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LINEHAN: Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn and represent Legislative District 39. I serve as Chair of this committee. For the safety of our committee members, staff, pages and the public, we ask those attending our hearings to abide by the following procedures. Due to social distancing requirements, seating in the hearing room is limited. We ask that you only enter the hearing room when it is necessary for you to attend the bill hearing in progress. The bills will be taken up in the order posted outside the hearing room. The list will be updated after each hearing to identify which bill is currently being held--heard. The committee will pause between each bill to allow time for the public to move in and out of the hearing room. We request that everyone utilize the identified entrance and exit doors to the hearing room. We request that you wear a face covering while in the hearing room. Testifiers may remove their face covering during testimony to assist committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and chairs between testifiers. Public hearings for which attendance reaches seating capacity or near capacity, the entrance doors will be bonded through by the Sergeant of Arms who will allow people to enter the hearing room based upon seating ability. Persons waiting to enter hearing room are asked to observe social distancing, wear face covering while waiting in the hall or outside the building. The Legislature does not have the availability due to HVAC project of an overflow hearing room for hearings which affect several testifiers and observers. For hearings with a large attendance, we request only testifiers enter the hearing room. We ask that you please limit or eliminate handouts. The committee will take up the bills in the order posted. Our hearing today is for your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceedings, I ask that you abide by the following procedures. Please turn off your cell phones. The order of testimony is introducer, proponents, opponents, neutral and closing remarks. If you will be testifying, please complete the green form and hand it to the page when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page to distribute. We need 12 copies for all the committee members and staff. If you need additional copies, please ask the page to make copies for you now. When you begin to testify, please state and spell

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both your first and last name for the record. Please speak into-- it is my request that you limit your testimony to five minutes. We will use the light system. You will have four minutes on green, one minute on yellow, and then you need to wrap up or I will have to ask you to stop. If there are a lot of people wishing-- no. If your remarks were reflected in previous testimony or if you would like your position to be known but do not wish to testify, please sign the white form on the table outside the room by the entrance 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 would like to introduce committee staff. To my immediate right is committee counsel, Mary Jane Egr Edson. To my immediate left is research analyst, Kay Bergquist. At my far left at the end of the table is committee clerk, Grant Latimer. Now, I would like Senators to introduce themselves starting at my far right.

PAHLS: Thank you, Chair. Rich Pahls, District 31, southwest Omaha.

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

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

BRIESE: Tom Briese, District 41.

ALBRECHT: Joni Albrecht, District 17, Wayne, Thurston, and Dakota Counties in northeast Nebraska.

LINEHAN: This morning our pages are back here. Thomas and Turner both attend UNL and are studying political science. Please remember that Senators may come and go during our hearing as they may have bills to introduce in other committees. Refrain from applause or other indications of support or opposition. We would like to remind our committee members to speak directly into the microphone or-- for our audience. The microphones in the room are not for amplification, but for recording purposes only. Lastly, we are an electronic equipped committee. Information is provided electronically as well as in paper. 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 our state government. And with that, we will open on hearing LB564. Welcome.

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McDONNELL: Thank you, Chairperson Linehan, and thank you, members of the Revenue Committee. My name is Mike McDonnell, M-i-k-e M-c-D-o-n-n-e-l-l. I represent Legislative District 5. south Omaha. LB564 proposes to add apprenticeship programs to the definition of higher education expenses for the purpose of the NEST 529 College Savings Plan that is administered by the Nebraska Treasurer's office. In December of 2019, President Trump signed the Secure Act into law. One of the changes in the new law was to allow 529 funds to be used to pay for apprenticeship programs provided they are registered with the United States Department of Labor. By making the change proposed in this legislation, families will not need to be concerned about opening a 529 Savings Account and then having their child choose a career path through the trades instead of college. This bill was also-- will also help address the skill gap in our work force by providing more resources for youth looking into careers in the trades. This may not seem like a common occurrence, but this issue came to my attention specifically because of this scenario. We have done a much better job of promoting career paths in the trades over the last few years and because of this, a constituent's son decided to become an apprentice with the Electricians Union IBEW 22 in Omaha instead of pursuing a four-year college degree. When the family started researching their resources available for their son, they found out about the Secure Act. They went to withdraw funds from their 529 plan for their son to use for educational expenses. Then they found out that the Nebraska statute does not allow this. When I learned this information, I reached out to the Treasurer, John Murante's office and asked what we needed to do to correct this. This legislation addresses this issue and allows our Nest 529 College Savings Plan to be used for apprenticeship programs. If we are going to be serious about promoting the trades as a worthy investment for our state, then we need to take every opportunity to put careers and the trades on an equal footing with four-year degrees. Treasurer Murante is here to answer any questions today. I'm here to answer questions and also I'll be here for closing.

LINEHAN: Thank you, Senator McDonnell. Are there any questions from the committee? So now you can't use it for trade school, you can only use it for college?

McDONNELL: Yes.

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LINEHAN: OK. All right. Any other questions? Thank you very much,
Senator McDonnell. Proponents. Are there proponents?

JOHN MURANTE: Good morning, Chair Linehan, members of the Revenue
Committee. My name is John Murante, J-o-h-n M-u-r-a-n-t-e. I'm
Nebraska State Treasurer and here as the trustee of the Nebraska
College Savings Program. As Senator McDonnell stated, Congress has
expanded the use of 529s for the purposes of apprenticeship costs.
That was passed in a bipartisan way in Congress. Most states in the
country automatically adjust what constitutes a qualified withdrawal.
If Congress says something is a qualified withdrawal, then their
state's 529 plan automatically triggers. Were not one of those. So
every time Congress expands the use of a qualified withdrawal, we have
to come back to the Legislature and make sure that-- that we're in
conformity. And it really puts us the-- the more this tends to happen,
and I do expect additional qualified withdrawals to be passed through
Congress, the interest in the legislation in the Congress that deals
with 529s and what constitutes a qualified withdrawal is increasing
every single year as-- as the momentum builds. So this is going to
keep happening and as states continue to automatically include those
qualified withdrawals in their programs, if we don't do the same with
our program, we put ourselves in a serious competitive disadvantage,
little by little, every single step at a time. In addition, as the
members of this committee undoubtedly know, our office has worked very
hard on the issue of financial literacy. We've been providing through
EVERFI, free financial literacy courses in public schools across the
country, excuse me, across the state of Nebraska, thousands of
students participate every single year. This is really a component, we
believe in financial literacy because not only from our perspective is
it important for Nebraska families to be investing and saving and
understanding the value of saving over time and the benefits of-- of
those dollars growing, but also, we think that we want to start having
more and more conversations from the financial literacy perspective
about the return on investment of the various types of post-secondary
education that is available to Nebraskans and we think apprenticeships
are a big part of that. Dealing with that student loan debt isn't--
isn't just about college savings, although that's a very important
part of dealing with the student loan debt, but also asking students,
what's the best return on investment that they can have for the
careers that they can get the best salaries for across the state of
Nebraska. As I'm sure everyone here knows, even before the pandemic,

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there were plenty of jobs across the state of Nebraska. Almost all of them required some sort of post-secondary education, but it wasn't always a requisite that it be a four-year degree at a four-year university. So we're trying to raise awareness that-- that Nest and 529s broadly are not exclusive to four-year universities and they're not exclusive to institutions in Nebraska or the University of Nebraska. But-- but for a wide range of different kinds of post-secondary education, Congress, as has been stated, has expanded for apprenticeships. And I believe that Nebraska Legislature doing that as well will be a benefit to the program. It'll help grow the program and it'll be a good thing for the-- for the kids in Nebraska. I'd be happy to answer any questions.

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

FRIESEN: Thank you, Chairman Linehan. So what-- what types of education now are currently allowed to use the 529 then, private colleges, community colleges?

JOHN MURANTE: Private colleges, community colleges, vocational schools, trade schools, culinary schools. It's pretty broad already. Apprenticeships are, of course, not currently included, but.

FRIESEN: So these schools can be located nationwide.

JOHN MURANTE: And worldwide as well.

FRIESEN: Worldwide. OK.

JOHN MURANTE: As long as they're accredited.

FRIESEN: Do they have to be registered with the department or with someone, or?

JOHN MURANTE: For the apprenticeships?

FRIESEN: Yeah-- no for all the other programs out there. Are they-- do they have to be registered somewhere to know that they're qualified to?

JOHN MURANTE: Yeah. What constitutes an accredited post-secondary institution is fairly well laid out in the federal law, but yes.

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FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? So Congress has already made this change, so we're just catching up.

JOHN MURANTE: Yes.

LINEHAN: OK. All right. Thank you very much.

JOHN MURANTE: Thank you.

LINEHAN: Other proponents? Are there any other proponent? Are there any opponents? Is there anyone wishing to testify in the neutral position?

McDONNELL: Thank you, Chairperson.

LINEHAN: Before you close, can I read some--

McDONNELL: Yep.

***KRISTEN HASSEBROOK:** Chairman Linehan and Members of the Revenue Committee, my name is Kristen Hassebrook, registered lobbyist for the Nebraska Chamber, here today in support of LB564 on behalf of our members, the Greater Omaha Chamber and the Lincoln Chamber of Commerce. LB564, would add apprenticeship programs to the definition of qualified higher education expenses so Nebraska educational savings plans could be utilized to pay for apprenticeship programs. We thank Senator McDonnell for bringing this proposal to the Committee for your consideration. Going into the pandemic, the state faced critical workforce and technology-enabled job creation challenges. There was an urgent need for new approaches to keep top talent, foster more in-state business expansion, and attract more growth companies. The global pandemic has changed none of these dynamics. If anything, it has simply made our work ever more urgent. Nebraska's educational savings plans have proven to be a successful way for families to save for higher education. However, higher education degree programs should not be the only path to a securing good jobs. As you are well aware, workforce development is a major issue facing Nebraska's employers, and we need short- and long-term approaches to addressing this challenge. Apprenticeships are a vital element in filling this gap. In addition to providing the state's businesses with a quality employment

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base, they provide good careers across a broad spectrum of vocations for the state's workforce. We need to provide the state's employers with the personnel they need to sustain the level of economic activity and growth that is fueling Nebraska's economy, and as well need to continue provide all Nebraskans with a path to promising and sustained careers. That applies to those new to the workforce and those who have been displaced due to factors such as the COVID crisis. Data from the U.S. Department of Labor tells us that job-driven apprenticeships are among the surest pathway to provide skills and knowledge needed to acquire good paying jobs and grow the economy, given that: 87% of apprentices are employed after completing their programs; the average starting wage for apprentices is above \$50,000; and for every \$1.00 spent on an apprenticeship there is a \$1.47 return in increased productivity. There is a need to support funding mechanisms that create a lifelong learning model. Training and retraining are vital parts of that effort, and apprenticeships provide an important and valuable use of people's education savings. LB564 moves the needle to ensure all families and Nebraska children can utilize their educational savings plans to the fullest. We encourage the committee to advance LB564 to the floor for consideration by the full Legislature.

LINEHAN: --we know. I'm sorry, I could have done this. Written testimony was delivered this morning by Kristen Hassebrook from the Nebraska Chamber and also the Omaha Chamber and the Lincoln Chamber of Commerce. And on letters, we had one proponent. So no opponents anywhere here.

McDONNELL: Thank you. So it-- it's just kind of recap. We're trying to harmonize between the-- what's happened on the federal level here on the state level. But as we promote the trades, I think this question is going to be asked more frequently. That it was a constituent that brought it to me was that they never thought their son would be interested in being an electrician. They thought when they started their 529 that for sure that individual was going to go to-- to college and this individual even had an opportunity with an athletic scholarship, but decided to go a different route. And we promote the trades with the idea of, you earn and learn, you earn and learn. You're not-- you're not accruing that-- that college debt, but there is expenses. As we talked about, you know, with books and tools and living expenses, it's a great opportunity for us to fill those jobs. And just looking at the metropolitan statistical area projected in the

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next 20 years with-- with-- with the idea of construction and the idea of the baby boomers that are in the trades right now retiring, the need in the next 20 years is going to double. So I believe this is a great opportunity for-- for individuals as a way to assist them to follow a different successful career. Instead of deciding to go to a four-year college, it's an opportunity for them to-- to pursue the trades.

