amend it so it would only include taxes on indoor tanning services. I brought this bill because I would like to take tangible steps to diversify our revenue streams and start to replenish our Cash Reserves in Nebraska. We need more revenue and that's what we're all here to talk about. The Nebraska Department of Revenue's tax expenditure report from 2016 estimated that a tax on indoor tanning services could bring in an additional \$1,316,000 in revenue for the state. I understand that's just a drop in the bucket of what we need to generate in Nebraska, but I'm also hoping that this will start a conversation about a broader, much-needed modernization of our tax system. One way our sales tax code is outdated, which contributes to our high reliance on property taxes to fund K-12 education, is that it doesn't apply to many services, despite the fact that our economy has moved from being primarily goods based to primarily service based. Collecting a sales tax on a nonessential service like indoor tanning is a small step in this direction. Nebraska should tax indoor tanning for the same reason we tax cigarettes. It's a tax on the serious public health risks associated with the use of these services. We do not allow our children to buy cigarettes, yet the tanning industry continues to target adolescent girls. And this is not unlike what we found in the tobacco industry in the '90s and 2000s. The rate of melanoma in Nebraska has increased by 17.8 percent in the last five years. This figure is particularly alarming when we look at who is utilizing these services. Twenty-two percent of 12th grade girls in Nebraska have reported using a tanning bed at least once in the last year. This is above the national average of 16 percent, so 22 percent in Nebraska, 16 percent national average. We can look to the federal excise tax on indoor tanning services for proof that this will be successful deterrent for young people. The Centers for Disease Control and Prevention reported that the number of high school students reported having artificially tanned decreased by more than half since the enactment of the federal tax from 15.6 percent in 2009 to 7.3 percent in 2015. Skin cancer is a major public health problem and we know that tanning is a drain on public health resources. I know that this is one of those bills that comes up every year and I'm familiar with the opposition's arguments. The bill isn't intended-- intended to solve every problem related to tanning, just to tax it as a nonessential service. It's never popular, of course, to be the person who's trying to raise revenue through raising taxes on somebody or a special group. But we can't balance the budget on cuts alone. The key will be finding revenue in the right places, and that's a problem for us to continue to solve in the Legislature. The bottom

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line is that we're leaving \$1.3 million in revenue on the table by not taxing a service that's not only unnecessary but is harmful to public health and creates a drain on our healthcare system. It's time that we stop overlooking revenue opportunities like this and move toward a modernized sales and use tax code that recognizes the changing nature of our economy. And I would love to answer any questions you have. Thank you.

**LINEHAN:** Thank you very much, Senator Hunt. Are there questions for Senator Hunt? Seeing none, will you stay for closing?

**HUNT:** I think I will. If it gets real long, I don't know if I can, but I intend to.

**LINEHAN:** OK.

**HUNT:** Thank you.

**LINEHAN:** All right. Thank you very much. Proponents? Are there any proponents? Are there opponents?

**HEATHER ALMOND:** Thank you, Honorable Chair, and members of the committee. My name is Heather Almond, H-e-a-t-h-e-r A-l-m-o-n-d. I manage all the Palm Beach Tan locations in Nebraska. I'm here today to oppose LB162 and would also like to go on record in opposition of LB507 and LB508. I can tell you firsthand the detriment that this tax will have on our Nebraska small businesses, but first I would like to give you a little history. In the 1990s the Legislature passed an admissions tax placed on places for purposes of amusement, entertainment, or recreation. The Tax Commissioner incorrectly applied the admissions tax to tanning salons. Tanning salons tan people for a variety of reasons, including self-treated medical conditions, and, therefore, should have never been subject to the tax. At the time, these small businesses did not have the money or resources to appeal this decision and relented to collecting the tax. Then, in 2010, a 10 percent federal excise tax was placed on tanning salons to raise revenue for the Affordable Care Act. This led to a combined 17 percent double tax on tanning services. In 2011, I testified in this committee about the detriment that 17 percent had on our small businesses. In one year, 43 salons closed and it is estimated around 300 people lost jobs because of these closures. Fortunately, this admissions tax was removed in 2012, but the damage had already been done. An unintended consequence of the federal tax is that gyms found an opportunity to capitalize on our industry's misfortune. They found that they could

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add tanning services as a perk for customers and be exempt from the tax. This has put a further burden on our industry. Used tanning beds have flooded the market and small business-- as these small businesses closed. This has also added to the amount of tanning beds that can be found in apartment complexes, as well as home units, that are easily purchased due to so many salon closures. Before the federal excise tax was enacted, there was approximately 152 professional tanning salons in Nebraska. We now sit at 69 professional salons left in the state. I will add that nationwide our industry has shrunk from 18,245 salons down to 7,644 currently. In my own company we have closed two salons in Nebraska. As you can see, placing an additional tax on our industry will only continue to close these small businesses, which are mostly women owned. Our small businesses should continue to be exempt from the sales tax on service because this federal excise tax has already been a detriment to our industry. Also note that we currently collect sales tax on all of our retail sales, so based on this information, I believe this tax will actually make the state lose revenue. If more professional salons continue to close, the state will lose money on retail sales that we already collect, income tax, use tax, and property tax. I'm happy to take your questions.

**LINEHAN:** Thank you very much. Are there questions from the committee? Just quickly, explain the admissions tax again. I got the federal tax, the 10 percent excise tax for--

**HEATHER ALMOND:** There was an admissions tax for places of amusement, so like if you were to go-- go to an amusement park or bowling, something like that, and the Tax Commissioner deemed that tanning salons should be paying that tax, so we were--

**LINEHAN:** But it was repealed later.

**HEATHER ALMOND:** But it was-- the Tax Commissioner changed it in 2012.

**LINEHAN:** OK. All right. Thank you very much--

**HEATHER ALMOND:** Yep.

**LINEHAN:** --for being here, unless-- other questions? No. Seeing none, thank you. Other opponents?

**BARTON D. BONN:** Good afternoon, Honorable Chair and committee members. My name is Barton D. Bonn, that's B-o-n-n. I'm the immediate past president of the American Suntanning Association which represents

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retail indoor tanning salons across the nation. I'm also a cofounder of the association where for the past nine years I've worked on tax and regulation issues affecting my industry. In 1990, my wife and I opened our first salon in Bellevue, Nebraska. I am here today to oppose LB162 and would also like to go on record in opposition to LB507 and LB508. These tax increases will cost jobs and close tanning salons, my industry. Our situation is unique. We already pay a 10 percent federal excise tax on gross tanning services. No other, no other Main Street industry in America pays such a tax. Please note my ASA handout here. I'd like to discuss that a little bit. When I'm in DC talking about this tax and the detriment of the tax-- I'd like you to look down at the lines towards the bottom, the colored lines. You can see where we've dropped from-- from over 18,000 salons down to just over 7,000 or 7,600 salons. With that, 10,000 salons closed in the last nine years over this 10 percent excise tax. It's an enormous tax. I pay it every quarter and it's essentially like paying your income tax an extra four times a year. It dwarfs my income tax on my company. You pay it whether you make money or not. And what this tax has done is it's undermined the cash flow of these businesses. In my company, I saw an immediate 6 percent reduction in the number of my customers, and the problem with that is that you lose all of their revenue. And if you operated a company that was doing less than 10 percent net profit, you likely went into the red and that's why all these businesses went out of business. Here in Nebraska, half of the businesses that got out of business in the nine years went out in that first year before we got that relief from the admissions tax here in-- here in Nebraska. But I also want to go on, note a few other things from my handout here, and that would be the number of job losses. We've lost over 100,000 jobs nationwide due to this, due to this 10 percent excise tax. And that's nearly 1,200 jobs here in Nebraska. I also want to discuss the 10 percent tan tax. As worded, it initially--

**LINEHAN:** I'm sorry. I'll ask you a question.

**BARTON D. BONN:** OK. Certainly. Certainly, Chair.

**LINEHAN:** Your time's up here. Or if somebody-- maybe somebody else has a question. Does anybody else have a question? OK. Yes. Senator Briese.

**BRIESE:** Yeah. Thank you, Chairman Linehan. And thank you for your testimony. You indicate in your testimony here that, you know, we've lost X number of businesses, X number of jobs "because of the tax." How can we be sure that it's because of that tax. You know, other

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things influence tanning, I'm sure--societal norms, the proliferation of other options--

**BARTON D. BONN:** Yeah, I'd be happy to address that, Senator.

**BRIESE:** --concerns about health risks to the extent those are expressed out there in public. So they're-- well, I guess what I'm asking is, how do we know that we lost that many jobs and businesses because of the federal tax?

**BARTON D. BONN:** Well, I'll give you the test, my experience with it. I went through three recessions and the last recession was the '08 Recession. I grew. My company was growing through every one of those recessions. I had no impact. The impact of this tax was immediate. I could see it the very next quarter. I could see it every year after that. And for the first two years, it was very obvious that the money we lost, it was almost like we stopped making this profit, and that's exactly what, almost to the dollar, what we began paying in a tax. After about two years, yes, it does become more dynamic, and what had happened was the gyms, for instance, geared up. They saw an opportunity and they started putting tanning in their-- in their gyms. And the federal revenue commissioner, Tax Commissioner exempted gyms as well as other competitors. So all the-- nearly everyone I compete against is exempt from this tax and yet we've got this tax. Now as far as the health claims that you alluded to, that's the campaign that occurred following the implementation of the tax. It was kind of a cover yourself. Initially the tax came out of the house as a 5 percent elective cosmetic surgery tax, taxing-- it was nicknamed the "Botax" tax. It impacted cosmetic companies, pharmaceutical companies, and anyone in cosmetic taxes. It was intended to raise \$5 billion a year over ten years. They provided a number that said, no, if you taxes small businesses, you'll raise \$2.7 billion over ten years. Well, they haven't raised a billion dollars in the nine years we've been doing it, they will not raise a billion dollars in the nine years that they're doing it, and instead they put these hundred thousand people out. In other words, they got snookered by these big companies that wanted to dodge it. And ever since then, they've waged this campaign of misinformation to cover their tracks, and it promotes the sales of their business.