LINEHAN: Thank you, Senator McDonnell. Are there any other questions from the committee? Seeing none, thank you very much.

McDONNELL: Thank you.

LINEHAN: So that brings our hearing on LB564 to a close, and the next, and Senator Lindstrom takes over.

LINDSTROM: We'll now open the hearing on LB681, introduced by Chair-- Chairwoman Linehan. Good morning.

LINEHAN: Good morning. Good morning, Vice Chair Lindstrom, and Revenue Committee. In 2017 the federal tax-- oh, excuse me. My name is Lou Ann Linehan. I represent Legislative District 39. My-- Lou Ann, excuse me, L-o-u, capital A-n-n, capital L-i-n-e-h-a-n. In 2017, the Federal Tax Cut and Jobs Act expanded 529 Savings Plans to allow families to invest in funds for K-12 tuition in addition to higher education expenses. Since that time, 38 states and the District of Columbia have expanded their 529 opportunities to K-12 education. Unfortunately, Nebraska has not. LB681 seeks to remedy this by giving Nebraskans the full benefits of a law regarding the state's sponsored 529 educational plans, where specifically discussing the Nebraska Educational Savings Trust, commonly referred to as NEST. Currently, Nebraska law only provides favorable tax treatment for NEST accounts if they're used for qualified higher education expenses at a public, private-- public or private colleges, universities, community colleges, technical schools and graduates program. And we just heard, we would-- there's a request to expand them to the trades. LB681 expands NEST 29 Plan to include tax free distributions of up to \$10,000 per year to pay for tuition in K-12 private parochial schools. The primary benefit of the 529 Plan is that any earnings from growth over the time are tax free if they are used to pay for qualified educational expenses. LB681 specifies expanding expenses for tuition to enroll in elementary and secondary education schools. It is on page 16 of the bill on lines 22 to 30.

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Besides the wise financial decision to save in a 529 Plan, an average of these plans-- an advantage, excuse me, of these plans is that parents, grandparents, godparents, aunts, uncles and virtually anyone else who cares about a child may open a plan. This creates a great opportunity for people to invest in Nebraska and take care of loved ones. So this is a pretty simple concept. LB681 allows Nebraskans the opportunity to save money for their children or their grandchildren's education. Nebraska NEST program launched in 2000 has been very successful. State Treasurer John Murante will discuss some of those specifics, but know that our younger generations of parents are saving and using savings accounts like this at a higher level than any previous generation. This is true in Nebraska when one sees the growth of our NEST program. No doubt we will hear arguments about this, how this will take money from public schools coffers to distribute enrollment in public or disturb enrollment in public schools. LB681 does not hurt public schools. This is about families making choices with their money for their kids. Regardless of our primary concern should-- regardless, our primary concern should be the inherent right of an individual to spend money, their own money on the child they love. So I-- I know we got a whole bucket full of things to get done and I know there will be opposition to this bill. And-- but I think we all heard from Blueprint that one of our biggest challenges in Nebraska is keeping young people, successful young people in Nebraska. And we have 38 states that allow this. And when you have people move to Nebraska and look at what their options are in Nebraska, they're going to look at this. They're going to look at whether they have the same options that are in 38 other states when it comes to educating their children. And as you all know, you're either in that age group, some of you, or you have children in these age groups, they-- they research everything when they decide where to live, whether it's their taxes or what-- where their schools, what their choices are going to be and we're behind. Nebraska is behind, so I would like the committee to give this serious consideration.

LINDSTROM: Thank you. Any questions from the committee? Seeing none, thank you. Proponents? Good morning, Treasurer Murante.

JOHN MURANTE: Good morning. Vice Chairman Lindstrom. For the record, my name is John Murante, J-o-h-n M-u-r-a-n-t-e. I'm Nebraska State Treasurer here in my capacity as the Trustee of the College Savings program. As you all know, I'm not a policymaker anymore. I'm here to give you the perspective of what is good for NEST as a program and for

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our 285,000 account holders. And I'll start by talking briefly about what this discussion is not about and what the policy question that is not on the table right now, and that is, should Nebraskans be able to use 529s to pay for their children's K-12 private school tuition? That question is settled. Any Nebraskan today can open up a 529 account and they can invest money in it and they can take advantage of all the federal benefits and they can use that money to pay for K-12 private school tuition. They just can't use Nebraska's plan. The question before you is, do we want to continue incentivizing Nebraskans to use another state's College Savings Plan? And I don't believe there is a great policy reason to do that. And I believe it's in the detriment of our account holders to do that, because just as we talked about in the last bill, the more we are in-- we are in competition with all 50 other states. Nebraskans can invest in any program in the entire country. The more we put limitations on what our account holders can spend their money on, the more of a competitive disadvantage we are at and the more likely Nebraskans and Americans across the country are going to choose a different plan, which brings me to my second point, which is the practical impact of this bill. And the practical impact is we have, like I said, 285,000 account holders. We have six and a half billion dollars in assets. Three quarters of those are not Nebraskans. There's no state income tax implication because they aren't paying Nebraska state income tax. They're not Nebraskans, these are Californians and Texans who are looking around the country trying to identify the best program to invest in and they're choosing Nebraska to invest in. And we are out kicking our coverage in terms of the total amount of assets for a state our size. So in terms of who is actually impacted by the policy discussion that's happening right now, practically the vast majority of those are Californians and Texans. It has nothing to do with public schools in the state. It has nothing to do with Nebraska state income tax. There is a portion of-- of our account holders, of course, who are Nebraskans who would take advantage of this. But that's not the overwhelming majority of who our account holders are. And second, I want to address the issue that-- that sometimes get raised that if you were to expand this for K-12, what would happen is you would see a massive infusion of Nebraskans who said there-- who send their children to private school, who open NEST accounts. They-- when it comes time to pay their tuition, they deposit money in the account and then immediately write the check off to the school to pay for-- for their tuition. I would tell you two things. First, we already have-- people can--- already have the

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opportunity to do that at every post-secondary level of education. We aren't seeing Nebraskans doing that when they go to the university. We aren't seeing Nebraskans doing that when they go to community colleges or any other level of post-secondary education. I fail to see why this would suddenly see that massive infusion of new accounts just to claim an income tax deduction. But second, if that were true, this bill would have no stronger opponents than myself and our program manager. And the reason for that is, the state and our program manager are paid based on a percentage of the assets in the trust. So if it were true that we were seeing a massive infusion of new accounts with no money in them, what we're doing is dramatically raising the cost of running the program without adding any revenue. And what that is going to do, it's going to result in the fees for our existing account holders necessarily having to go up to to pay for the massive infusion of new expense. And we are going to have to rethink how we run the program. Now, the reason why I'm here in support is I find absolutely no evidence that that is actually going to occur. As it's already been stated, 36 states already allow this, and that hasn't been their experience. And if it was their experience, they would have the same comment that I just said, they would stop utilizing their 529 Plans for K-12 private school tuition. But there is not been a single state in the country who has expanded for K-12 private school tuition, who has had the sort of impact that is sometimes predicted, who has then rescinded that policy. So I don't think that's very practical. And I want to thank Senator Linehan for in her bill explicitly stating that the incentives for investing in post-secondary education that this Legislature passed in the last two years are not tied to this bill. That those incentives, Meadowlark and otherwise, are still explicitly earmarked for post-secondary education. I think that's the right thing to do. Any effort to use those dollars in a way that was not their initial-- their stated intended purpose, I would oppose. This bill does that and I think that's a good thing. I think it's the right thing to do. And I think it makes those programs more effective to achieving the educational outcomes that we all talked about over the long haul. So with that, I thank you very much and I'd be happy to answer any questions you may have.

LINDSTROM: Thank you. Any questions? Senator Friesen.

FRIESEN: Thank you, Vice Chair Lindstrom. You mentioned that the-- you determine the cost to administer the program. You pay it based on the

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balance in the account. Is that kind of a average-- monthly average?
Is there a date when they look at it?

JOHN MURANTE: It's a quarter, it's paid quarterly.

FRIESEN: Quarterly. So they look at each quarter and look at the
investments are paid quarterly.

JOHN MURANTE: But yeah, but if money is just in an account for one
day, that's-- that's-- we're not generating any revenue off of that.

FRIESEN: OK, I would agree. OK, I was just curious on how you
determine that amount. Thank you.

LINDSTROM: Senator Briese.

BRIESE: Thank you, Vice Chair Lindstrom. Thank you for your testimony
here today. Why is this program so popular with nonresidents?

JOHN MURANTE: Well, I think it's a couple of things. We have a very
good returns compared to the other states in the country. We have had
good rankings in terms of the websites that are out there. We have
good relationships with advisors across the country. And just this
year, we were able to reduce our-- our program management fees by 68
percent, which made it even more attractive. And Morningstar upgraded
our ratings already. So I think there's a lot of reasons why we're an
attractive option. I would also submit that-- that our state is more
active in promoting the College Savings program than many other
states, but those are a couple of reasons.

BRIESE: OK, very good. Thank you.

LINDSTROM: Thank you. I've just a couple question. You mentioned the
fees cut. You said 68 percent. What was the internal cost and I'm just
for the record, I think it's important because it is competitive.

JOHN MURANTE: So the internal costs in terms of what the state is
charging?

LINDSTROM: Yeah.

JOHN MURANTE: So the state is charging two basis points and has been--
that-- that has been, I believe, Treasurer Stenberg reduced from three

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to two basis points four years ago. The program management fee, which our program manager is now Union Bank and Trust, went from 25 basis points to eight basis points for Nebraskans invested in this direct. So that's-- that's where the bulk of the savings came from.

LINDSTROM: That's cheap, I can tell you. Yes. You know, ETFs-- it might be even cheaper than the most ETFs out there, which are cheap, relatively speaking. A couple of things, because I know this argument has been brought up in the past as to the ability to use this through-- for K-12 education. I guess, one, do you see that most people that would utilize this for private school would probably already be sending their kids to private school regardless?

JOHN MURANTE: I think so. I mean, so that's more of a question of how much of an incentive do you think a state income tax deduction is in terms of a parent's decision to send their kids-- to which school to send their kids to? And I'm not convinced that whether a parent gets an income tax deduction for investing in NEST is going to be the ultimate factor in which school they send their child to. I just don't-- as a parent, that's not how I think.

LINDSTROM: And that leads me to my second kind of question or discussion point in this is that time value money. You know, you and I are-- have kids that are younger, and if we're going to invest in their education, we want that money to grow. If we see that money and say, with a \$1,000 or whatever it might be, to pull that money out and use it as qualified money to-- for a K-12 education doesn't-- to me it doesn't make a lot of sense because of the tax deferral within there with the capital gains and then as long as you use it for qualified money, no issue. So the intent for-- for me and I think the vast majority of people would be to have that grow over 18 years or whenever the child decides to go to post-secondary education, is that-- would you say that the percentage on that-- on that and people that are accessing the 529, is that the vast majority of people and what they use it for?

JOHN MURANTE: Oh, without a doubt. And 98 percent of our account owners are parents or grandparents. So they're-- they're not individuals who are students at the University of Nebraska who are using it, so the vast majority fit that description.

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LINDSTROM: Yeah. And allow the money to grow so they can-- I mean, college is expensive, a lot more expensive than K-12, so. OK. Any other questions? All right, thank you.

JOHN MURANTE: Thank you.

LINDSTROM: Next proponent? Good morning.

JEREMY EKELER: Good morning, Vice Chair Lindstrom, and members of the Revenue Committee. My name is Jeremy Ekeler, J-e-r-e-m-y, and Ekeler is E-k-e-l-e-r. I am the associate director of education policy for the Nebraska Catholic Conference. The Nebraska Catholic Conference advocates for public policy interests of the Catholic Church and advances the gospel of life through engaging, educating and empowering public officials, Catholic laity, and the general public. As Senator Linehan mentioned, it has taken less than four years for 38 states and D.C. to expand their 529s into K-12 education. Even though this program helps ensure parents are afforded greater opportunity in choosing the best education for their child, Nebraska remains in a shrinking minority. As such, Nebraska again faces a decision about whether to align with this reform and the growing number of states to see the benefit or to remain on the sidelines. Our hope is that this committee supports parents across Nebraska who work so hard to diligently and responsibly save for their child's K-12 tuition expenses. The reason and faith teaches that as those first responsible for the education of their children, parents have the right to choose a school for them which corresponds to their own convictions. This right is fundamental. Public authorities have the duty of guaranteeing this parental right and of assuring the concrete conditions for its exercise. LB681 recognizes the need for state government to support parents and their responsibility to direct the education of their child as they see fit. It does so in a couple of important ways that I'd like to briefly discuss from the perspective of our families. First, LB681 provides tax fairness. As you guys know, I was a principal prior to coming to this job so I can speak firsthand that families who are able to afford and select a nonpublic school setting must pay tuition. Those families are doing so in addition to paying local and state taxes for the traditional public schools, which is the right thing to do because it's for the common good. Paying for two different education systems can act as a financial penalty for selecting a nonpublic school, which in turn can disincentivize parents decision to choose an education best suited for their child. LB681 is

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a small step in remedy-- remedying this inequity facing taxpayers who choose nonpublic schools for their children. Secondly, is an issue of opportunity. We have nearly 28,000 students in Nebraska Catholic schools. There's 38,000 roughly in the state in all nonpublics. There's 114 Catholic schools, about 214 total nonpublic schools. These are fully approved, fully accredited. I've been here previously in showing you how that works and the amount of work that goes into that. We're heavily regulated by the Nebraska Department of Education. A sad fact for us is that our schools lost 1,400 students due to COVID this last year. Fourteen hundred students who want to be in our schools, 1,400 students from low-income and middle-class families who cannot be in our schools. And often for those families, it was a matter of filling a small gap in tuition that despite historic giving by our dioceses, it just couldn't happen. By assisting families who responsibly save for their K-12 education or tuition expenses, LB681 mitigates an equality of opportunity that currently exists. One of the stats we found was a 75 percent of current 529 Plan holders actually fall into middle-class families with incomes of \$150,000 or less, while 17 percent have incomes of \$50,000 or less. That's my experience as a principal. I know there's been some counter arguments in the past that this is only for the wealthy. I don't think that's the case. I think Mr. Murante made-- you know, talked a little bit about that too. We also know from our experience that Catholic schools that running-- of running Catholic schools that even a small financial incentive like a \$200 scholarship can go a long way. This is the sort of thing families can expect to receive under LB681. So, in closing, I just wanted to raise the concern that we've heard in the past that there's-- this is out to hurt or would hurt the public school system. Got a great public school system. Love our public schools. We educate children together in Nebraska. But in truth, this policy does not impact public schools any more than any other tax deduction-- deduction policy. For example, when NEST accounts were initially authorized for higher ed purposes, there was no suggestion that that would devastate public institutions of higher ed. And that's again for private schools as well and public. So when we put politics aside, it's clear that education choice is not a zero-some game. Ensuring that each child can receive an education that meets their unique needs helps everyone and hurts no one. Therefore, 529 accounts makes sense for higher ed. We think they make just as much sense for K-12, so we support 681. We hope it advances to General File. And thank you for your time and I'm open to any questions.

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LINDSTROM: Thank you. Any questions from the committee? Seeing none,
thank you.

JEREMY EKELER: All right. Thank you, guys.

LINDSTROM: Next proponent? Seeing none, first opponent. Good morning.

RENEE FRY: Good morning. Good morning, Senator Lindstrom, and 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're here today
in opposition to LB681 for several reasons, including the cost to the
state in that LB681 creates a new tax benefit that will subsidize
private K-12 education. While federal law now allows the state 529
Plans to be used for private K-12 tuition, LB681 goes a step further
by also creating a new state level tax deduction for private K-12
education tuition. 529 education plans were created to encourage
long-term savings for higher education. LB681 will turn NEST into a
pass-through entity so that families with children in private school
can and will use these accounts to receive a tax deduction for their
private school tuition. For example, under LB681, a taxpayer could put
\$10,000 into their child's NEST account and then turn around and
withdraw that same amount for private K-12 tuition as there's no
requirement that funds remain in a 529 account for any length of time.
In this way, the Savings Plan is not utilized to generate long-term
savings benefits for the beneficiary as originally intended, but
instead as an immediate tax deduction to the taxpayer-- the taxpayer,
who also is likely to be high income, as 77 percent of Nebraskans
claiming a NEST tax deduction in 2018 had incomes over 100,000.
According to the Forbes article that I've handed out, shortening-- the
shortened holding time for deposits that would be expected from
allowing 529 Plans to be used for private K-12 tuition, may also
create a number of other issues, including increased administrative
costs for the plan administrator and making it harder for the state to
predict tax revenues. We do not support a further narrowing of the
state's income tax base with the creation of a Nebraska tax deduction
for nine-- 529 contributions used to support private school tuition. I
do want to mention, it's been talked about that 38 states allow this.
Not all of those 38 states, though, give a state tax deduction. In
fact, only 23 of those states give a state tax benefit as well. If
this were to pass, Nebraska would have the seventh most generous state
tax deduction for using your 529 account for private K-12. I know
Senator Murante said he believes that people wouldn't use it to put it

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into the account, turn around and write a check for their tuition. I absolutely have talked to people who said that that's exactly what they would do, and I do believe that that would be done quite a bit. So as a result, we oppose LB681 and would urge the committee not to advance this legislation. Thanks for your time and I'd be happy to answer questions.

LINDSTROM: Thank you. Senator Pahls.

PAHLS: Sorry, I came in late. I was at another bill. The part that caught my attention and I know I missed a lot of this, but OK, if I put 10,000 in for my grandchild and they could pull that out and I would receive that, explain that to me, I don't quite-- how would that be economically a benefit for me on the tax side?

RENEE FRY: Yeah, there's the state tax deduction, up to 10,000 for mailing-- married filing jointly, excuse me. So you would receive a \$684 tax benefit if you put \$10,000 in that account and there's no time limit in terms of when that can be taken out.

PAHLS: Ok, so it would be smart for me to put in 10,000 one year and then 10,000 another year, if I had that money, to-- to-- for 600, so that's the benefit. I didn't realize that. I mean--

RENEE FRY: Yeah, right. And so if you had someone who's in private school and again, the idea behind the 529 Plans were to save for college, right. So that's something if you're putting in for your grandchild at birth and they get the benefit from many years, right. 18 years of savings.

PAHLS: Right.

RENEE FRY: So in this case, at best, you may have a five-year period, right, if you put it in at birth by the time they go to kindergarten. But what you're going to see, I believe, I think there are a lot of people who will do this. If they have tuition, they are going to use the 529 Plan to get that benefit, so if they are paying tuition, \$10,000, for example, to a K-12 institution, you could turn around, you could put the money into that account and get a \$684 credit, assuming that you are paying at the top rate of 6.84 percent. So you would get an immediate-- you would be able to save essentially \$684 on

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your tuition if you chose to use the account in that way. And, I absolutely believe people would do that.

PAHLS: That could be used in a revolving way and every year, I could use ten more.

RENEE FRY: Every year. Right.

PAHLS: So in a matter of a few years, I could save several thousands, if that's my intent.

RENEE FRY: Correct.

PAHLS: If it's my intent to save up.

RENEE FRY: Right. And so-- since you missed the beginning, if you don't mind, so again, part of the issue here is so the federal government does allow 529 Plans to be used for private K-12, but there's no requirement that states give any kind of tax deduction for doing that, so.

PAHLS: There are some states that do.

RENEE FRY: There are some states that do, but ours would be quite generous if this bill were to pass.

PAHLS: Well, we always want to be the top, all the time. Thank you.

LINDSTROM: Thank you. Senator Friesen.

FRIESEN: Thank you, Senator Lindstrom. So this \$684 that is just Nebraska's tax credit and then you get the federal whatever that deduction or--

RENEE FRY: So there's no deduction on the federal level, but you're allowed to-- you don't-- but pay taxes on the earnings.

FRIESEN: OK. So what would-- you know when we talk about the average family and the income they have, so if you take the average working family in Nebraska, how much do you think would be left to put into these college savings accounts in the first place? I mean, obviously, \$10,000 sounds like a lot to some people. So the average family out

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here, would they be capable of saving \$10,000 a year to put into a college savings account, or would that not even be feasible?

RENEE FRY: I mean, I think that's a legitimate question. I don't know. I think what you're going to see is you're going to see kids who are already attending private school. Their parents are going to use the 529 account to pay for it to-- they're going to put that tuition in there, turn around and get the tax benefit. Why wouldn't they? Why wouldn't they take advantage of that?

FRIESEN: One of the drawbacks that you're saying is that the money is not available there when they go to post-secondary?

RENEE FRY: Yeah, and that's a concern that was raised either in the Forbes account that I handed-- or Forbes article that I handed out or when I was doing some other reading I came across that as well. But there is a concern-- there was concern about the federal law that it would create a disincentive. People would use it for private K-12 and would not have those 529 NEST eggs for college.

FRIESEN: OK. Thank you.

LINDSTROM: Senator Pahls.

PAHLS: I have a question because I am fortunate I have several grandchildren, so I would say-- OK, let's say I have three grandchildren and I'm capable of doing it. If I put 10,000 in their account every year, I could deduct that.

RENEE FRY: You could only deduct 10,000 a year for yourself. So you couldn't deduct--

PAHLS: I could have three children at 30,000.

RENEE FRY: No.

PAHLS: OK.

RENEE FRY: So the max benefit you would get would be 600 for a year.

PAHLS: OK, this would be probably not a parent because they're probably working hard, but the grandparents that would be how they could-- or relatives they'd be more-- and be more beneficial for them

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if you're thinking in taxing. I mean, you know, you aren't giving--
you know, most of the time that I give I don't really expect a
response back but, you know, you could give from the heart.

LINDSTROM: OK. Any other questions? Seeing none, thank you.

RENEE FRY: Thank you.

LINDSTROM: Next opponent. Good morning.

DANIEL RUSSELL: Good morning, members of the Revenue Committee. My name is Daniel Russell, D-a-n-i-e-l R-u-s-s-e-l-l. I am the deputy director at Stand for Schools, a nonprofit dedicated to advancing public education in Nebraska. We're here today in opposition of LB681 because it mainly benefits families who can already afford to send children to private school. It could cost the state's General Fund significantly, and it benefits a single bank at taxpayer expense. These forms of tax credits in other states have been shown again and again to almost exclusively benefit families who can already afford to send their children to private school for the simple reason that you need money to save to take advantage of the tax benefits. Proponents say this bill would simply bring state statutes in line with new federal provisions that expand the scope of 529 Savings Plans to K-12 private education. However, state level tax credits up to \$10,000 a year for the use of these accounts have nothing to do with federal tax reform and would cost Nebraskans millions each year. If your family are already paying private school tuition, why not open a 529 account under this bill. You can make a deposit and withdraw it a day later and receive full tax benefits. Costs fall squarely on taxpayers and the General Fund, and it's contrary to the long-term goal of saving for college, which has been shown to increase college attendance. That same logic does not apply to K-12 schools. Finally, we have concerns about the benefits to a single financial institution. Union Bank is the sole program manager of 529 Savings Plans. And as you can see on page 18, line 27 of the bill, which states that the state treasurer, his or her designee may establish, impose and collect administrative fees and charges in connection with transactions of the trust and provide for reasonable service charges, including penalties for cancellation and late payments with respect to participation agreements. So this section invites the program manager currently Union Bank, but it could be another bank in the future to work directly with the state treasurer to set bank fees on 529 accounts at

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whatever level they choose and taxpayers to foot the bill. There's no
opportunity for public input, comment or oversight on this process. So
for these reasons, we oppose LB681, and we urge you not to vote it out
of the committee. I'm happy to take any questions.