**BRIESE:** OK, and that's part of my point. That campaign could have impacted the viability of the industry after [INAUDIBLE]

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**BARTON D. BONN:** Yes, that's contributed to it. We've continued to lose businesses ever since. We're losing them at about 7 percent a year.

**BRIESE:** And let's be clear here. We're talk-- we're referencing a 10 percent increase back then in the tax, correct?

**BARTON D. BONN:** Yeah, 10 percent gross tax.

**BRIESE:** Yep, yes. And now we're talking about 5.5 to 7 percent increase [INAUDIBLE]

**BARTON D. BONN:** Yeah. All my businesses, it will be 7 percent, combined--

**BRIESE:** OK.

**BARTON D. BONN:** --17 percent tax.

**BRIESE:** OK. So I can pay one or the other. If I pay both, we go back to closing businesses. There's only 69 of them left. There's only about 30 people in the state that own these salons.

**BRIESE:** OK. Thank you.

**BARTON D. BONN:** So it's a big burden on just a few people.

**BRIESE:** Thank you.

**BARTON D. BONN:** Thank you, Senator.

**LINEHAN:** Thank you, Senator Briese. Other questions? So memberships, did we pay sales tax when I belonged-- I don't know. I should know this. But when I join the gym, do I pay sales tax on my gym membership?

**BARTON D. BONN:** I think that's an amusement tax. But honestly, I went through that in detail about eight years ago. I'm not-- I don't remember if they're currently paying it.

**LINEHAN:** OK. Well, I should know but I-- I don't. I just--

**BARTON D. BONN:** Yeah.

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**LINEHAN:** --because if you're saying that they've got the tanning beds in the-- in the gym but they're not-- they-- they evidently include that in their cost for the gym membership, so--

**BARTON D. BONN:** Yeah, they-- they specifically went to the IRS Commissioner and sought an exemption. The initial legislation called that they should be taxed at 10 percent. But for some reason the Tax Commissioner said, OK, we'll let you off the hook--

**LINEHAN:** OK.

**BARTON D. BONN:** --so while those other people, like hair salons that had tanning or mixed businesses, they still had to pay the tax also.

**LINEHAN:** OK. All right. Other questions for Mr. Bonn? Senator Groene.

**GROENE:** Thank you, Chairman. The-- there's a lot about the health issue they push about the health issue. Are you-- well, I would assume the industry is becoming pretty well self-regulated, they train their--

**BARTON D. BONN:** Yeah, we're the-- yes. Yes, Senator. We're-- we're the primary best educated to provide indoor tanning. What's occurred is it pushes it out into other places in the economy. It will go to-- like apartments have-- provide tanning beds without any regulation. The people at the gyms, it's usually just go on over there and use it. If you come to my salon, you're going to get coached. When I first started my business, nearly all my customers came in believing that they needed a sunburn first. That was the myth of the '90s. And we're the primary people that reeducated them, that said, no, you need to tan wisely, don't suntan. So, yes, we do regulate and we try to be the responsible leaders in the use of the of the equipment. It is a Class II medical device regulated by the FDA, as well, and that's the--

**GROENE:** So--

**BARTON D. BONN:** --primary people we work with on regulations.

**GROENE:** --if an apartment complex has one by their pool or something, in their gym--

**BARTON D. BONN:** Yeah.

**GROENE:** --they're-- are they regulated?

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**BARTON D. BONN:** Well, there's no supervision on them is really what I'm getting at. There's different levels of regulation there. The regulations from the federal government say how to operate it, but if there's no supervision, the real key is on the use of the timer. Do you get in and tan longer? Do you come back and tan a couple times a day? If it's unsupervised, then that's the kind of abuse you get.

**GROENE:** Have you lost a lot of business to that? Is that part of the reason?

**BARTON D. BONN:** Yeah, 41 percent of indoor tanners now use it in places other than professional tanning salons. Yes, we've lost business to that.

**GROENE:** So when you hear the criticism, it is that you're getting the criticism but you're not the fault--

**BARTON D. BONN:** I'm saying that that's a riskier way.

**GROENE:** --of the health issue.

**BARTON D. BONN:** Well, the real health issue is different. That's a campaign by the dermatologists because we directly also compete against them. We do it for far less as far as providing UV light. They're the spokespeople that often bring that up, but I'm-- I'm here to say that there's over 1,200 studies on the positive effects of sunlight and-- and-- and vitamin D and the byproducts from sunlight. They depend on five outdated, since debunked, studies.

**GROENE:** But-- but you're-- at least you have supervision when people use it, so we're going to tax--

**BARTON D. BONN:** Yes, we always do. And the real key is control over the timers, don't abuse them.

**GROENE:** So you-- you do regulate that as an industry pretty much that--

**BARTON D. BONN:** Yes.

**GROENE:** --you tell people not to allow too much tanning or--

**BARTON D. BONN:** Yes, largely, yes. The exception to that would be like the coin-operated type of places that I don't really approve of but-- because they lack that supervision. There's someone-- every time you

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come into one of my stores, you have to clear what your time is going to be in the device. Now is that perfect? Well, it's a lot-- it's very close. It's a pretty ideal dose of UV light is what you get.

**GROENE:** So--

**BARTON D. BONN:** It's only a few minutes.

**GROENE:** So if we tax you out of business, something like Prohibition, right?

**BARTON D. BONN:** Yeah.

**GROENE:** Then you got the--

**BARTON D. BONN:** Yes.

**GROENE:** --snake oil gin they're drinking.

**BARTON D. BONN:** Yes. And like I said, we can handle one or the other tax, but we can't handle both of the taxes. It just undermines our cash flow.

**GROENE:** OK. Thank you.

**LINEHAN:** Thank you, Senator Groene. Other questions? Other questions from the committee? Oh, yes, Senator.

**GROENE:** That's fine. Don't wait on me.

**LINEHAN:** Oh.

**BARTON D. BONN:** Are we done, Chair?

**LINEHAN:** Yes, I think we're done. Thank you for being here.

**BARTON D. BONN:** Thank you very much for your time.

**LINEHAN:** Thank you. Other opponents? Is anyone wanting to testify in the neutral position? OK. Then we've got letters for the record. There's a proponent, Britt Thedinger, Nebraska Medical Association; opponent, none; neutral, Sarah Curry, Platte Institute. Senator Hunt, would you like to close?

**HUNT:** Thank you, Senator Linehan. Thank you, members of the Revenue Committee. There's no safe tan. There's no safe way to tan. And we

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don't tax tanning in Nebraska. And what I-- what I am intending to do with this tax is find a new way for us to find some revenue. And the intention isn't to tax phototherapy, which is usually directed by a doctor, and that's something that I would be willing to clarify in this bill. But as I understand it from the people who helped me draft this bill, it already doesn't tax phototherapy. I think that broadening the sales tax base to include services will strengthen our revenue system so that we can continue to invest in infrastructure and vital services to replenish our badly depleted Cash Reserves. And I urge you to give this bill some consideration and think about how we can make it better because I think that this is just a way that we need to move forward not only for our revenue but most importantly, for our public health and for the health of young people. Thank you.

**LINEHAN:** Thank you, Senator. Are there questions for Senator Hunt? Seeing none, thank you for being here.

**HUNT:** Thanks.

**LINEHAN:** And with that, LB162 comes to a close and we will go to LB507. And I'm going to ask Senator Friesen to take over for just a few minutes.

**FREISEN:** Sure.

**LINEHAN:** Thank you. I'll be right back.

**FREISEN:** OK. With that, we'll open the hearing on LB507. Welcome, Senator Briese.

**BRIESE:** Thank you, Vice Chairman Friesen, and good evening, members of the Revenue Committee. I'm Tom Briese, T-o-m B-r-i-e-s-e. I'm here-- I represent the 41st District. I'm here to present my LB507. LB507 would remove numerous sales tax exemptions, goods exemptions and service exclusions to expand our sales tax base. Now the revenue from this would be dedicated to the Property Tax Credit Fund. The ideal sales tax is a one-time tax on a the retail-consumer transaction. Care should be taken not to implicate business expenses and inputs. And that's what LB507 focuses on: consumer oriented transactions. And I will note that many of the items here listed are service transactions and that's-- you know, I talked about this last time on a different bill. We need to expand our sales tax base. We've lost a lot of our sales tax base. Services were once 30 percent of our sales tax base several decades ago. Now they're 60 to 70 percent of our sales tax

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base, so there has been an erosion of our sales tax base. This is an effort to reclaim that and to use the revenue towards tax relief. And as I said earlier, this revenue is dedicated the Property Tax Credit Fund. Personally I'm a fan of the Property Tax Credit Fund, but I'm probably in the minority perhaps in this group, and so at this point, you know, dedicating this revenue to the Property Tax Credit Fund is perhaps just a default placeholder for it, if nothing else. And I assume there'll be some testimony-- testifiers behind us talking in support and in opposition to this. And I look forward to the testimony. We need to hear from everybody. I would also note that this LB507 is a fairly expansive list of consumer-oriented transactions and LB508, following this, are transactions and items essentially that are taxed in Iowa. I call that my "Iowa" bill, so it's kind of a duplication of effort here. So I would think maybe some of the testifiers will want to dedicate some of their testimony to both bills as they come. And so with that, I will be happy to answer any questions or turn it over to the testifiers.