LINDSTROM: Any questions? Senator Pahls.

PAHLS: Yeah, I'm reading that paragraph one, two, three, four, five on
your--

DANIEL RUSSELL: Sure.

PAHLS: --document you handed out. You're telling me if I make a
deposit on December 31, 2021, I could withdraw it on January 1, 2022.

DANIEL RUSSELL: Yeah, and I want to be really careful with that
because I know the effective date of this bill is January 1st, but the
point is--

PAHLS: Yeah, the point you try to get across, so basically, they turn
around and part that I see, cost falls squarely on taxpayers and the
General Fund. That's the part that I-- we're always talking about the
General Fund. Thank you.

LINDSTROM: Senator Briese.

BRIESE: Thank you. Thank you, Mr. Russell. Thank you for your
testimony here today. How is this going to hurt public schools again?

DANIEL RUSSELL: Well, I think the argument isn't specific for public
schools, but for the General Fund in particular, so that's public
schools, public health, public safety. I don't want to make the
argument that it's hurting public schools in particular but the
General Fund.

BRIESE: You're here on behalf of public schools, I'm--

DANIEL RUSSELL: Sure.

BRIESE: --surmising. You're here because you feel it's going to hurt
public schools, so that's why I asked.

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DANIEL RUSSELL: Yeah, and I'm here on behalf of Stand for Schools. We don't represent any public schools or school districts. We're concerned about any major impacts to the General Fund because, of course, we pay for schools to the General Fund.

BRIESE: Did you testify on other bills that are going to require a General Fund appropriation or--

DANIEL RUSSELL: Sure. And our executive director would probably be better able to answer that question. She unfortunately broke her foot, so I'm pinch-hitting.

BRIESE: OK, well, thanks for being here.

DANIEL RUSSELL: Yes. Happy to be here.

LINDSTROM: Thank you. Any other questions? I do have-- just have a question on the previous testifier mentioned that you put in \$10,000, you get a \$684 tax benefit. And then in your testimony, you mentioned that it cost the state millions. That's a lot of people putting in \$10,000 and getting \$684, costing million. So I know you're pinch-hitting today, so I'm not going to press you on it, but I would like to know where that information comes from to justify why it would cost Nebraska millions of dollars.

DANIEL RUSSELL: Sure. I guess I would direct you to the fiscal note, which indicates a \$5.2 million reduction in state revenue by, I think they're 22, 23.

LINDSTROM: Very generous. I don't know too many people putting \$10,000 in. OK, thank you. Seeing no questions, thanks.

DANIEL RUSSELL: Thank you.

***JASON HAYES:** Good morning, Senator Linehan and members of the Revenue Committee. For the record, I am Jason Hayes, Director of Government Relations for the Nebraska State Education Association. NSEA opposes LB681. Allowing 529 contributions to pay for K-12 education defeats the primary purpose of having the account in the first place. The primary reason to have a 529 is because you can invest in education over nearly two decades, slowly growing principal - and interest on those funds - for postsecondary education. Allowing 529s to be used for K-12 education defeats that purpose - support for a post-secondary

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education that in most cases will lead to professional careers and the kind of well-paying jobs we want to attract to and develop in Nebraska. Allowing 529 dollars to be used for K-12 education doesn't allow the fund the time to grow and be beneficial in its support of a post-secondary education. That means the tax reduction for your contributions are the only potential benefit. Working poor and middle-class families would see little to no tax benefit for their contributions based on when these dollars are factored into our tax obligations. To see even \$500 in tax relief a family would need to save more than \$9,000 a year in a 529 account, which means that really the only people who would benefit from this are the wealthiest Nebraskans - those who have the least need for this kind of benefit. Not only does LB681 offer little individual benefit, the false premise of benefit that it offers would also drain the state of needed resources. Even with the negligible individual impact, taken in aggregate it will likely cost the state millions of dollars in revenue each year. LB681 offers the false promise of tax relief that will actually harm the education of far more children across the state than it will ever benefit by diverting funds from public education. Public education is a foundational pillar of our nation that predates the Constitution. Support for public education is also an obligation under our state's Constitution. Our quest is to provide children with access to the great equalizer - an outstanding public education - something our constitution says we must provide. The NSEA, on behalf of our 28,000 members across the state, asks you to indefinitely postpone this bill. Thank you.

***COLBY COASH:** Senator Linehan and members of the Revenue Committee, my name is Colby Coash, and I am here representing the Nebraska Association of School Boards in opposition to LB681. Currently, the NEST plan is a state sponsored savings plan comprised of a tax-advantaged account for education expenses. Its name stems from Section 529 of the IRS tax code, which gives these plans special tax breaks to encourage saving for education. Through the state's sponsorship of NEST 529 accounts, any Nebraska family or student can benefit from the NEST 529 plan whether they eventually pay tuition to a public or private post-secondary institution, as both public and private post-secondary institutions are fee-based. The state does not guarantee free post-secondary education to all of its citizens. Unlike post-secondary education, the state does guarantee a free education for children in K through 12 grades. This includes the cost of school,

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and, through the Student Fees Act, the cost of required materials. Any state sponsored financial system set up to provide financial assistance for K12 schooling can only be utilized by private and parochial school families. As a result, the use of NEST 529 funds for K12 education is not an education benefit intended to be used by all Nebraska children. It targets its support for only children attending and paying tuition to non-public K12 schools. This would not be providing access to educational support in a way that is available to all families and students. Thank you.

LINDSTROM: Next opponent. And opponents? Seeing none, any neutral testifiers? Seeing none, Senator Linehan, if you'd like to close.

LINEHAN: Thank you. I'll be quick. To your point, I just-- I'm not always good at math, so but in the fiscal note and if it's-- if the top to-- only the people on top bracket took advantage of this, to cost the state over \$5 million would mean that Nebraskans would invest \$76.5 million in this. Now, I don't quite see how that's going to happen. I think-- I don't think it would be a bad thing, but \$76.5 million. As we all know on the committee and to testifiers who are here don't maybe understand, but we understand, we have tax credits for historical buildings, for ethanol, for beginning farmers, for early childhood and for college. But tax credits for kids are bad? I mean-- the tuition, I think, state wide for an elementary school and parochial is about \$2,500 a year. The average we spend in public schools is \$13,000 a year. So I don't see how this costs the state money. Period. As Jeremy said and I've said before, there are around 40,000 kids in private or parochial school in the state. And if you take 40,000 times 13,000, all of these schools save the state money. You just-- there's no argument around that, so. This is not going to be my priority this year. I'm not going to ask somebody else to prioritize it, but I think I'll go back to the reason I think it's really critically and important and this goes back to where I want us all to think forward. If we want to be competitive, if we want to keep families in Nebraska, if we want to be a leader, bright spot in the nation, it's all about-- it's about a lot of things, but it's-- it's definitely about tax policy. And I don't think we want to be the last state in the Union to catch up with this. Thank you.

LINDSTROM: Thank you. Any final questions? We did have--

LINEHAN: Oh, I'm sorry. I'm sorry. Couple of other comments I forgot.

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LINDSTROM: OK. Two opponents that had written testimony, Colby Coash with the Nebraska Association of School Boards and Jason Hayes with NSEA. Letters for the record, we had three proponents, four opponents and no neutral letters for the record.

LINEHAN: I'm sorry, I just have a couple of things. On the letters that were handed out, the NSEA letter, it's not going to divert money from public education. I think you asked that question, Senator Lindström. That-- that diverting funds to the point, anything we do here under that definition diverts funds for public education. The next is on the last paragraph, or the second to last paragraph, the NSEAs letter and I just want to say this for the record, because I hear it, I've seen it in newspapers, I've seen it in ads and it's just not true. I'm not saying it wouldn't be a good thing, but it's not true. Public education is a foundation pillar of our nation that predates the Constitution. That's not true. They say it-- it's not true. Public education as we know it today was a good thing, it is a good thing, but it was evolved in the 1800s because we had immigrants coming to America from Ireland and Europe that weren't educated and they wanted them to be Americans. And that's why we have a public education system, but it does not predate our Constitution. There weren't public schools in the south. We didn't educate girls, we didn't educate people of color. And if you were educated, it was because-- especially higher education, you went to Europe. And then in the school board's letter, last line, this would not be providing access to an educational support in any way that is available to all families and students. It's exactly what it's trying to do, make it available to all families and all students. OK, now am done-- or maybe not.

LINDSTROM: Now you've got a question.

LINEHAN: Yeah.

LINDSTROM: Senator Pahls.

PAHLS: If we want to go into the history of it, initially, we were basically brought over here by the Puritans. So it was all religion. The public was not, you know, I mean, we could-- we could play with these arguments a lot. And I do know sometimes when people do write letters there's-- the truth is probably manipulated a little bit. And

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I'm not a big supporter of NSEA, so I-- these are to be honest with
you, so I'm not trying to defend what they say or do.

LINEHAN: No, it's just-- it's something that is a little frightening
when you have education, saying something that's just not true.

PAHLS: But also I-- see I could do that because I know property tax is
a big issue. We ought to figure out how many people who own besides
the farm, because this and prove it, are extremely wealthy. They
complain about property tax, which are paying way too much, but they
are extremely wealthy. I mean, you know, we could parcel everything
into little-- because that would be interesting to see how much land
you have to own to be after a few years, you can be probably a very
wealthy person.

LINEHAN: If you can afford to keep hold of it.

PAHLS: I understand.

LINEHAN: Well, that's a big part of it.

PAHLS: But-- but if we're going to get in that argument, I have a lot
of family members who-- who are farmers and they live a much better
life than I do.

LINEHAN: Oh, I don't think we want to go down that. [LAUGHTER]

PAHLS: I know. That's what I'm saying. So, but what I'm trying to say
is we could make that-- but everything that's written, if we can tear
apart sentence by sentence is what I'm--

LINEHAN: I'm not trying to tear apart sentences. I've seen it many
times, and I think it's something we should just not--

PAHLS: Except that it's fact. I get that.

LINEHAN: Yeah, well, yeah, if it's not fact.

LINDSTROM: Any other questions? I will leave that for Exec Session.

LINEHAN: OK, thank you.

LINDSTROM: And with that, we will close LB681.

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LINEHAN: And now we will open the hearing on LB599. Senator Lindstrom.

LINDSTROM: Good morning, Chairwoman Linehan, and Revenue Committee members. My name is Brett Lindstrom, spelled B-r-e-t-t L-i-n-d-s-t-r-o-m, representing District 18 in northwest Omaha. I bring for your consideration LB599, a bill to change an exemption from the documentary stamp tax. The bill clarifies that a family-owned entity is exempt from a documentary stamp tax for transfers of property to family-owned entities. The documentary stamp tax is taxed upon entity for transferring legal title to real property and is based on the value of the real property. This legislation was brought to me because of an issue that was raised regarding a guidance bulletin that the Department of Revenue issued in November of 2020. The bulletin indicated that these family-owned entities would no longer be qualified for the exemption, which is contrary to how they have been previously treated. This guidance bulletin subsequently promoted several applications for the documentary stamp tax exemption on transfers of property between family entities to be rejected of-- excuse me, by the Register of Deeds. I understand a new guidance memo has been issued by the department dated March, 2021, and I believe that regardless of how the new guidance bulletin, LB599 should be put into statute for future reference. I provided a copy of that bulletin to each of you and there will be testifiers behind me, but I'd be happy to answer any questions. It looks like this if they handed it out to you. What was interesting, you know, last-- yesterday we had the Commissioner Fulton come in and discuss some of these issues and talked about certain outlets that we could take to satisfy whether there could be a discrepancy. One of those is to put it in statute and clearly define what the intent is and what the Legislature wants to do. And even though this guidance bulletin does reflect the legislation that I have before you, I still would like to put that into statute to make sure that a future commissioner or future group in the Department of Revenue-- I'm sorry, I thought I handed out. You'll get it shortly. It's all good. But that it does explain and spell it out so we don't have any confusion in the future. So with that, I'll be happy to take any questions you may have.

LINEHAN: Thank you. Senator Lindstrom. Are there any questions from the committee? Seeing none. Thank you. Are there proponents? Good morning.

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JUSTIN SHELDON: Good morning. Thank you, Chairperson Linehan, and members of the Revenue Committee. My name is Justin Sheldon, J-u-s-t-i-n S-h-e-l-d-o-n. I'm here in support of LB599 in my personal capacity. As Senator Lindstrom indicated, this bill helps to clarify what an exemption that has already been permitted. I've been out of practice of law now since 2016 and I've taken advantage of this exemption since that time. Late in 2020, we were-- doing planning for a-- for an individual who owns multiple real estate properties and multiple LLCs, and for planning purposes we were going to be recording deeds. We sent the deeds in for recording and the Register of Deeds kicked it back saying that the exemption no longer qualified for the exchange of property between his LLCs, citing the guidance bulletin that the Department of Revenue issued in November of 2020. So after issuing that bulletin, the reg, like I said, the Register of Deeds refused our-- our filings. And then I was just made aware of this week in March of 2021, that the Department of Revenue decided to reverse course after our client expended additional funds to try other avenues or just simply paying the-- the doc stamp fee. Those are his two options following the Department of Revenue's bulletin. So although I do think the bulletin that was issued just this week resolves the issue because it now allows for the exemption between family-owned entities, I do think that LB599 still would help because it more clearly defines what deeds between those family-owned entities are and are not exempt from the document stamp tax and will avoid this repeating in the future. Since the existing statute is subject to different interpretations, given the fact that the Department of Revenue issued two totally different guidance bulletins in three months, I do believe that the Legislature should act to clarify the intent of the exemption. So I'd ask for your support in advancing LB599 to the General File and I'm open to any of your questions.

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

JUSTIN SHELDON: Thank you.

***NICOLE FOX:** I submit this written testimony in SUPPORT for LB599. The Platte Institute thanks Sen. Lindstrom for sponsoring this bill. LB599 corrects a regulatory issue related to the documentary stamp tax that we have found harmful to small businesses in Nebraska. Deeds given for no consideration to or from family companies when all the interest in the company is owned by family within the fourth degree of kindred are

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exempt from the documentary stamp tax per Neb. Rev. Stat. 76-902(5)(b). To qualify for the exemption the property shall be transferred in the name of the corporation or partnership and not in the name of the individual shareholders, partners, or members. However, the Nebraska Department of Revenue (NDOR) recently issued Guidance that contradicts the statute. Per the Guidance, deeds between two corporations, partnerships, limited liability companies (LLCs) or any combination of such companies, regardless of whether the deed is given for no consideration is not eligible. Only deeds TO a company by a member of the family for the issuance of stock and deeds FROM a company to a family member as a part of the complete liquidation of the corporation or the dissolution of the family members interest in a partnership or LLC are exempt under the Guidance. Family-owned businesses generally have smaller profit margins and lack the funds necessary to pay additional costs without suffering severe financial hardship. The hardship resulting from the NDOR Guidance can be substantial and include some or all the following: Impacting the borrowing power of the business; increasing the monetary cost spent on documentary stamp taxes; increasing legal fees for intra-related transactions resulting in the transfer of real property; placing additional restrictions on succession plans; and requiring the company to oust family members to transfer real property. Lastly, the Guidance creates additional work for the Register of Deeds office and title companies. Rather than recording a single deed to complete a transaction, multiple deeds are required to obtain the same result. Thank you for your consideration of this important issue. The Platte Institute hopes to see this bill advance to the floor.

***TIM HRUZA:** Chair Linehan and members of the Revenue Committee, I am Tim Hruza here representing the Nebraska State Bar Association (NSBA). The NSBA is in support of LB599. We thank Senator Lindstrom for introducing this legislation. LB599 clarifies that deeds to or from a family-owned entity shall be exempt from the documentary tax stamp in accordance with the exemptions in Neb. Rev. Stat. § 76-902. This bill codifies what had been the established practice in Nebraska but is necessary due to a guidance document by the Nebraska Department of Revenue issued last November. Thank you for your consideration of LB599. We ask that you advance the bill to General File.

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

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LINDSTROM: I'll waive.

LINEHAN: OK, let me check here. We did have written testimony dropped off this morning. Thank you, Nicole Fox from the Platte Institute and Tim Hruza from the Nebraska State Bar Association. There were no opponents. No one dropped off testimony in a neutral position and there were no letters for the record, so with that, our hearing on LB599 comes to a close.

[BREAK]

LINEHAN: [RECORDER MALFUNCTION] --Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn and represent District 39 and serve as Chair of this committee. For the safety of our committee members, staff, pages, and the public, we ask those attending our hearing to abide by the following procedures. Due to social-distancing requirements, seating in the hearing room is limited. We ask that you only enter the hearing room when it is necessary for you to attend the bill hearing in progress. The bills will be taken up in order posted outside the hearing room. The list will be updated after each hearing to identify the bills, which is currently being heard. The committee will pause between each bill to allow time for the public to move in and out of the hearing room. We request that everyone utilize and identify-- ident-- excuse me-- we request that everyone utilize and identify-- the identified entrance and exit doors to the hearing room. We request that you wear a face mask or a face covering-- excuse me-- while in the hearing room. Testifiers may remove their face covering during testimony to assist committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and the chair between testifiers. Public hearing, hearings to which the attendance reaches seating capacity or near capacity, the entrance doors will be monitored by the Sergeant at Arms. We ask that you please limit or eliminate handouts. The committee will take up the bills in the order posted and for today, we're going to take up the first three together. Please turn off your cell phones. The order of testimony is the introducer, proponents, opponents, neutral, and closing remarks. If you will be testifying, please complete the green form and hand it to a page when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page to distribute. We need 12 copies for all committee members, staff-- and staff. If you need additional copies, please ask the page to make

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copies for you now. When you begin to testify, please state and spell your name for the record. Please be concise. It is my request that you limit your testimony to five minutes and we will use the green-- the light system, so you have four minutes on green, one minute on yellow, and then you need to wrap up. If there are-- if your remarks reflected in previous testimony or if you would like your position to be known, but do not wish to testify, please sign the white form on the table outside of the room by the entrance. It will be included in the official record. Please speak directly into the microphones so our transcribers are able to hear your testimony clearly. I would like to introduce committee staff. To my immediate right is committee counsel Mary Jane Egr Edson and to my immediate left is research analyst Kay Bergquist. To my left, at the end of the table, is our committee clerk for the day, Krissa Delka. And now I would like the committee members to introduce themselves starting at my far right.

PAHLS: Thank you, Chair. Rich Pahls, District 31, southwest Omaha.

BOSTAR: Eliot Bostar, District 29, south-central Lincoln.

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

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

FLOOD: Mike Flood, District 19, Madison and part of Stanton County.

BRIESE: Tom Briese, District 41.

ALBRECHT: Joni Albrecht, District 17: Wayne, Thurston, and Dakota Counties in northeast Nebraska.

LINEHAN: And the aft-- this afternoon, our pages are-- just have one page.

_____: He's getting copies.

LINEHAN: OK, so he will be back, but they're Jason, who is UNL political-- is at UNL studying political science in history and Reid who is at UNL studying ag econ. Please remember that senators may come and go during our hearing, as they may have bills to introduce in other committees, but today we have a full house. That's good. We would-- I would also like to remind, remind our committee-- excuse

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me-- refrain from applause or other indications of support or opposition. I would like to remind our committee members to speak directly into the microphones. For our audience, the microphones in the room are not for amplification, but for recording purposes only. Last, we are electronics-equipped committee. 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 our state government. So I am now going to introduce bills and Vice Chairman Lindstrom.

LINDSTROM: We will now open the hearing on LB430, LB432, and LB433, all introduced by the Revenue Committee.

LINEHAN: Thank you, Vice Chairman Lindstrom and the Revenue Committee. My name is Lou Ann Linehan, L-o-u A-n-n L-i-n-e-h-a-n. The three bills we're going to discuss today, LB430, LB432 and LB433, are commonly known as shell bills, meaning they are our bills to create the Revenue Committee. So I think even the new-- well, we really-- we have a lot of experience on this committee. We have two members who have been here before who are back. We have-- almost everybody else has at least four years experience. I'm pointing at Senator Bostar who doesn't have as much experience here, but he's had a lot of experience that can be very helpful to this committee. We struggle in Nebraska to have-- we need to simplify and improve our tax code. We have a property tax problem that we have addressed with income sales taxes to the tune-- well, if you include the Homestead Exemption, it's around \$750 million and it's not-- they're not transparent. They're not easily understood and it's not-- it's just not good tax policy. I mean, it's upside down from good tax policy. We have an income tax rate, both corporate and individual, that make us uncompetitive, so we have to-- since 1989, we have had to pass incentive packages. They're not popular, not transparent, but we all know or at least 44 senators agreed last year that-- when we passed the Imagine Act and the LB1107-- we have to do this because we will lose employers, we will lose jobs, and our economy will go into a tailspin. But again, it's not transparent. We've heard at least two bills in front of the committee this week or in the last couple months or so about how we don't like incentives because they're not transparent. We don't know who gets them. We don't know if it really pays for itself. So I would be of the mindset that we need to start all over and this committee needs to build a package along with, the whole time we're doing it, work with other members of

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the Legislature so we're not surprised on anything. It's not secret. It will be very wide open and transparent. That makes it simple, makes it competitive, and we can explain it to our neighbors because I don't know if any of you have had the pleasure of explaining LB1107 to any of your constituents, especially the income tax, property tax credit. Just the name should give you a hint. This is not going well. But I had the pleasure of my younger brother calling me on a Saturday, asking me to explain it to him and he listened patiently and he's, like, nobody is going to like that. That's just stupid. So there we go. That's what we have. So I think we can do better. So with that, I would take questions.

LINDSTROM: Thank you. Any questions from the committee? Seeing none, thank you. We will now have our first proponent. Good afternoon.