**FRIESEN:** Thank you, Senator Briese. Any questions from the committee? Seeing none.

**BRIESE:** Thank you.

**FRIESEN:** Proponents who wish to testify? Hi.

**TIFFANY FRIESEN MILONE:** Hi. Good afternoon, Senator Friesen, members of the Revenue Committee. My name is Tiffany Friesen Malone, T-i-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e, and I'm the policy director at OpenSky Policy Institute. We're here in support of LB507 and LB508. Since enactment of the sales tax, good-- goods have been taxed unless specifically exempted by law while services have been exempt unless specifically taxed. As consumer spending shifts away from goods and toward services, the sales tax base shrinks unless it's updated to more closely reflect these consumer spending patterns. That's why the Legislature's decisions about which goods and services are taxed and not taxed are as important to the amount of revenue collected as the sales tax rate because the more that is exempt from the sales tax, the higher the rate must be to raise the same amount of revenue. The graph I handed out shows data from the Bureau of Economic Analysis which indicates that consumer spending has shifted in favor of services since the sales tax was implemented in 1967. At that time, about 41 percent of household consumption was focused on purchases generally subject to sales tax and about 29 percent was spent on services. As of 2018, about 31 percent is spent on taxable purchases versus 46 spent

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on-- percent spent on services. Without a change in the base, this requires us to increase the sales tax rate, depend more heavily on other revenue sources, or cut spending on services that help enable economic growth. According to the Federation of Tax Administrators' 2017 survey, Iowa taxes 89 services while Nebraska taxes 81 services, about half of the 152 services taxed in South Dakota. And because services are only taxed if they have been individually added by law, the system is inconsistent. We tax a night at the movies but not a day at the spa. Barbershop and beauty parlor services aren't taxed but pet grooming services are. Indoor swimming pool cleaning is taxed but outdoor pool cleaning is not. According to the Legislative Fiscal Office, sales tax cuts passed since 2006 have reduced revenue by approximately \$191 million in fiscal year 2018 alone, not including incentive refunds and credits extended under Nebraska Advantage. This is why we support the expansion of the sales tax base and the repeal of sales tax expenditures. LB507 and LB508 broaden the sales tax base-- base which makes the tax more neutral across a broader spectrum of final consumer expenditures. Many of the services proposed for inclusion, such as dry cleaning, interior design, and investment advice, are more likely to be purchased by higher income households which helps offset the overall regressivity of the base expansion that may affect lower income households. That said, both LB507 and LB508 are regressive. We would, therefore, recommend that they either be paired with an EITC increase which would help offset any increase for a family of four making less than \$51,492. The bills could also be strengthened with a circuit-breaker type of income tax credit that could be targeted to residents of the state paying property taxes. This would reduce the regressivity of the bill and minimize the amount of property tax credit going out of state. Thanks for your time and I'm happy to answer any questions.

**FREISEN:** Thank you, Ms. Milone. Any questions from the committee? Seeing none, thank you.

**TIFFANY FRIESEN MILONE:** Thanks.

**LINEHAN:** OK, Jack.

**JACK MOLES:** Good afternoon, Senator Linehan and members of the Revenue Committee, my name is Jack, J-a-c-k M-o-l-e-s. I'm the executive director for the Nebraska Rural Community Schools Association. I'd like to testify in support of both LB507 and LB508. We agree with Senator Briese that in order for our current property tax issues to be addressed in a meaningful way, that new revenues need to be created.

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We believe the revenue-raising measures contained in the bills are reasonable, especially when we compare them to the current system which are over-- in which we are overreliant on property taxes, especially those levied on our ag landowners. NRCSA's preference would be not to include school lunches or admissions to school events, but we do recognize Senator Briese for his attempts at providing new revenues. It is expected these mechanisms will create new revenues which can in turn create real property tax relief for the local property owners, again, especially our ag landowners. We encourage you to include the concepts of LB507 and LB508 in the bigger property tax relief education funding bill that you will eventually bring forward. Thank you.

**LINEHAN:** Thank you, sir. Are there questions for Mr. Moles? Seeing none, thank you for being here.

**JACK MOLES:** Thank you.

**LINEHAN:** Other proponents? Are there opponents?

**J. P. LAUTERBACH:** Good afternoon. Good evening. My name is J.P. Lauterbach. I'm the COO of the YMCA here in Lincoln, Nebraska. That is J.P. L-a-u-t-e-r-b-a-c-h. Chairman Linehan, members of the Revenue Committee, thank you, thank you for having us and thank you for putting this legislation on the table. I'm here on behalf today of all the YMCAs in Nebraska, and we are opposed to language in LB507 and LB508. We have met with Senator Briese, and we thank him for his support of YMCAs and his willingness to work with us to take out this language that would repeal this exemption. YMCAs have been serving Nebraskans for 146 years and today serves over 332,000 members and participants. This action is a dramatic departure from a specific exempt-- exemption determination letter in 1988 to YMCAs from the Department of Revenue and is inconsistent with longstanding treatment of nonprofit 501(c)(3) organizations. No state currently imposes an amusement and recreation sales tax on the YMCA because of our charitable status and the community impact of our programs and services. The Y is a volunteer-led, nonprofit 501(c)(3) organization that exists to strengthen communities and in doing so relieves the burden of government through charitable activities, services, and programs. Return on investment comes from leveraging privately raised and earned dollars and the efforts of over 15,000 volunteers to provide programs and services to support children, adults, families, and seniors. A sales tax would diminish the ability to provide Y programs to the underserved, low-income children, adults, and families

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that need the Y the most. In fact, Nebraska Ys collectively contribute over \$4 million annually in scholarships and financial assistance would we-- which would be directly impacted should this bill pass with this language. The Y reaches nearly 170,000 children and is the leading provider of preschool childcare and after-school programs in the state. The Y is the largest sponsor of affordable youth sports which are all about youth development. They also offer many opportunities and classes to foster healthy family time and healthy lifestyles. The Y is also a leader in providing evidence-based programs endorsed by the CDC that improve the health of Nebraskans while also reducing the high costs of chronic disease to the state. We can ill afford to create additional financial barriers to our children and families becoming more physically active, especially at a time when obesity and chronic disease are on the rise in our state and low-income families statistically are in the greatest need to be engaged in health and well-being activities. On behalf of the 14 chartered Ys and our additional 16 branch operations throughout the state, we respectfully ask you to retain the sales tax exemption for nonprofit organizations that has been eliminated in the current language of LB507 LB508. We invite you to come to the Y and learn firsthand about the impact and the role that we have in the community, and we thank you for the hard work you've done on behalf of Nebraskans.

**LINEHAN:** Thank you.

**J.P. LAUTERBACH:** I will answer any questions you might have.

**LINEHAN:** Thank you. Thank you. I fell asleep there. Yes, Senator Friesen.

**FREISEN:** Thank you, Chairman Linehan. Do the YMCAs pay property tax on their buildings?

**J.P. LAUTERBACH:** No.

**FREISEN:** So tax exempt.

**J.P. LAUTERBACH:** Correct.

**FREISEN:** OK, thank you.

**LINEHAN:** Other questions from the committee? I have a question for you.

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**J.P. LAUTERBACH:** OK.

**LINEHAN:** I'm a big supporter of the Y. They do great things. But you serve a lot of families that aren't under-- are not low-income families. I mean--

**J.P. LAUTERBACH:** We do. We serve all families, um-hum.

**LINEHAN:** So what percentage of your family are low-income families versus-- you know, the Ys, basically some of the Ys are pretty much in competition with some of the private gyms, are they not?

**J.P. LAUTERBACH:** For certain aspects, I suppose you could say that, for-- for the fitness and wellness side, yes. But, you know, when you look at the Y as a whole with the after-school care, childcare, camping, you know--

**LINEHAN:** But there are some parts of the-- what the Y-- and I'm just--

**J.P. LAUTERBACH:** Small aspects, I suppose.

**LINEHAN:** We're looking for a lot of answers here, right?

**J.P. LAUTERBACH:** Sure.

**LINEHAN:** So you've got the parts that the Y provides that is basically in competition with private industry that would be paying taxes. There's kind of a conflict, right, if you've got-- and I don't-- I don't know-- we've got a gym in Elkhorn, I'm thinking, and now I think I've found the answer to my problem. It's between the city and the schools run the gym. It's the community compound, so I don't pay taxes because-- even though every other gym in Elkhorn I probably do pay taxes, right?

**J.P. LAUTERBACH:** I-- you know, I don't know if I know enough to-- to give you a definite yes or no.

**LINEHAN:** OK. Well, that's something we need to look into.

**J.P. LAUTERBACH:** OK.

**LINEHAN:** Yeah. But I do thank you very much for being here.

**J.P. LAUTERBACH:** Sure.

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**LINEHAN:** Is there any other questions from the committee? Senator Groene.

**GROENE:** How do you pick the communities you expand in?

**J.P. LAUTERBACH:** That's an interesting question. Years ago it was-- it was community driven, so a community could rally support and decide we want to have a YMCA and put together volunteers and funding to potentially build one. That's still the case. However, the-- our national organization has a few more restrictions on what they will allow to-- to charter. So if a community is deemed too small to support a YMCA, that-- a smaller community would then need to, I'll say, partner or kind of come under the umbrella of a nearby larger YMCA, so--

**GROENE:** You just opened one in Lexington, did you not?

**J.P. LAUTERBACH:** I'm sorry.

**GROENE:** Did you just open one in Lexington, is that correct?

**J.P. LAUTERBACH:** Correct, yes.

**GROENE:** And that was a partnership with who?

**J.P. LAUTERBACH:** Holdrege, I believe. Holdrege, Lexington, and Gothenburg, I believe, are all under YMCA of the Prairie, which is the larger organization.