SARAH CURRY: Oh, thank you. I want to apologize. You've got two separate testimonies because I thought we were doing them all separate, so I'm going to try to squish them together in the time. My name is Sarah Curry, S-a-r-a-h C-u-r-r-y, and I'm the policy director for the Platte Institute. So as Senator Linehan said, Nebraska needs tax reform. We support the idea of tax reform, especially a revenue-neutral tax reform, and so we have a couple of ideas and I'm happy to elaborate on any of these with questions because I'm going to try to respect the time. On the corporate income tax, as I stated last week, I think it was, moving to a single rate will make us more competitive. Thirty states already do this. We have a graduated rate. From a public policy standpoint, it doesn't make sense to have a graduated corporate income tax rate because it doesn't meet the same requirements as the ability to pay like the personal income tax. So we would like to replace our current system with a flat-rate tax of 5 percent that would allow us to be competitive among the region and it would simplify the tax code and it would also help those corporations and possibly save some money on the incentive side because we wouldn't have to pay so much there because they would have a lower tax rate. For personal income tax, actually, our income tax-- personal adheres to many of the principles of sound taxation. A relatively broad base, but when you have a broad base, you should have low rates and Nebraska does not have low rates having this broad base and so we would like to see this four-rate progressive income tax structure replaced with, again, a flat-rate tax of 5 percent. This is the exact same thing that North Carolina did when they did their historic tax reform in 2013. They went to a flat rate, 5 percent. Now a lot of people are going to

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say that that's very regressive and you can solve that, which is what North Carolina did, by enacting a zero income tax bracket, which essentially means the first \$15,000 or \$12,000 or whatever you decide can be zero taxed and then that 5 percent flat rate would go into effect after that. So it works like a flat rate, but it sort of has two rates if you look at that. The other thing that we encourage is looking at LB318 and that's the increasing the earned income tax credit. If you again want to address that-- if you want to add a measure of progressivity to the tax code for the flat rate, for the flat-rate 5 percent, if you pair it with an expansion of the EITC along with that zero per tax rate, it can help lower the tax, make our state more competitive without negatively impacting taxpayers who may only pay into those, those lowest brackets, so that's the way to do it. I also highlighted LB680, Senator Linehan's bill, because we understand that what we would like to see is very aggressive and might not be politically possible, so at least bringing that corporate income tax rate down to parity would help us be more competitive and also help simplify our tax code. On the sales tax side, we all know we need to broaden the sales tax base, like, that's-- everyone has said that. It's been identified in many of the past tax studies that this body has done and so we believe that all personal consumption actually, including groceries, should be included in the sales tax base. Prepared foods are already taxed. Many opponents to that say it's regressive, but research has shown that it's quite the opposite because federal law already exempts grocery purchases with SNAP and WIC benefits and so higher-income individuals spend more on grocery purchases and so they're proportionately benefiting from the current exemption. And then also as a part of the sales tax base expansion, it should never fall on business purchases. We all know that taxing business inputs are nontransparent and the tax is often passed on to consumers in the form of higher prices and tax pyramiding is also detrimental to our economy, so we don't want to do that. We really like the approach that Senator Briese took in his LB422. We think that is an appropriate reform. Ideally, Nebraska sales tax base should include all personal consumption and excluding business purchases. And so we know that this committee will likely decide to draw the line somewhere short of that, so correcting the current imbalance between goods and services in the sales tax is an excellent starting point. We would like to see the sales tax rate reduced from 5.5 to 5 percent. While still having the additional revenue from that, we could lower personal income taxes and corporate income taxes and possibly also

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have enough to reduce property taxes. According to LB422's fiscal note, a 1.5 percent local option sales tax with that base-broadening provision would generate around \$250 million by FY '24-25 and so we feel like that should be enough to eliminate the economically harmful inheritance intangible personal property tax and we would also like to see that addressed in a tax reform package as well. I'm going to stop there and see if anyone has any questions because that was a lot and I'm sorry I threw it all at you like that.

LINDSTROM: It's OK. Any questions from the committee? Seeing none--

SARAH CURRY: Thank you.

LINDSTROM: Other proponents. Any-- oh, you're a proponent or are you coming in neutral? OK, any opponents? Seeing none, we'll have neutral testifiers on LB430, LB432, and LB433.

KATHERINE LOUGHEAD: Thank you, Chair Linehan and members of the Revenue Committee. My name is Katherine Loughead, that's K-a-t-h-e-r-i-n-e L-o-u-g-h-e-a-d. I am a senior policy analyst with the Tax Foundation. We are a nonprofit and nonpartisan tax policy research organization based in Washington, D.C. And we don't take a position on legislation, but I appreciate the chance to share some informational points with you today. First, I'd like to commend this committee for carving out the time to discuss tax modernization. These bills are an important conversation starter to discuss structural improvements that would make the tax code less burdensome to current Nebraska residents while making the state more attractive to prospective businesses and new residents alike. Tax modernization is important because the underlying tax code right now was-- hasn't changed much since 1967, when the individual and corporate income taxes and sales tax were all first adopted. The state's economy has, of course, evolved quite a bit since then, but most of the laws that govern and that impact economic activity in Nebraska were written with a twentieth-century economy in mind. Our State Business Tax Climate Index, which ranks states according to the competitiveness of their tax structure, ranks Nebraska at slightly below average, 28 out of the 50 states. So with that in mind, last month, we released a report that identifies the areas of Nebraska's tax code that are most in need of improvement. The report offers suggestions on how each of the major taxes could be improved to promote economic growth, while making the tax code more simple, stable, neutral, and transparent. I don't have

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time to discuss all those findings now, but I'll give you a quick overview. Nebraska does indeed have high property taxes, which is, of course, a widespread concern that policymakers will likely want to address as part of any broader comprehensive tax modernization plan. In recent years, in response to taxpayers' concerns, the state has dedicated increasing amounts of revenue from the state to offset local property taxes paid, but unless and until local spending patterns change, property taxes will remain on an upward trajectory due to rising valuations. Our report discusses how a tighter property tax levy limit or taxpayer transparency measures similar to Utah's Truth in Taxation law could help reduce the rate of growth in property tax collections over time. And the report also looks at how state government could continue to offset some of these local revenue needs, but in a more structurally sound way. But property taxes aren't the only issue, as the state's income taxes pose barriers as, as well. The corporate and individual income tax rates are both high, both regionally and nationally, and numerous studies have shown that high income tax rates reduce state economic growth and states with high-top marginal individual income tax rates consistently suffer from outmigration, while lower tax competitors gain new residents. But in addition to rates, there are several other issues worth considering, like Nebraska's taxation of GILTI, which this committee examined last week, the heavy reliance on tangible personal property taxes, which discourage capital investment, the capital stock tax, which has become more of a nuisance tax than anything, and of course, the inheritance tax, which can impact Nebraskans who inherit even relatively small amounts of property. So one of the best ways to address all these concerns is to modernize the sales tax base to additional consumer goods and services. And since the sales tax was first adopted, the sales tax base has actually eroded by nearly half and as the base has narrowed, tax rates have had to increase in order to compensate for that lost revenue. So modernizing the sales tax base would generate both state and local revenue to offset some of these more pro-growth reforms while making the tax code more neutral in the process. And it's important to keep in mind, though, that sales tax base broadening should focus on consumer transactions, not business-to-business sales, since taxing business inputs leads to tax pyramiding where those taxes are passed on to consumers but in a nontransparent way in the form of higher prices. So a good comprehensive tax reform plan will indeed take time to develop and implement, but states that put in the effort are already reaping the benefits, including economic competitors like

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Indiana and Iowa. So in this and subsequent sessions, the Unicameral has an excellent opportunity, opportunity to make progress toward a simpler, more stable and transparent and neutral tax code. And I do want to commend the Legislature for starting this conversation and making progress toward that end, so thank you for the chance to testify and I'd be happy to take any questions.

LINDSTROM: Thank you. Any questions? Senator Pahls.

PAHLS: Thank you. I just have a-- what state would be a good one for us to take-- I heard Iowa. We should-- you're suggesting we take a look and see what Iowa has done? Is that what I heard?

KATHERINE LOUGHEAD: That's an excellent, excellent question. Iowa has made some reforms to its corporate and individual income taxes that are phasing in currently and over the next couple of years. Indiana made some great reforms over the past decade that did involve some amount of sales tax base broadening and some income tax rate reductions. And then North Carolina is one of the states that's among the most competitive. So I would say overall, the states that use the four main taxes, so income-- both income taxes, sales taxes, and property taxes, but that have low rates and broad bases are good ones to emulate and so North Carolina, Utah, and Indiana are the three most competitive of all the states that have the major taxes.

PAHLS: OK and since you mentioned property tax, would, would that fall within one of those states you just mentioned?

KATHERINE LOUGHEAD: Yep, so all-- every state does use a property tax. So I'm referring to kind of the states that use what's called-- some people term "the three-legged stool." So there are some states that are most competitive on our index that avoid income taxes altogether and that, you know, that's great for them. They rely a lot on severance tax revenue, so that's not something maybe Nebraska had. Nebraska doesn't have as much severance tax revenue like that, so that might not be an immediate option, but you want to look at states like North Carolina and Utah that use the major taxes.

PAHLS: Thank you.

KATHERINE LOUGHEAD: Sure.

LINDSTROM: Senator Briese.

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BRIESE: Thank you, Vice Chair Lindstrom, and thank you for being here today and providing your testimony. I think the Tax Foundation has indicated that 47 percent of Nebraska's sales tax base is already business to business, comprised of business-to-business transactions. In the context of tax modernization, what do we do about those that are already part of the, part of the tax base?

KATHERINE LOUGHEAD: That's an excellent question and you're exactly right. It's estimated that about 47 percent of Nebraska's current sales tax collections are already paid by businesses, so taxing business inputs is already a big issue in Nebraska. Every state does that to some extent, so it's difficult to-- you know, starting from that baseline, I guess you want to just avoid making the problem worse to start.

BRIESE: So just look the other way and move on?

KATHERINE LOUGHEAD: I wouldn't say that necessarily. I would say, you know, in any sales tax base broadening, try really hard to avoid taxing business inputs--

BRIESE: OK.

KATHERINE LOUGHEAD: --but it is already an issue.

BRIESE: OK, thank you.

KATHERINE LOUGHEAD: Thank you.

LINDSTROM: Senator Albrecht.

ALBRECHT: Thank you, Vice Chair Lindstrom, and thank you for being here with your information. When you look at Nebraska compared to some of these other states, because we have such a low population, how does that play into competing with others and improving our situation?

KATHERINE LOUGHEAD: That's definitely something to consider as-- I think that's a big reason why the property tax burden is so high here since property is so spread out and 90 percent of the property value in Nebraska is farmland, which is more than in any other state. So that's definitely one of the reasons taxes are high, but when it comes to tax structure, it-- you can make the tax code better by broadening the base appropriately and trying to find a lower rate system so that

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it doesn't create perverse incentives. But looking at other states is fine too, like North Carolina and others that may have a larger population, but their approach is still solid.

ALBRECHT: And would you agree then that we wouldn't need so many incentives if we took care of the problems that we have?

KATHERINE LOUGHEAD: Absolutely.

ALBRECHT: I mean I understand it takes a lot to get certain businesses to come, but at what cost--

KATHERINE LOUGHEAD: Absolutely.

ALBRECHT: --to those of us that live here?

KATHERINE LOUGHEAD: Right now, as Senator Linehan has mentioned, you know, this state has to rely so heavily on incentives because the underlying tax code is poor and complex and so it would really make a lot of sense to try to reduce reliance on incentives as these reforms are hopefully enacted. And that will make-- level the playing field for all businesses, no matter what industry they are in, no matter what size. Right now, only about two of every 1,000 Nebraska businesses can take advantage of the ImagiNE Nebraska program, so it's kind of missing a lot of the little guys, but tax reform, broad-based low-rate tax reform could be great for all businesses and all taxpayers.

ALBRECHT: Thank you.

LINDSTROM: Any other questions from the committee? I have a couple of questions. Kind of touching on the property tax issue in the-- we sit in here and hear lots of hours of testimony with regards to what we spend on K-12 education, which goes hand in hand with the property tax dilemma that we have. In our budget, give or take a couple million, about \$5.1 billion, we spend around \$1.1 billion to \$1.2 billion on K-12 education. As far as a percentage, what are other states spending on K-12 education? Specifically when we talk about Iowa, Missouri, you know, their property tax is one-third, one-fourth of what we do. So I'm just curious, when we start tweaking how we fund education, what percentage of the state would-- what would we have to pick up as a state to offset maybe some of the property tax dilemma that we're in?

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I mean, as you look at the other states, how does, how does that fit
into that conversation?

KATHERINE LOUGHEAD: That's an excellent, excellent thing to look at.
We at the Tax Foundation just look at the revenue side of things--

LINDSTROM: OK.

KATHERINE LOUGHEAD: --so I'm not familiar with state spending on
education--

LINDSTROM: OK.

KATHERINE LOUGHEAD: --in different states. But right now, a potential
solution for Nebraska might be if the state wants to continue trying
to offset some of the local property tax burden, to do that more
through direct local aid paired with a tighter property tax levy limit
that can reduce growth in property tax collections over time because
right now, the state money is just going on top of the local money and
no one's taxes are actually reduced. So if the state wants to help
with that burden, that's fine, but there's better ways to do it that
actually do what taxpayers want and reduce the overall burden.

LINDSTROM: So would you say that with the spending that's going on,
the state is outpacing-- outpacing what we can afford as far as the
percentages? Because we do have, we do have a couple of bills in the--
dealing with a 3 percent cap--

KATHERINE LOUGHEAD: Right.

LINDSTROM: --plus real growth as one component of this overall tax
structure. Of course, we talk about lowering the, the rates on the
individual corporate, broadening the base, but there's obviously the
three-- three-legged stool. Does, does reducing or capping some of the
spending and the, the speed in which government grows, would that be a
component to an overall tax policy that would make sense?

KATHERINE LOUGHEAD: The levy limit makes a lot of sense. That's the
most neutral of the different types of property tax limits. It's the
most effective at constraining overall growth over time, so that is a
good possible solution there.

LINDSTROM: OK, thank you. Any other questions? Senator Friesen.

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FRIESEN: Thank you, Vice Chairman Lindstrom. So we can talk about sales, income, and property taxes, but when you look at a, a state and you say North Carolina is extremely competitive, do you take into account all the different taxes that are out there that a business might have to put up with: occupation taxes, franchise fees-- go down the long list-- do you guys look at all those too?

KATHERINE LOUGHEAD: We look at a number of those things, including different credits and things like that-- R&D credits, investment credits-- as things that kind of actually cut against competitiveness because they cut against a neutral, broad-based low-rate system. So our index uses 124 different policy variables and so I-- you know, I could talk to you offline about--

FRIESEN: OK.

KATHERINE LOUGHEAD: --specifically which one.

FRIESEN: I'm just curious. Sometimes, I mean, you can have a state that might look at the taxes that everybody's watching, but if you've got other hidden fees and permitting processes that make it difficult and recoup revenue, you may have an advertised rate, but your effective rate is maybe going to be different.

KATHERINE LOUGHEAD: That's definitely one of the challenges in comparing state tax codes to each other. So we do use a lot of variables, but you can't account for every single variable, so we do try to keep it to the main ones that are used in most states.

FRIESEN: OK, thank you.

LINDSTROM: Thank you. Any other questions? Seeing none, thank you.

KATHERINE LOUGHEAD: Thank you.

LINDSTROM: We'll have our next neutral testifier. Good afternoon.

JIM GREISCH: Good afternoon. Vice Chairman Lindstrom, senators, thank you for having me today. My name is Jim Greisch, G-r-e-i-s-c-h, and I represent Blueprint Nebraska this afternoon. For those of you who have not heard of Blueprint, it's a statewide effort involving hundreds of Nebraskans looking at the nature of Nebraska's competitiveness today and going forward to plan for an improved competitive landscape in

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order to it-- to grow, frankly: grow people, grow process, grow people. We have taken a look at the pieces of the puzzle that are necessary for us to succeed and taxes continues to come to the top of the forefront. Most of you have heard me before say sadly, Nebraska is a very high tax state. Many of my colleagues would say we tax almost everything that moves. And Senator Friesen, to your point, it's not just the three taxes we commonly talk about. It is a lot of taxes hidden in a lot of things. I want you to look at your cell phone bill if you haven't for a good long while as an example. What we want to talk about today are the important things that will help us become competitive in attracting human capital. It's commonly said we have a people problem in Nebraska. We have too few, so we have to do something to increase the attractiveness to the human capital. The economic capital, Nebraska needs an, an economic means by which to grow our economy and outside investment, new investment, new initiatives are important in that process. And we also have to look at the intellectual capital, commonly called the innovation capital, that will stimulate our economy going forward. You know, one of the things that's very interesting in, in the conversations that you've heard Katherine and others have today, you know, state taxes matter. And whether we like to think of it in that way or not, they increasingly matter to everyone. And it's not just the one tax, it's all taxes because what we're discovering is that while firms have had a good handle on this in the past, people are increasingly asking more penetrating questions regarding the tax burden in the places they choose to live and work. That might not have been as critical to us in the past, but if the last year has proven anything to us, it's proven that people can work from just about anywhere and be effective. And in that regard, the ability to have the, the necessity to create a tax policy that is attractive to workers who may not be working in the city in which their employer is located becomes increasingly important. It's not a coincidence that states like Tennessee, Florida, Nevada, and certainly Texas, but also a state to our north, South Dakota, become very popular destinations. All of them have lower tax burdens than we. It's not a secret that the mechanism by which to do that is going to require difficult choices in the processes that we tax. Now we, we like to think that our tax system has worked, but the truth of the matter is it's exactly the opposite of an effective system. We have a very narrow base and high rates. That is exactly the opposite of what you've just heard Katherine suggest we need, a broad base and low rates. We must address that discrepancy. If we do not, it

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is-- it will be an imperative-- it will be important to note that we will likely lose not only the attractiveness to future residents, but also current residents. Those who have the means to move will do so and when they move, their revenue and taxes go with them. Now of course, we've talked a lot about the things that we'd like to fix. Strategically, we have to reduce our property tax burden. There's no question that the optimal path to that has to be reevaluated. Let's be honest. We're looking at a system that's been in place since 1967 when our economy was largely a goods-producing economy and significantly agrarian in nature. We'll likely never leave our, our agricultural roots, and we shouldn't, but over time, the shift from goods to services has been pronounced here in Nebraska and half our sales tax base has been eroded. It's important, as we think about what we did in 1967, was tax the things that were important then: land, building, and equipment. Today, those are increasingly less important. We've talked a lot about the importance of simplifying our, our income tax system. There's, there's ample evidence to suggest that a lower rate will be better for us in the long run. And finally, it is imperative that we change and modernize our sales tax base. If we fail to modernize the sales tax process, we will forgo opportunities for revenue-- important revenue growth and we will continue, we will continue to exacerbate the challenge that we have in attracting people to our state. We shouldn't be taxing 47 percent of business inputs. It should be less and we have to find a mechanism to do that. Thank you for the opportunity to visit with you. We look forward to your questions.

LINDSTROM: Any questions from the committee? I-- you have a question. Senator Briese.

BRIESE: Thank you, Vice Chairman Lindstrom. Thanks for your testimony here today and we've, we've talked a lot of-- several times today about business inputs, business expenses. Have you try-- in your work so far, have you tried to define what we want to exclude under-- in that category or we try to define what is a business expense or business input or-- what, what should the definition be?

JIM GREISCH: Senator, that's--

BRIESE: --and if you haven't gotten there, that's fine, just--

JIM GREISCH: It's an excellent question. So we have studied that from several perspectives. There's an academic definition of a business

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input, there's an economist definition of a business input, there's an accounting definition of a business input, and then there's the business person's definition of a business input. Although they are similar, they are not identical. We have not yet modeled definitional outcomes based upon choices we might make of what's in and what's out of that definition.

BRIESE: OK.

JIM GREISCH: And until we do, I'd be hesitant to answer the question--

BRIESE: Yeah--

JIM GREISCH: --more directly.

BRIESE: --under-- understand that, you bet. Thank you.

LINDSTROM: Thank you. I have a question. When it comes to-- you know, as a committee, over the last several years, we've looked at-- on the, on the good side, it's a little easier conversation to have. When it comes to the service side, it gets a little bit more complicated, to your point with the mobility of businesses. When you look at services such as CPAs, lawyers, financial advisers, those industries or those sectors of the economy, what are other states doing to address that as far as how they tax services? Is there an issue with taxing that? Could you maybe dive into how we address that portion of the service taxation?

JIM GREISCH: I will. One caveat, so I am a former chair of the Nebraska Society of CPAs, so before I answer your question, I'd like it known that my, my colleagues and, and fellow practitioners may not like what I'm about to say. It's a mixed bag, Senator. There are states that tax that and there are states that do not tax that. There is no right or wrong answer to taxing professional services. You know, the majority of professional services fall into two buckets, so a-- tax professional services, there's a huge personal component to that. And then there are, of course, accounting services. That's a hugely business-oriented perspective. And the legal and other professional services-- I'm thinking investment advisory, for instance-- fall in a variety of, of different buckets. We again, have not studied how much of the service economy to include, although there-- our general policy would be at this-- general-- hope at this point would be more is in

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than out. Again, some of that is going to be a business input in some definitions. So it-- while we work to define a business input, we are also working to define what constitutes the share of the service economy that would appropriately be taxed as the final personal consumption of those services. And that's a key definition. We believe that sales tax should be levied at the final personal consumption of the service and for that matter, the goods.

LINDSTROM: So that kind of leads me into another question with the consumption--

JIM GREISCH: I knew it would.

LINDSTROM: We have another bill. I believe it's LB133. Obviously a pretty, pretty big bill-- I don't know if you've looked at it-- Senator Erdman's consumption-based taxation bill and he has been promoting that and that would eliminate all income, all property, have a higher sales tax rate. Is there a happy medium in there? Is there-- is that-- do you feel that that would be a good policy to strive towards? Do you have any feeling towards that and have you even looked at it, I should say, that particular deal? Fair tax is another name, I guess, for it.

JIM GREISCH: So the answer to your question is yes. Our committee has evaluated a variety of tax policy choices, including, among others, the fair tax, so making everything largely consumption based. There's a lot of academic research out that would support the use of a consumption-based system as the basis for the-- their preferred system. We're not quite there yet. We believe generally that the consumers should be in charge of what they decide to buy and if they choose to buy a \$5,000 TV, they ought to pay the freight on, on the reason for doing so. That's a personal choice. We haven't quite reached enough academic study to be able to tell you that a full consumption-based system would be an appropriate replacement. This would be a complete repeal and replacement of, you know, the current system. What we aren't able to say yet is how much of a consumption-based system would trickle down into each of the taxing jurisdictions that fund local governmental services, including education, to provide for the appropriate revenue to service the basic functions of government constitutionally mandated by our state or any of the cities or counties or other jurisdictions across the state. That's a little beyond our purview, but we do, general-- we do

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generally agree that a consumption-based system should be a part of
the solution here.

LINDSTROM: OK, thank you. Any other questions? Seeing none, thank you.
Next neutral testifier. Good afternoon.

BRYAN SLONE: Good afternoon, Chair Linehan, Vice Chair Lindstrom, and
members of the Revenue Committee. I-- included in the materials being
passed around is the full written testimony and I'll, I'll avoid
that-- in an afternoon, the full written testimony and, and summarize
briefly and take any questions that you have. My name is Bryan Slone,
B-r-y-a-n S-l-o-n-e, president of the Nebraska Chamber of Commerce and
Industry. I'm testing on behalf-- testifying on behalf of the Nebraska
Chamber, neutral as to the shell bills, but I just want to make it
clear, fully in support of this committee as it seeks to modernize our
tax code. It's already been noted today that, that our tax code is
basically a 1960s vehicle, which has been amended on an ad hoc basis
over many decades. In so doing, it's complex, it's "unadministrable"
in certain areas, and is no longer a viable alternative for this state
if it, if it means to continue to be competitive. On the corner of the
IRS building in Washington, D.C., is, is a, a famous Supreme Court
quote that says, "taxes are the price we pay for our democracy." That
may well be true, but increasingly and certainly after the pandemic
when we're going to have a lot more remote workforce and the power of,
the power of a virtual business is different today than it was two
years ago. Businesses, jobs, people are going to vote with their feet
in much greater numbers after the pandemic than before and so if we're
going to remain competitive as a state, this is exactly the right time
to take a look at, at completely modernizing our tax system to be
attractive not only to businesses, but to people in the state. We
support this committee in this process, in this discussion and from my
prior lives, I know this process is not going to be very easy and it's
going to take-- it's going to be long. It's going to be difficult, but
well worth it and, and something that is vitally important to the
state. Within two years, we hope this leads to something that is game
changing for this state, some sort of tax modernization legislation
that gives us a clear path forward for a simpler, more administrable,
and certainly more competitive tax code. I can't promise you that
everything that this committee proposes, the chamber will jump up and
down and applaud. In fact, I-- you'd be disappointed if we did. But
what I can promise you is that every step of the way, we will support
this process and we will support this process to an end and hopefully

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a good end for the state of Nebraska. And so with that, thank you for making this commitment to our children and our grandchildren and I'll be happy to take any questions.