**GROENE:** Thank you.

**J.P. LAUTERBACH:** Sure.

**LINEHAN:** Excuse me. I'm sorry. Other questions from the committee? Seeing none, thank you very much for being here.

**J.P. LAUTERBACH:** Thank you.

**LINEHAN:** Other opponents?

**DENNIS PATE:** Good afternoon, Chairwoman Linehan and members of the Revenue Committee. My name is Dennis Pate, spelled D-e-n-n-i-s P-a-t-e, and I'm president and CEO of Omaha's Henry Doorly Zoo and Aquarium. I'm here today representing our Zoo, Lee G. Simmons Conservation Park and Wildlife Safari, the Riverside Discovery Center, the Omaha Convention and Visitors Bureau, the city of Omaha, the

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Greater Omaha Chamber of Commerce in opposition to provisions in LB507 that would repeal the sales and use tax exemption for nationally accredited zoos in Nebraska. Two weeks ago, our zoo CFO Jeremy Eddie shared our opposition to a bill that contained similar language, so today I want to take a different approach and share with you the enormous impact that our zoo has on our city and state's economies and the message this exemption sends to our partners in business and philanthropy. Our nationally accredited zoos are important to quality of life. You can't really put a measure on this in terms of dollars but the impact is real as families decide where they want to locate. Not only have we created a significant number of jobs and investments, but the Chambers of Commerce and other businesses and nonprofits regularly use the zoo as a recruitment tool. We have over 90,000 household memberships-- households with memberships, equating to over 315,000 members. We reach out to schools and students across the state. Our zoo educates, does research, helps with economic development, and produces a return on investment for Nebraska that is over 100 to 1. Recently we were the subject of a 90-minute documentary-- documentary aired in Japan at the same time that our Governor was actively courting the Japanese on trade. Nebraska is very fortunate to have some very generous people. In the case of the zoo, it has been incredible, and we know that level of generosity isn't by chance. The reason we have a world-class zoo, a world-renowned cancer center, a totally revitalized riverfront plan, stadiums, art museums, performing arts centers, and a great public university is to help retain and attract young people. We have visionary people who understand that if Nebraska doesn't grow its population, we're in big trouble. Taxes and work force shortages are both problems. Everyone knows the state doesn't have the resources to do everything, which is why public-private partnerships have been key. In this case, the dollars the state invests in its number-one tourist attraction are of significance to those from the private sector who want to partner to make this state grow. This is critical to your discussion on tax relief. It's also critical as we figure out how to compete for people, jobs, and investment. I ask you not to single out an exemption of an entity that has such a significant impact on the state. One can't measure the attraction factor or the marketing impact the zoo has for our state.

**LINEHAN:** Thank you.

**DENNIS PATE:** It's huge. Thank you.

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**LINEHAN:** Thank you very much. Are there questions from the panel?  
Senator Kolterman.

**KOLTERMAN:** Yeah, thank you Ms.-- Senator Linehan. And thank you for coming today. So you get-- you get the tax exemption now. And as I understand it, it's close-- \$1.5 million a year [INAUDIBLE]

**DENNIS PATE:** That's right. It does not include food and gift. We do pay sales-- sales taxes collected on food and gift.

**KOLTERMAN:** But it's just admissions.

**DENNIS PATE:** Admissions, membership, rides, capital development.

**KOLTERMAN:** So of that, what do you do with that money?

**DENNIS PATE:** On the capital side it means the monies that donors invest on the capital side buys more project. On the operating side, it means that it's easier for us to make our budget. We don't have to always go to admissions or membership cost, increase prices, making the zoo less accessible to others. And it allows us to reinvest in the maintenance, the operating side of the zoo, so we can keep that number-one status and make sure that it stays as a significant attraction to the state.

**KOLTERMAN:** So tourism is big in our state. It's number what?

**DENNIS PATE:** Number three.

**KOLTERMAN:** Yeah, number three for job creation and promotion and income. What-- as you look at the future and you look-- what I hear you saying, maybe I'm wrong, you actually leverage that \$1.5 million, \$1.6 million with the private sector through philanthropy? Is that-- is that an accurate statement or is that-- I know you get a lot of money from generous people in the state.

**DENNIS PATE:** We do. The money raised goes toward the development of new exhibits.

**KOLTERMAN:** OK.

**DENNIS PATE:** The operating side of the zoo is on us. So all the maintenance, the animal care, the keepers, the administrative staff,

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the educators, that's all the operating side and that's what the tax exemption helps with.

**KOLTERMAN:** OK. Thank you very much.

**DENNIS PATE:** You're welcome.

**LINEHAN:** Thank you, Senator--

**KOLTERMAN:** Thank you for your investment.

**LINEHAN:** Thank you, Senator Kolterman. I'm sorry. Other questions from the committee? Senator Groene.

**GROENE:** But the reality is you don't pay the tax. The consumer would pay the tax, so you're not gaining another \$1.5 million because it was never collected from the taxpayer, is that correct?

**DENNIS PATE:** No, the tax is embedded in the cost of what we charge for rides and memberships and so on. On food and gift it is added, but on the rest of it, it's not.

**GROENE:** So you couldn't, when you when you sell a membership, you-- at the cash register, somebody loved it, came to the zoo, you don't run it through and add 7 percent to it, a \$50 membership, and now it's \$53.50?

**DENNIS PATE:** We don't.

**GROENE:** Well, you could. I mean--

**DENNIS PATE:** We could. It becomes less and less affordable for people. A tax on the membership, our membership is-- starting April 1, is \$140 for a family. That compares very, very favorably to the zoos our size across the country. It's below the median. And so a 7-percent tax on that is essentially adding another \$10 to the membership, which we've not wanted to do to keep us competitive.

**GROENE:** But a lot of people don't want to pay taxes, like farmers, because it doesn't make them competitive either, but they survive. And you did survive just fine up to two years ago by paying the tax, right, two or three years ago when-- I was here when it passed.

**DENNIS PATE:** Yeah, in '15.

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**GROENE:** Yeah.

**DENNIS PATE:** Yes. Well, we-- I think you used the right word. We survived. That doesn't mean we excelled as an organization nationally--

**GROENE:** What is your budget a year? What is your total budget a year?

**DENNIS PATE:** Our operating budget is about \$46 million.

**GROENE:** Total?

**DENNIS PATE:** Um-hum.

**GROENE:** And--

**DENNIS PATE:** That's just the operating side. On the capital side, it averages about-- we spend about \$20 million a year lately. That can vary depending on the-- how fast we can raise the money.

**GROENE:** But you don't get-- you don't-- nobody would tax your donations. It would just be your rides and your--

**DENNIS PATE:** If the exemption went away, it would-- when we purchase steel, say, for a project, that tax would be passed along to us, which means we'd be able to buy less project. We save \$651,000 a year because of the exemption, even on the capital side, so we can buy more project.

**GROENE:** I thought it was just on the retail side that you got the exemption.

**DENNIS PATE:** Uh-uh. Well, we pay tax on the food and gift.

**GROENE:** Yeah.

**DENNIS PATE:** The exemption is on everything else

**GROENE:** What you pay and what you retail.

**DENNIS PATE:** Yep, that's 800 and-- it's roughly \$879,000 a year collected that we collect for the state.

**GROENE:** All right. Thank you.

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**DENNIS PATE:** You're welcome.

**LINEHAN:** Thank you, Senator Groene. Other questions? You didn't reduce the prices when the sales tax exemption went away, right? You keep-- the price-- you kept the sales tax. Isn't that the way it works?

**DENNIS PATE:** When we did not have the exemption, we did not pay the sales tax out of the prices. We ate the sales tax so that we would have sort of a-- not an odd figure that we ended up with. When we got the exemption, did we reduce the admissions price? No, we didn't. But it-- what happens is then you delay the increases. We're always-- have to be mindful of being competitive. And so we do annual surveys every year to find out what memberships are, what additions are.

**LINEHAN:** Competitive with what?

**DENNIS PATE:** With--

**LINEHAN:** I mean there's not a zoo anywhere near Henry Doorly Zoo any-- San Diego, right?

**DENNIS PATE:** Well, Denver, Lincoln Park, Chicago, St. Louis, Minnesota.

**LINEHAN:** But they're not comparable to Henry Doorly Zoo.

**DENNIS PATE:** In terms of attendance?

**LINEHAN:** In terms of the-- what you have. I mean I love the zoo. It's wonderful. I agree 100 percent. But I've been to those others and the only one that I've ever been to that even compares at all is San Diego, right?

**DENNIS PATE:** Well, it's nice of you to say that.

**LINEHAN:** Well, I don't think it's a secret.

**DENNIS PATE:** It's nice of you to say that and, you know, when we get guest surveys and people comment, they are very, very positive. We don't have-- Chicago, Brookfield, has a larger operating budget. St. Louis has a larger operating budget. San Diego's operating budget is probably four times, five times ours.

**LINEHAN:** So-- so I know some of your big supporters and I've known them--

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**DENNIS PATE:** But the guest satisfaction isn't what ours is.

**LINEHAN:** Some of them are no longer with us, and you have wonderful, wonderful families that have supported you. But they're also very thoughtful people, so when they build something, they surely know what it's going to-- you all know what it's going to cost to operate it. So they donate money to build it, nothing for operation?

**DENNIS PATE:** No, I have to-- I have to project the operating cost for that and adjust prices, come up with new entrepreneurial things, whether it's Dippin' Dots one year, whether it's selling--

**LINEHAN:** That might be something-- I mean I think--

**DENNIS PATE:** Selling our events--

**LINEHAN:** OK. All right.

**DENNIS PATE:** --has a big part of our revenue growth.

**LINEHAN:** OK. All right. Thank you. Any other questions? Thank you very much for being here.

**DENNIS PATE:** Thank you.

**LINEHAN:** Other opponents?

**JOHN CHAPO:** Good afternoon, Chairman Linehan and members of the Revenue Committee. I am John Chapo, J-o-h-n C-h-a-p-o, president and CEO of the Lincoln Children's Zoo and have served in that capacity for 33 years. And I'm here today to ask you to oppose LB507 which would remove the sales tax exemption for Nebraska's four accredited zoos that span from border to border. As you're aware, in 2015 LB419 was passed by a strong majority of senators to make the accredited zoos in Nebraska tax exempt. The zoos and our millions of guests and supporters all appreciated that gesture and strong statement of support for our zoos from our State Legislature and Governor. Our supporters, guests, and volunteers all believe in our missions and know the vital services that we share with our state's residents and travelers in our state as well. Every dollar which we have saved these last three years has been directly reinvested into the zoo. Please see the attached recent news stories from both the Lincoln and the Omaha newspaper editorial as well these past two weeks regarding the zoo. As a member of the Nebraska Tourism Commission, I know that we need to invest more into our infrastructure and inventory of attractions and

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destinations to increase the flow of guests and dollars into our state. Tourism is our state's third-largest industry-- industry and plays a significant impact in having-- helping our private businesses recruit, which is why the city of Lincoln and Lincoln Chamber of Commerce supported LB419 four years ago and remain in strong support today. In 2018, Lincoln Children's Zoo had a \$40 million economic impact to our city, county, and state, including more than \$17 million in wages for Nebraska residents who pay income tax and other taxes as they go about living in our great state. I've handed out to you a simple one-pager with the heading "Lincoln Love Your Zoo." Here there are numerous points which are reasons why we ask you to oppose LB507. Facts are, the Lincoln Children's Zoo is Lincoln's number-one arts and cultural attraction which has almost a quarter of a million guests in 2018. And this does not include the thousands of visitors for special on-site education programs. Lincoln Children's Zoo is Nebraska's number third most visited arts and cultural attraction with the Omaha Zoo being number one. Lincoln Children's Zoo donated over \$250,000 worth of free admissions and tickets to memberships to low-income and at-risk children and their families in 2018. In order to grow our state economy and encourage young professionals and their families to live and work in places like Lincoln, attractions like the Lincoln Children's Zoo are a backbone for a strong and vibrant community and region. Recruitment and retention of our future workers is not an easy feat, nor is reducing the high property and income tax rates that impact on Nebraskans. I know that we want to be a part of the solution in growing our way out of these difficult times, and our state's zoos do so by providing the kind of vibrant attractions that complement the work of our corporate businesses and educational partners. I do not envy the tough work ahead of this committee and thank you for your service to the state. I would ask that you oppose LB507 and I would be happy to try and answer any questions.

**LINEHAN:** Thank you very much for being here. Are there any questions?  
Senator Kolterman.

**KOLTERMAN:** I just have a comment. John, thank you for coming. Two weeks ago, when your counterparts were here, I asked one of them about the new announcement that they had thinking that was in Omaha. I read it incorrectly. So congratulations on your new--

**JOHN CHAPO:** Thank you.

**KOLTERMAN:** --new displays.

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**JOHN CHAPO:** We're investing a lot into our community to make our community better, make the zoo better, better serve the state of Nebraska.

**KOLTERMAN:** Million and a half?

**JOHN CHAPO:** It was a \$1.5 million anonymous donor. It's pretty amazing when somebody comes in and says, I'm going to give you-- I believe in your mission and how your serving our community, I believe in kids and families here. It was like-- I'm rarely speechless and I was totally speechless, Senator.

**KOLTERMAN:** Well, thank you.

**JOHN CHAPO:** Thank you.

**LINEHAN:** Thank you, Senator Kolterman. Other questions from the committee? Thank you for being here.

**JOHN CHAPO:** Thank you, Senator.

**KATHY SIEFKEN:** Good evening, Chairman Linehan and the members of the committee. My name is Kathy Siefken, K-a-t-h-y S-i-e-f-k-e-n, representing the Nebraska Grocery Industry Association in opposition to LB507 and LB508 for the reasons I stated in the previous testimony. And I'd just as soon not take any more questions. I just want to go on the record if that's OK with you.

**LINEHAN:** [LAUGHTER] That would be up to Senator Briese, I think. He seems to be OK with it.

**KATHY SIEFKEN:** All right. Good.

**LINEHAN:** Anybody--

**KATHY SIEFKEN:** Thank you.

**LINEHAN:** Anybody else? OK. Thank you for being here.

**GROENE:** I want to say something.

**LINEHAN:** Yes.

**GROENE:** Thank you for being a very knowledgeable lobbyist.

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**LINEHAN:** Hi.

**BEVERLY RILEY:** Good afternoon. My name is Beverly Riley, B-e-v-e-r-l-y, Riley, R-i-l-e-y. I am from Omaha, Nebraska. I'm opposed to both LB507 and LB508 for many reasons. Massage therapy is a direct-access healthcare service under our current statute and regulations. For one example I may offer is from one of my clients who has-- was diagnosed with cancer. He and his wife came to my office after several days of not being able to manage his symptoms with medication even when their doctor would increase his dosage. I worked with him over an hour and was able to decrease his pain by half using massage therapy techniques. He was able to return home and with a few instructions for some home therapy, he and his family were able to spend his last few days together at home. This bill would require my client to add to the financial burden of seeing his doctor to get an order for massage therapy or the financial burden of paying a tax on his healthcare. Studies show most doctors do not discuss or mention massage therapy as a nonformal-- nonpharmacological-- nonmedicated option for pain management. Most doctors continue to prescribe pain medication that is expensive and often addicting to the consumer. By 2025, there will be a shortage of doctors by an estimated 90,000. By 2025, this shortage will be of 31,000 less primary doctors, 63,000 less nonprimary doctors such as surgeons. Studies of 42,000 doctors show an increase in the burden of burnout. This burnout among doctors can lead to cardiovascular disease, depression, suicide, and alcoholism. This burnout is already costing \$1.7 billion to healthcare costs due to unsafe care, unprofessionalism, and patient dissatisfaction. And out-of-pocket expense for a doctor's visit range from \$112 to \$200 per visit. Nebraska out-of-pocket healthcare expenses has increased by 51 percent. This bill will increase the burden to our overburdened healthcare system, as well as increase the financial burden to the consumer. Other unintended consequence is that this bill does tax healthcare professionals. Physical therapy, for one example, utilizes massage therapy as a treatment modality. Physical therapy is a direct-access profession. This bill will add to the burden of time for the therapist to complete extra billing forms or increase the cost of a billing service. The more likely scenario will be that massage therapy will be denied to all direct-access clients. This bill will dictate who can receive what modality. This bill will dictate who can receive direct-access massage therapy and healthcare, not the doctor, not the healthcare provider. This bill is going to end-- will essentially end up taxing healthcare indirectly instead of

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defining it more specifically, the way you guys, I assume, would intend.

**LINEHAN:** Thank you very much.

**BEVERLY RILEY:** Thank you.

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

**BEVERLY RILEY:** Thank you.

**LINEHAN:** Next opponent.

**DUSTIN ANTONELLO:** Good evening. Thank you, Chairman Linehan and members of the Revenue Committee. My name is Dustin Antonello, D-u-s-t-i-n A-n-t-o-n-e-l-l-o. The Lincoln Independent Business Association opposes both LB507 and LB508. We do not believe imposing new sales taxes and eliminating sales tax exemptions will provide the meaningful property tax relief that Nebraskans are seeking. We are most concerned that these bills will impose sales taxes on a number of service industries that are primarily comprised of small businesses. These include small businesses that provide moving and storage services, lawn care, transportation services, personal care services, home repair, parking services, and music and dance lessons for children, among others. Every customer of these businesses will have to pay more for these services, which may cause some customers to cut back or eliminate these services altogether as they become more costly. Many recognize that small businesses are the driving force of local economies. In Nebraska, more than 400,000 employees are employed by small businesses. However, the success of small businesses can often be fleeting. According to the U.S. Bureau of Labor Statistics, about 20 percent of small businesses fail by the end of their first year. By the end of their fifth year, that rises to 50 percent, and by the tenth year, the number of failures rises to 80 percent. We need to be looking to policies that encourage the growth of small businesses and make it easier for them to remain open instead of making the goods and services they provide costlier for consumers. A thriving small-business community will generate higher levels of revenue in local property taxes and lower the property tax burden on the rest of the community. These bills also single out nonprofits that provide vital community services, including charitable and religious organizations. For example, both bills impose sales taxes on accounting and legal services provided to nonprofits but not for-profits and remove the tax

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exemption on fees that nonprofits charge to cover the costs of youth development, healthy living, and athletic programs. Under LB507 LB508, even school lunches are not spared. These bills would remove the sales tax exemption for prepared food served by public or private schools which would directly increase the cost of school lunches for children. These bills also pick winners and losers by arbitrarily deciding which industries and services get to keep their sales tax exemptions and which do not. For example newspaper deliveries are spared but flower deliveries are not. Food for hospital patients remain exempt but not food for students. Most importantly, both these bills fail to provide a lasting solution for property tax relief. These bills do not take any steps to control escalating property taxes or control spending at the local level by the political-- political subdivisions that levy property taxes. Thank you.

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

**DUSTIN ANTONELLO:** Thank you.

**LINEHAN:** Good afternoon.

**BRIANA CUDLY:** Good afternoon. My name is Briana Cudly, B-r-i-a-n-a C-u-d-l-y, and I'm the government relations chair for the American Massage Therapy Association-Nebraska Chapter. I'm asking you to strike massage from LB507. Nebraska policy dictates we do not tax healthcare in Nebraska. And massage therapy, like all other healthcare professions, is licensed through the Nebraska DHHS. There are several misconceptions out there about what massage actually is. Many people think we just rub muscles or wrap people up in nice smelling oil and that's the extent of our job. But what we really do is affect the nervous system. Each modality we employ has educated intent and purpose and we document treatment and changes in SOAP notes to plan for future treatments and assess improvement. For example, the pain does not exist in the body, rather, the brain. We excitatory and inhibitory pressure to other stimuli to change the information being sent from the central nervous system from the periphery. Throughout sessions we are constantly changing what we do and how we communicate with the CNS. Many times people who experience anxiety actually become more anxious with touch. This is one instance where a body wrap can be most beneficial. This type of positive touch for short periods of time followed by hydrotherapy is designed to activate the parasympathetic nervous system. Another example of a body wrap as the best choice for treatment is for people with eczema, psoriasis, acne, and other skin

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issues. So what may on the surface seem like very easy and nonspecific treatment is actually a well-thought-out, educated, and intent-driven part of an integrative healthcare plan. I like to compare it to cosmetic surgery. On the surface it may seem like the doctor is only treating vain people wanting larger breasts or a more perfect nose. But when one digs a little deeper, they realize the same doctor is reconstructing a face after a car accident or performing lifesaving surgery for burn victims. Though there are some people using the treatment as a luxury, the majority are using it as intent-driven healthcare. The same principle applies for massage therapy. According to AMTA's latest survey, 85 percent of people use massage for medical reasons. Massage and spa services are ambiguous terminology. Spa service is not found in statute or regulation and, therefore, undefined. Not only is massage something a few in the beauty industry use, but it is also used by many healthcare professionals. The CPT code for massage all professionals use is 97124. Massage therapy is a specialized and licensed healthcare profession defined in the Statute 38-1706, and I do not believe the intent of these bills is to tax healthcare, but that is the outcome. Our concerns with these bills are redundant terminology, the added barrier to care and treatment, and that this goes against the push of the healthcare industry to decrease the need of referrals from one provider to other providers. We appreciate your time and dedication to helping relieve property taxes while still meeting a balanced budget and helping our public schools. But this bill is singling out massage and setting a precedence of taxing healthcare. I ask you strike massage from LB507. Nebraska does not tax healthcare.

**LINEHAN:** Thank you.

**BRIANA CUDLY:** Thank you for your time.

**LINEHAN:** Thank you very much. Are there questions from the committee?

**BRIANA CUDLY:** Yes.

**LINEHAN:** Senator Crawford.

**CRAWFORD:** Thank you, Chairwoman Linehan. And thank you for being here. In your study you say 85 percent used massage for medical reasons. How would you know that or how would you define that?

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**BRIANA CUDLY:** I actually put the link a little bit further down. That is from a consumer survey through the AMTA and there is a link there for more information.

**CRAWFORD:** Thank you.

**BRIANA CUDLY:** I was going to print it off but got to save paper.

**LINEHAN:** Thank you, Senator Crawford. Other questions? So I assume doctors, physicians sometimes prescribe massage therapy, right?

**BRIANA CUDLY:** Yes, but we-- I don't know how to really explain. So oftentimes they refer people to massage therapy. There's no-- sometimes their insurance--

**LINEHAN:** OK, refer--

**BRIANA CUDLY:** --or their HSA would-- would require a prescription, but typically they just refer over.

**LINEHAN:** So that would be one way you could separate I need a massage for pain and it's a medical condition versus I've had a long week and I would like to go in Saturday and have a massage. There's-- and I'm not saying-- both are important. I'm just saying there's--

**BRIANA CUDLY:** Well, I guess what I'm saying is that we're a direct access, similar to physical therapy, and so physical therapies aren't being taxed just because their patients aren't coming with a doctor referral. We're-- the same as-- we aren't being taxed the same as-- you know, a doctor doesn't refer out.

**LINEHAN:** But physical therapists work with doctors. Well, OK.

**BRIANA CUDLY:** They do, but they are direct-access healthcare and, therefore, people do not need-- we're a direct-access state, so patients don't need to get a referral from a doctor to go to a physical therapist.

**LINEHAN:** But if insurance is going to pay for it, they would need a referral from a doctor.

**BRIANA CUDLY:** Yeah.

**LINEHAN:** Yeah. OK.

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**BRIANA CUDLY:** But you're not taxing people that-- that are going just because their insurance isn't paying for it.

**LINEHAN:** Right. OK. Thank you. Any other questions? Thank you very much for being here.

**DAVID CHAPIN:** Hello. My name is David Chapin, D-a-v-- jeppers. D-a-v-i-d C-h-a-p-i-n. I'd like to thank you for Ms. Linehan-- Senator Linehan and the Revenue Committee for having us here. I'm here on behalf of the Associated Builders and Contractors-Cornhusker Chapter to speak out against LB40-- or LB507 and LB508. I guess I would, like most of the people who have come before the committee on this long day, agree that property taxes are too high for all Nebraskans and that I-- I think we-- we do need to find a solution for-- for lowering them. But this bill does more than just shift the tax burden from one set of people to another. It also shifts an administrative burden from one set of people to another, and actually doesn't really shift it, it adds a burden to contractors and other groups that have gotten up and spoken here today and tonight. A similar tax was put in place back in the 2000s, I guess I would call it, somewhere in the neighborhood of 2003, 2004, and then repealed in 2007, I believe. I may be off by a year or two on my dates. And I think back then we found out as contractors and as the state of Nebraska that it was problematic. It's a-- it was hard to administer and didn't raise very much in the way of revenue. This tax would increase the cost of construction to homeowners and businesses and anybody who wanted to do any sort of construction at all. And I don't see a need for singling that out. It would lower-- lower people's-- lower the amount of construction we would do. And with that, I would be against it and welcome any questions.

**LINEHAN:** Thank you for being here. Senator Kolterman.

**KOLTERMAN:** Thank you. Were you in business when they tried to implement that back in the early 2000s?

**DAVID CHAPIN:** Yes, I was, yep.

**KOLTERMAN:** And that wasn't just on-- I mean they had land improvement contractors, any kind of a contractor who was involved in that. Why-- why was that so difficult for the Department of Revenue to administer? I think it came down they didn't have a good handle on it.

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**DAVID CHAPIN:** Yeah. You know, from our standpoint as a business, you know, what was it? That-- that was on a service and so defining exactly when it was new construction and remodeling and that got into sort of a gray area, which it often can be. It seems straightforward to think of something as what's a-- what's a remodel and a service and what's fixing something and what's really bringing something new. And often you-- but you don't know that until you've gone and really started doing the work, especially with some of the subtrades, the electrical trade that-- that our business does, and the plumbing. You don't quite know what your fix is going to be when you go out to do it and even when you start in on the-- on the project itself.

**KOLTERMAN:** Sure. Thank you.

**LINEHAN:** Thank you, Senator Kolterman. Senator Crawford.

**CRAWFORD:** Thank you, Chairwoman Linehan. And thank you for being here. So just if I understand the story correctly, a key issue in that tax was that it was focused on remodeling, restore, repair, and so there's the definitional question of new versus repair.

**DAVID CHAPIN:** Correct.

**CRAWFORD:** So that-- that was the administrative problem. So it would be less problematic if it was just over new and if you didn't have to distinguish between the two.

**DAVID CHAPIN:** It would be less problematic from the distinguishing standpoint of it. It would be more problematic from just the-- the rev-- the-- the-- the revenue side of it then. I mean right now we don't collect sales tax, so we'd have to go in the sales collection business and then the cost of construction would go up by whatever the sales tax amount would be, which would be a substantial hit to those people who want to do construction in the state.

**CRAWFORD:** All right. Thank you.

**LINEHAN:** Thank you, Senator Crawford. Other questions from the committee, those of you that are still here? Thank you. Thank you for being here.

**DAVID CHAPIN:** All right. Thank you.

**LINEHAN:** Other opponents? Thank you.

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**PATRICK MEYER:** Good afternoon and early evening, Chairperson Linehan and the Revenue Committee. For the record, my name is Patrick Meyer, P-a-t-r-i-c-k M-e-y-e-r, and I'm chairman the board of the Nebraska Society of Certified Public Accountants, representing nearly 2,600 member CPAs. I am here today to express society's strong opposition to LB507 which would impose state sales and use tax upon the gross income received from-- from accounting and tax preparation services, excluding accounting and tax preparation services performed in the furtherance of a for-profit business enterprise, among many other taxable services. These two services are performed by Nebraska CPAs and CPA firms and are now not taxed. Because of the difficulty surrounding the taxation of professional services, there are several reasons why the society opposes the provisions of LB507. The first item, taxing professional service, is not sound tax policy. The Nebraska Society of CPAs supports very effective and efficient tax policy that is practical and administrable for all taxpayers. Opposing a complex shift in the tax burden is not sound tax policy as it will needlessly compound an already complicated tax code and introduce substantial compliance challenges. Second item is Nebraska consumers will bear the ultimate tax burden. Under a system that taxes accounting and tax preparation services, Nebraska taxpayers will effectively pay a tax for paying their taxes. The tax on tax preparation services is fundamentally flawed as it imposes a penalty for filing one's tax return in a complete, compliant, and accurate manner by engaging professional assistance. In addition, it penalizes citizens who cannot-- cannot file their state and federal returns without professional assistance due to the complexity of our state and federal tax code. These taxpayers are often those who can least afford the additional expense. You may also recall that individual taxpayers have lost their ability to deduct accounting fees they pay for having their tax returns prepared by an accounting professional just this year under President Trump's Federal Tax Reform Act. Item three, Nebraska CPAs and businesses will be placed at a competitive disadvantage. Nebraska CPAs and businesses will be placed at a competitive disadvantage-- disadvantage with CPAs and businesses in states that do not levy such taxes, especially in an economy where physical location is of decreasing importance. South Dakota is the only neighboring state and one of only three states nationally that broadly tax services. Individuals could avoid paying the service tax by taking their accounting and tax preparation needs to firms in Iowa, Kansas, Colorado, or any other nearby state. Not only does it discourage the use of services in Nebraska, but it also discourages companies seeking to relocate or expand into our state. Item four,

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taxing professional services does not broaden the tax base or stabilize revenues. Taxing professional services is simply--

**LINEHAN:** You're going to have to wrap up. I'm sorry but your light-- you got-- you hit red.

**PATRICK MEYER:** Oh, I hit red?

**LINEHAN:** You hit red.

**PATRICK MEYER:** That was quick.

**LINEHAN:** Yeah. Well, you read pretty fast too.

**PATRICK MEYER:** I was trying.

**LINEHAN:** Yeah. Questions from the committee? Yes, Senator Crawford.

**CRAWFORD:** Thank you, Madam Chair. And thank you for being here. I guess I would-- I don't understand why taxing this professional service doesn't expand the tax base. So why would that be? That was the statement you made right when you got cut off--

**PATRICK MEYER:** Right, right, right.

**CRAWFORD:** --was It doesn't expand the-- the tax base.

**PATRICK MEYER:** Well, because of the tax only being paid by the consumer, so the same tax base, the same ultimate consumer tax base.

**CRAWFORD:** It's a consumer--

**PATRICK MEYER:** The clientele, you know--

**CRAWFORD:** --paying a tax for your services that they weren't paying before.

**PATRICK MEYER:** But they're paying tax on this same base, same taxpayer base, same-- same-- an individual.

**CRAWFORD:** Individual but the individual is paying a tax on a new service.

**PATRICK MEYER:** Yeah, but it's the same--

**CRAWFORD:** That's the base.

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**PATRICK MEYER:** --same old base, just on a new service, yeah.

**CRAWFORD:** The base is the-- is the number of things that we tax. It does increase the-- the base on things that we tax.

**PATRICK MEYER:** I suppose you could look at it each way, yeah.

**CRAWFORD:** Well, yeah, I mean, it's about the service. It's additional piece of our tax--

**PATRICK MEYER:** But it's-- yeah, ultimately it's passed on to the consumer just like any other tax.

**CRAWFORD:** Sure. Well, that would be true of any of these taxes.

**PATRICK MEYER:** Right.

**LINEHAN:** Thank you, Senator Crawford. Other questions? I'm going to-- do you have any idea how many Nebraskans don't file income taxes?

**PATRICK MEYER:** How many Nebraskans don't--

**LINEHAN:** File income taxes.

**PATRICK MEYER:** I don't. I was actually--

**LINEHAN:** OK.

**PATRICK MEYER:** --thinking about that today when you were talking about the low-- what lowest percent. I don't know, but there is a pretty large percentage of taxpayers that don't pay any tax, yeah.

**LINEHAN:** Well, I know that, but that's not the same as not filing.

**PATRICK MEYER:** I know. Yeah, I don't-- yeah, I know you don't--

**LINEHAN:** I'm aware of that.

**PATRICK MEYER:** I don't know the answer to that.

**LINEHAN:** So would it be true-- and I'm not trying to lean one way or another on this at all because I haven't studied it, but I'm guessing that it's generally people that go to tax accountants to have their income tax done are more high-income people than low-income people.

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**PATRICK MEYER:** Generally speaking, but we still do a lot of smaller returns as well because things are getting pretty complicated.

**LINEHAN:** But it costs-- smaller returns cost a lot less money than--

**PATRICK MEYER:** Yeah, yeah.

**LINEHAN:** --your thicker returns, right?

**PATRICK MEYER:** Exactly, but there are still consumers using it at all levels.

**LINEHAN:** Right. But it's-- costs per hour, right? I assume.

**PATRICK MEYER:** Correct.

**LINEHAN:** OK. All right. Thank you very much for being here.

**PATRICK MEYER:** You bet. Thank you.

**LINEHAN:** I appreciate it.

**KATIE ZULKOSKI:** Good afternoon, members of the Revenue Committee. Katie Zulkoski, Z-u-l-k-o-s-k-i, testifying today on behalf of the Nebraska Veterinary Medical Association only on LB507. We appreciate not being included in the Iowa bill, LB508. We have shared with this committee before LB507, like some earlier bills, would tax animal and pet-related services, including veterinary services, and that the NVMA, Nebraska Veterinary Medical Association, is opposed to taxing veterinary services. We also are concerned that adding a tax on certain veterinary services to animal and pet-related services, including livestock services, would be a tax on a business input. And with that, I'll-- I'm happy to take any questions.

**LINEHAN:** Any questions from the committee? Thank you for being here. Oh, oh, just-- I have to get this on the record. My family is big on having dogs. They're not service animals. They're pets. And as dogs get older, their vet bills get very high. So to have a tooth removed, impacted tooth, \$400. And don't you think if somebody could spend \$400 to have a dog's tooth pulled, there might be a reason that you would think about putting tax on it, sales tax on it?

**KATIE ZULKOSKI:** That would be if our tax policy was based on ability to pay. I think that would tend toward that way.

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**LINEHAN:** So I haven't-- I just think there's-- they're-- I love animals but, you know, we tax the dog food. OK. Thank you for being here.

**STEVE FULTON:** Good afternoon. My name is Steve Fulton, S-t-e-v-e F-u-l-t-o-n. I'm the owner of Fulton Construction. My company builds new homes and remodels here in Lincoln and the surrounding area. I started my business in 1979. I'm here today to testify against LB507 and LB508, specifically the tax on repair, maintenance, or remodeling services on single-family homes. I've never forgotten the headaches and frustrations of a similar tax that was enacted and repealed approximately 16 years ago. The idea of taxing remodeling labor sounds simple, but the realities are far different. As you're aware, new construction labor is not taxable. In remodeling, oftentimes, something new is mixed in with something old. An easy example is an addition to an existing home. The new portion is labor tax exempt; however, the remodeling labor on the existing is taxable. Think about all the different tasks involved that would have to be separated out to be taxable versus exempt. During the first year of the last implementation, most subcontractors did their due diligence of separating out the cost of new tax exempt labor versus taxable labor. Over time, however, most subcontractors simply added taxable labor on everything, old and new alike. It was clear to me that the labor tax was not just a line-item cost that could potentially put a project beyond a customer's budget. But with the complexities involved, the subcontractors were actually overpricing the tax that the consumer ultimately had to pay. A few years after the labor tax was enacted, my company was randomly audited by the Nebraska Department of Revenue. During that audit, which took two state accountants nearly 40 hours to complete, the state's results identified several areas of accounting errors and omissions that totaled into the tens of thousands of dollars. Not once during the accounting process was I given the chance to clarify the irregularities or provide documentation to dispute the results. With the help of my accountant, we were able to disprove the majority of the Department of Revenue's final report. What happened? The state's accountants were not familiar with the mechanics of construction and had jumped to several conclusions to finish the job. The tax on remodeling Labor imposes a hardship on small businesses and the results of a flawed audit could cripple or even bankrupt small business. In conclusion, the remodeling tax is a complicated burden on small business. The tax could price out-- a project out of a

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homeowner's budget. The complexities of correctly assessing the tax put all contractors in peril of audits like the Department of Revenue.

**LINEHAN:** Thank you very much for being here today.

**STEVE FULTON:** Thank you.

**LINEHAN:** Are there questions from the committee? Thank you for sticking around. Other opponents?.

**BLAIR MacDONALD:** Chairman Linehan and members of the Revenue Committee, my name is Blair MacDonald, M-a-c-D-o-n-a-l-d, and I'm appearing before you on behalf of the Nebraska Beverage Association. You heard earlier from Brian Gilliland, the general-- general manager of Chesterman Company and the president of the Nebraska Beverage Association. We are also here in opposition to Senator Briese's LB507 and LB508. And I'll skip ahead because you've already heard some testimony. You already received some economic impact numbers from our industry's impact on the state in 2018. The Nebraska Beverage Association's objection to Senator Briese's LB507 is found on page 12. The bill provides that soft drinks, candy, or bottled water would be excluded from the definition of food. In LB508, it's found on page 11 and that version would similarly exclude soft drinks or candy from the definition of food. We believe that our products are squarely-- fall under the category of food and we would appreciate our industry's products-- that we should not be separating them out from the definition of food. And for those reasons, we're opposed to both bills.

**LINEHAN:** Thank you. Questions from the committee? Seeing none, thank you very much.

**BLAIR MacDONALD:** Thank you.

**LINEHAN:** Other opponents? If there's anybody willing to testify, if you could move forward-- or-- willing-- wanting or willing.

**KEN ALLEN:** It's a long day.

**LINEHAN:** Yes.

**KEN ALLEN:** Good evening, Madam Chair, members of the Revenue Committee. My name is Ken Allen, K-e-n A-l-l-e-n. I am the director of the Nebraska Board of Barber Examiners. The board has asked me to step in front of this committee and ask you to oppose LB507 and LB508 as

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proposed, namely Section 4, subsection (1), on page 7 of both introduced drafts. These-- section (1) targets implementing sales tax on all hair services. The board views haircuts as an important service to all humans to maintain personal hygiene. Haircuts should not be considered an elective or a luxury. Implementing sales tax on services of necessity will increase the number of unlicensed individuals to perform services and quite possibly increase licensed individuals to work in unlicensed areas, creating further sanitation problems. That is part of my job is to track down people that do not-- are not properly licensed or not working in property licensed areas. I see this bill as pushing people in that direction to make my job-- I can't say harder. It's my job. I mean, that's what I do. But it will increase the activity of illegals working, unlicensed people, let me state that. If the average person currently receives 15 haircuts a year, with the implementation of sales and local sales tax, the same individual would be paying the price of 16 haircuts and only receiving 15. Doesn't sound like much, but you got a family of four, you do the math, it doesn't-- it's not a good thing. Implementing sales tax on hair services would greatly affect or-- affect barbers working near a Nebraska border, especially the borders of states that do not implement sales tax on the same service. A sales tax could very possibly become the burden which pushes people to drive across the state line for an untaxed hair service. Only a few years ago, we noticed the same deal going on with people driving across state lines to buy-- to buy fuel that was taxed at a lower rate. Working behind the barber chair for more than 32 years, I can attest that haircuts are one of the first choices when cutting back on spending, especially for fixed-income families. I ask this committee, will expanding sales tax to include hair services actually aid, actually aid in growing Nebraska? Another question, how can placing a burden of sales tax on lower-income families, many of whom do not own property, justify reducing property tax for others? Unless the state of Nebraska plans on implementing a "prebate" program, middle- and low- income families will sacrifice the most under LB507 and LB508. That concludes--

**LINEHAN:** Thank you very much. Thank you. Are there questions from the committee? I'm just-- so we can get it on the record.

**KEN ALLEN:** Yes.

**LINEHAN:** We-- you know, I know, you know, there's a--

**KEN ALLEN:** I know.

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**LINEHAN:** --wide variety of cost of a haircut. You can spend, I don't know, \$15 or \$100, right--

**KEN ALLEN:** Um-hum.

**LINEHAN:** --on a haircut. So maybe there's an answer somewhere in between there. But it's kind of like with the veterinarians. I mean--

**KEN ALLEN:** Sure, but hygiene is pretty important. I mean it--

**LINEHAN:** Well, it's hygiene, but you can --you can get your hair cut or you can get your hair styled. I mean I-- it's just-- there's-- I agree with part of what you're saying, but there's also-- we-- we got a lot of money going for services that are-- they're-- they're way above what you could actually get by with paying--

**KEN ALLEN:** Maybe we--

**LINEHAN:** --which is good, it's good for the industry.

**KEN ALLEN:** Yeah.

**LINEHAN:** I mean that's wonderful for the industry.

**KEN ALLEN:** Sure. Maybe we could line item those out.

**LINEHAN:** Maybe. Maybe there's something there we could look at.

**KEN ALLEN:** Sure. Yeah.

**LINEHAN:** Yeah. OK.

**KEN ALLEN:** Well, I don't envy your decision on this. Thank you for your time.

**LINEHAN:** Thank you for being here. Thanks.

**KEN ALLEN:** Any other questions? Perfect.

**LINEHAN:** Looks like none. Thank you. Other opponents? Anyone in neutral? Or did you want-- opponent?

\_\_\_\_\_: I have a question. Are we-- I have the--

**LINEHAN:** That's not-- you can't do that.

\_\_\_\_\_ : I didn't think so.

**LINEHAN:** That's a-- it's good for trying. Anyone in neutral? Seeing no one, would you like to close, Senator Briese?

**BRIESE:** Thank you, Chairman and members. I don't really have a closing. I'd be happy to answer any questions if you'd like to. But other than that, I appreciate the testimony so far. It's been great to hear from everybody on this. I'm glad they stuck around and testified for us. So with that, I'd close.

**LINEHAN:** Thank you. We do have a bunch of letters for the record. I'm going to read them really, really, really fast. Proponents: Nebraska Medical Association; Nebraska Farm Bureau; Nebraska Cattlemen; Nebraska Corn Growers Association; Nebraska State Dairy Association; Nebraska Soybean Association; Nebraska Pork Producers; Nebraska Wheat Growers. And I was told by staff that I don't have to read three pages of the opponents but we can get them in the record anyway, but they're here, right? I don't read them all. We can put them in the record. OK. With that, we take LB507 to a close and we will open the hearing on LB508.

**BRIESE:** LB508. Thank you, Chairman Linehan and members of the committee. LB508 is just a pared-back version of LB507. LB508 tends to mirror those goods and services that are taxed in Iowa. I'm not lined up completely on that, but it's very close. And so it-- it is intended to replicate what Iowa taxes that we don't. And so-- and so with that said, I'll--

**LINEHAN:** Yes. Do we have any-- so did you talk to anybody in Iowa as to what-- how-- because Iowa keeps their property taxes down, right? Their ag property taxes are down.

**BRIESE:** Yeah. Yeah, they do too.

**LINEHAN:** So is this one of the ways they-- or they've just been more assertive of putting taxes on over the years and--

**BRIESE:** Well, in my opinion, they have a more expansive sales tax base and that helps the situation, enables them to utilize other forms of revenue in place of property tax, property taxes.

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**LINEHAN:** So if we put taxes on services and they are the same taxes that are on services in Iowa, we wouldn't have bleed from Omaha to Council Bluffs.

**BRIESE:** One would think they wouldn't have the border bleed that--

**LINEHAN:** --that people are most concerned about or some are most concerned about. Are there other questions? Senator Kolterman.

**KOLTERMAN:** If somebody testified on LB507 for-- in the same as LB508, they don't have to testify again, do they?

**LINEHAN:** Right. I think they know that. Yeah.

**KOLTERMAN:** So--

**LINEHAN:** Are there-- [INAUDIBLE] are there proponents for LB508? Are there opponents for LB508?

**BRIANA CUDLY:** You answered my question.

**LINEHAN:** OK.

**BRIANA CUDLY:** I'm sorry. I'm being annoying [INAUDIBLE]

**LINEHAN:** No, no, no, you're fine.

**BRIANA CUDLY:** Hi everybody. Briana Cudly again, B-r-i-a-n-a C-u-d-l-y. I'm the government relations chair for the AMTA of Nebraska and I'm asking you to strike massage from LB508. The U.S. Department of Health and Human Services National Institutes of Health categorizes massage therapy as complementary and integrative healthcare. Nebraska LMTs are licensed through the DHHS and are already considered licensed healthcare professionals. Massage therapy is a direct-access healthcare service and should not require the endorsement of another licensed healthcare professional to prevent taxation. States that do tax massage, like Connecticut, Iowa, and Texas, are not taxing licensed massage therapists. In fact, Iowa's statute reads: excluding services provided by a massage therapist licensed under Iowa Code Chapter 152C. This allows taxation of foot and hand massage performed by nail techs, scalp massage by hair stylists, etcetera, but excludes massage provided by licensed massage therapists and other healthcare professionals. Unfortunately, stereotyping often groups our profession with the beauty industry, but in fact, Nebraska massage therapy, like other healthcare professions, has an individual practice act

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unassociated with the beauty industry. And as with all other health professions, massage therapy has its own regulatory board and our education includes anatomy, physiology, kinesiology, pathology, health service management ethics, etcetera. We take a national board exam and have required continuing education, including hands-on learning, to stay current with new research, science-based knowledge, and applied techniques. Massage therapy is the only profession listed in this entire bill covered by VA, Medicare Advantage, HSA flex, workmen's comp, personal injury, and other health insurance plans. According AMTA's 2017 industry survey-- survey, most massage therapists are sole proprietors. So not only are you proposing to set a precedence to tax healthcare, you're targeting a small group of about 1,500 people, most of which are the smallest of small businesses. Taxing healthcare is against Nebraska policy and increasing the tax burden on a small group of very small businesses will not yield enough revenue to alleviate property taxes. It does increase healthcare cost, limit payment options, limit small business growth, put undue burden on doctors to write prescriptions for direct-access care, and increase wait time for healthcare. On top of this, prescription can only be given by a small number of healthcare professionals, excluding mental health therapists, PTs and OTs, three of the top referral professions to massage therapy. Again, we do appreciate your time and dedication to helping relieve the property taxes. We just ask that you strike LB508 or change the class to "unless provided within scope of practice of a licensed massage therapist or other healthcare professional." Massage therapy is a licensed health =care profession in the state and Nebraska it does not tax healthcare. Thank you, and I'm open to any questions.

**LINEHAN:** Thank you.

**BRIANA CUDLY:** I know you guys want to get out.

**LINEHAN:** Any questions from the committee? Seeing none, thank you very much. Other opponents? Anyone wanting to testify in the neutral position? Senator Briese, would you like to wrap this up for this Friday?

**BRIESE:** Yes, you bet. I'd just be happy to answer any questions if anybody has any. Otherwise, we'll call it a day. Uh-oh.

**LINDSTROM:** I had to-- I couldn't help myself.

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**BRIESE:** Sure.

**LINDSTROM:** I stayed pretty quiet today, so--

**BRIESE:** You bet.

**LINDSTROM:** I-- I-- I-- don't envy you with these-- with these bills. I understand.

**BRIESE:** Sure.

**LINDSTROM:** I've done it before and you never want to-- you're not trying to pick on anybody, right? You're--

**BRIESE:** Yeah.

**LINDSTROM:** We're looking at this as a broader approach to a-- to a bigger solution in the-- in the discussion. Is the intent with this talking about the exemptions and tax reform, as we look at, say, a small business owner, if-- if you can eliminate an exemption and go down the path maybe of more consumption-based taxation, and you-- and you talk about the business owner with-- with a potential reduction in state income tax and a reduction in property tax, do you, have you talked to some these business owners and would be they-- would they be more inclined to support eliminating some of these exemptions if they can get out of this process a reduction in income tax and property tax?

**BRIESE:** I really haven't bounced that question off too many folks, but I think that's probably a fair-- a fair prediction that their appetite for this might be a little better if there was some-- an income tax component to what we're trying to do. I don't know that. But-- but every business owner should recognize or realize some property tax relief because of what we're trying to do here. Property taxes affect all small businesses and property tax relief is important to small businesses. And what we're trying to do is avoid business inputs and expenses completely. So we need to avoid anything that implicates business inputs or expenses and we have to be careful so we don't have a substantial negative impact on any one industry, any one segment of our economy. And I don't think what we have in here, really anything here, is going to have a huge-- hugely detrimental effect on any one industry or segment of our business. But that's something we're going to have to think about and study going forward to make sure we don't do that. But, yes, I-- you know, from this everyone should yield

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some-- or should realize some property tax relief. And you know, if there can be an income tax component to it, that's-- I'd be open to look at that.

**LINDSTROM:** OK. Thank you, Senator Briese.

**LINEHAN:** Thank you, Senator Lindstrom. Yes, Senator Crawford.

**CRAWFORD:** Thank you, Madam Chair. So it sounds like from the massage testimony that Iowa has an exclusion for licensed massage therapists which is a little different than what you have here with it just being prescribed.

**BRIESE:** Yes. And so the therapists will have to think about that and maybe Senator Linehan-- Linehan might have mentioned, you know, prescriptions or something that would be covered by-- not prescription--

**LINEHAN:** Referrals.

**BRIESE:** --either prescriptions or by insurance. It was suggested to me that anything that insurance would cover maybe is something that maybe that should be the standard there because, you know, the massage therapy people made-- made some good points on that.

**CRAWFORD:** Right. They are licensed under our--

**BRIESE:** Yes.

**CRAWFORD:** --healthcare statutes.

**BRIESE:** And my intent with anything I've ever done is to stay away from healthcare, stay away from education, and in most instances stay away from housing, although some of what we do here does implicate housing a little bit.

**CRAWFORD:** Right.

**BRIESE:** But I think education and healthcare need to pretty well be off the table for the most part.

**LINEHAN:** Yes, Senator-- thank you, Senator Crawford.

**CRAWFORD:** Thank you.

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**LINEHAN:** Senator Kolterman.

**KOLTERMAN:** Massage therapy, for-- for what it's worth, when-- when you have a lot of-- you know, you were asking about prescriptions. You don't have to have a prescription to go get a massage--

**BRIESE:** Right.

**KOLTERMAN:** --whether it's for an accident or whether it's for pleasure.

**BRIESE:** Right.

**KOLTERMAN:** And that-- all that the IRS says is if-- if a massage is covered under an HRA, an HSA, an MSA, 125 accounts, they don't discriminate what it's used for.

**BRIESE:** Yeah.

**LINEHAN:** You're kidding.

**KOLTERMAN:** So I have a hard time thinking we should include massage in this bill because most of the-- a lot of the times, it is for car accidents and medical. And so the IRS doesn't ask you to just-- to differentiate. I'm not sure we should either. That's just my thought.

**BRIESE:** Yeah, good-- good thought. We'll have-- we'll have to talk it over.

**LINEHAN:** OK. Well, we'll all see each other Monday night.

**CRAWFORD:** Yeah.

**BRIESE:** Thank you.

**LINDSTROM:** Yeah.

**LINEHAN:** Monday evening, Monday-- so just for you that are-- yeah, I guess we'll just-- we'll get ahold of you Monday.