LINDSTROM: Thank you, Mr. Slone. Any questions from the committee? Seeing none, thank you. Next neutral testifier. Good afternoon.

RENEE FRY: Good afternoon, senators. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I guess this is what it feels like to crash a party. So this is-- these are shell bills, a lot of xs. I just came to see what would transpire and other-- bunch of people who have prepared testimony to talk about tax reform. Senator Linehan mentioned in her opening that she wanted this process to not be secret, to be wide open and transparent, and this feels like anything but that. I'm not sure how people are supposed to come and testify and provide input on shell bills, but there certainly seem to be a lot of people here who are doing so. I would say that this Legislature did a thorough review of the tax code with the 2013 Tax Modernization Committee. They did public hearings across the state and what I've heard today around the-- some of the personal income tax, corporate income tax comments is in direct contradiction with the recommendations of that 2013 committee. I would also say that Nebraskans overwhelmingly oppose cutting income taxes for wealthy Nebraskans and in fact, support raising them. I know you didn't hear that today because you don't have people here who represent low and middle-income families, so you're hearing a very one-sided perspective on things. We have done a thorough review looking at Battelle, SRIs, CREC, Blueprint reports on economic development and what those experts recommend-- how we go about growing our state. Changing taxes is all but a footnote in those reports if you take a look at those. What they recommend is investing in entrepreneurs, investing in workforce development, investing in broadband. These are the things that they suggest will actually grow our economy. I believe it's a false premise that we need to cut taxes in order to grow our economy and you can see that in real-life examples. Minnesota cut-- or excuse me, raised income taxes at the same time that Kansas and Wisconsin cut them. If you look at what happened during that time or following that, Minnesota's GDP grew faster. Their personal income grew faster than both Wisconsin and Kansas, so I believe it's a completely false premise that we need to cut our taxes to grow our economy. It's also false that people will leave the state. We know from looking at studies of migration, migration trends have stayed the same for years

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and it's-- people leave to be near family, for jobs, not because of taxes and in fact, wealthier Nebraskans are-- or wealthier people are less mobile. So those are the comments that I wrote down and want to say. I just hope that this conversation moving forward is more transparent, that you're actually seeking input from all Nebraskans and not just the select few who were actually invited to this party. And with that, I'd be happy to answer questions.

LINDSTROM: Thank you. Any questions from the committee? Senator Albrecht.

ALBRECHT: Well, thank you for your comments, but would you agree that our tax system is in need of change?

RENEE FRY: I am very open to a conversation. I think we rely too heavily on property taxes to fund K-12 education. We have been here in support of broadening our sales tax base and those were recommendations that were made by the 2013 Tax Modernization Committee. So I think that there's still unfinished work from that committee that is worth pursuing, but again, most of what I heard today does not follow those recommendations.

ALBRECHT: Over eight years ago is when they looked at that reform. I mean--

RENEE FRY: Sure.

ALBRECHT: --we're looking, I believe, as a committee for some reform and I don't think it's been a secret. From the very beginning, Chairman Linehan has let us know that it's not going to happen overnight. We're going to have to go across Nebraska and have lots of big discussions with lots of people, so I think this is just a first move in doing so and I believe everybody will be at the party. You know, it'll be something that, that has to work for, for all of us and it's not that easy. If it was easy, it wouldn't be since 1967 that we've been dragging our feet in this building, so I'm hopeful that things can happen.

RENEE FRY: So again, I don't know that I agree with the premise that we need to cut taxes to grow our economy. I do think there are things that still need to be adjusted. But again, these were shell bills. There was, there was no notification to the general public that this

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was going to be a conversation about tax reform today and I think
that's unfortunate that this process would start out in that way.

ALBRECHT: Thank you.

LINDSTROM: Senator Pahls, did you have a question?

PAHLS: Yes. When I was listening, I heard this is like two years from
now. So in the process-- I see this as a process-- we're just starting
it-- I mean, as the committee. So I think I've always welcomed your
comments. May not always agree, but it causes me to think, so as we go
along, I think you ought to make sure that we are aware-- because this
is not going to be behind closed doors is my understanding, so-- I'm,
I'm at ease that taking a look-- it's one reason why I came back, much
easier for me to stay in Omaha and be on the city council than to be
here. So I-- I'm looking forward to see if we can make this a better
Nebraska. And I wholeheartedly say I will listen to what you have to
say because I use you and Platte to really-- cause me to bounce ideas
off.

RENEE FRY: I really appreciate that, Senator. I would say that-- so it
sounds like maybe you know what the timeline is for this conversation.

PAHLS: I do not.

RENEE FRY: We've heard two years. I have--

PAHLS: I just heard today.

RENEE FRY: Yeah, yeah and-- but it-- there wasn't any notification. I
mean, I've never seen testimony in shell bills before. I just-- my
"spidey sense" told me I should show up and see if anything happened,
but-- so I'm not sure what the process is. It's very uncomfortable and
I've never seen anything like this where there's a conversation around
tax reform that begins with shell bills and there hasn't been a
process laid out. I'm, I'm not sure-- how does the general public fit
into that? I didn't hear any of that today. All I heard were, you
know, clearly someone had flew in for this. This was clearly planned
and very one-sided conversation to kick it off and I worry about
actually being open to listening to input from all Nebraskans when,
when we start a process in this manner.

PAHLS: I'm hearing you, I'm hearing you.

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RENEE FRY: Thank you.

LINDSTROM: Any other questions? Just so we're aware, when a bill is introduced, it is posted, it is given seven days notice. Everybody know-- and you can get on the website and see that LB430, LB432, and LB433 are posted and anybody can show up to testify. Whether people come in as a group and want to testify on something is completely up to these individuals. I don't think that this is a blindside on anybody. People are aware of the conversation. It's listed out in every LB, so I just want to make that clear that this isn't-- we just didn't throw out the LB right here. It was seven days notice and anybody in Nebraska could show up for testimony on this, just so we're clear.

RENEE FRY: Yeah, no, absolutely. I agree, but it's hard to testify on a bill that has a bunch of xs in it.

LINDSTROM: I've been here a long time. We've had those bills before and we've had a lot of people testify over the years, so-- any final questions, please? Seeing none, thank you. Any other neutral testifiers? Seeing-- going once, twice. Senator Linehan, if you'd like to close on LB430, LB432, and LB433?

LINEHAN: Thank you all very, very much. I didn't know if you-- hopefully you all still have this on your desk. This is a very good document that was just on-- passed out. The graph down here in the corner, like, screams the problem. Corporate income tax growth since 2009, 111 percent. Individual income tax growth, 37.6 percent. Property tax growth, 30.6 percent. State sales tax growth, 27.2 percent. Local sales tax growth, growth, 37 percent. Population growth, 6.6. So that means-- that 6.6 percent is so much lower than all those other tax codes, so we're taxing people and they're sick of it and you-- I don't, I don't have a study to show you about people leaving Nebraska, but I, I don't have any of my college friends here anymore. Nobody that I ran around with in college lives here and it's because of taxes. One of my children's whole firm-- whole organization picked up out of one area during the COVID and moved the whole thing to Texas, the whole thing. It, it-- well, we are-- I already know you all know, so good on you, but there are some things hopefully we can do this year, set the stage and we're in a very good place. For the first time since I've been here, we actually have funding to work with and that credit goes to this Legislature, people on this committee,

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and the Governor. We did-- we were really tight the first year we got here, \$1 billion short. The next year we had money, but we had flooding, so we decided to be very wise and not spend money. And then the next year, last year, we thought, OK, we're going to be able to do some things and then we had a pandemic. So again, we were very wise, fiscally responsible, and did not spend money. So now we're kind of-- we got two years of being fiscally responsible, not spending money we didn't have, and we actually have some wiggle room, significant wiggle room. So there are some bills in front of us. We've kicked some of them out already-- planning on kicking some out that-- I think one of the ones-- easiest ones is the parity between corporate and personal income. It hardly cost anything. It saves us money. I don't know if we, if we took what it costs supposedly by the fiscal note compared to what we save in incentives, that there would be hardly any fiscal note. Plus it-- steps us right in the right direction. We-- on the school funding. I'm willing to talk and I know several members, that all of us on this committee are more than willing to talk about funding public education and using more state revenues and not depending on property taxes to pay for it. We have taken them package after package saying here's more state funding, let's move away from property taxes and the not-so-secret-anymore secret is they do not want to give up property taxes. It's consistent, it's there, they don't have to worry about the economy or whether you have money to pay them or not. That's why they like them and we need to move away from them. Let's see if I have anything else so I don't have to what I did this morning. We have another very important bill and I need to say it every time and everybody-- hopefully we can get every senator to say LB408, Senator Briese's bill that we kicked out of committee and is now on the floor of the Legislature. It's 3 percent plus real growth. Plus, if you don't use your 3 percent, you can bank it forward. Plus, Senator Briese has given, with the majority of the board, the ability to take more than 3 percent as long as your three-year average is 9 percent. It's very workable. We have inheritance taxes in front of us. I don't know if we completely do away with inheritance tax, but the fact that we tax-- this is how screwed up our inheritance tax is-- so we do pretty good with low-income people. I'm sorry-- I'm, I'm glad we do. If you are 65 and over and retired Nebraskan and your house is worth less than \$175,000 and you make less than \$47,000, we do not tax your Social Security and you do not have to pay your property taxes. But somehow if you die, your \$175,000 house has to pay inherit-- you have to pay inheritance taxes on it to inherit from your mom and dad.

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That doesn't make-- that makes no sense. Then lastly-- and this is really why I feel like we're in a place that's very important and we need to take advantage of it-- we have very experienced senators, two of them sitting right in front of me to my left who are not going to be here two years, three years from now and we need them to get this done. And we're also lucky to have two very experienced senators who came back and they've been through all these battles before and they're brave and they're popular so they can help us get it done. And then we have my buddies over here who-- we've been here long enough to know that we need to move forward, so thank you very much for all being here today.

LINDSTROM: Thank you.

LINEHAN: And thanks for all the testifiers.

LINDSTROM: Thank you. Any final questions? We did have no written testimony on LB430, LB432, and LB433. We did have letters for the record, one proponent on LB430, one opponent on LB432, and six opponents on LB433. And with that, that will close the hearing on LB430, LB432, and LB433.

LINEHAN: Thank you very much.

LINDSTROM: [INAUDIBLE] cigarette tax. Busy day, two, next two--

LINEHAN: What is the next bill? What's the next bill?

LINDSTROM: LB676.

LINEHAN: If Senator Wayne gets here on time-- I promise, hopefully--

LINDSTROM: All right, we'll open the hearing on LB676, introduced by Chairwoman Linehan.

LINEHAN: Good afternoon, Vice Chairman Lindstrom and members of the Revenue Committee. My name is Lou Ann Linehan, L-o-u A-n-n L-i-n-e-h-a-n, and I am here to introduce LB676. LB676 was intended to be a placeholder regarding the taxation of little cigars and cigarettes. Some of you will recall that after the passage of LB397 in 2019, the Department of Revenue issued a guidance document interpreting the law to mean that certain little cigars would be reclassified as cigarettes if the product met certain requirements.

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There were lawsuits filed over this interpretation and during the past interim, we held a hearing on LR477 to gather additional information on this matter. It is my understanding that the lawsuits have been settled and just this week, the department added to the guidance document, which now provides an exemption from the definition of a cigarette or designated tobacco products. The exception basically provides that if the tobacco product is taxed as a cigar under federal, then it will not be taxed as a cigarette in Nebraska. Manufacturers or importers of little cigars must provide copies of applicable tax forms submitted to the U.S. Department of Treasury, Alcohol and Tobacco Tax and Trade Bureau, or an affidavit from an executive officer of the manufacturer or importer attesting that they report and pay the federal tax in accordance with 26 USC 5701(a) and 26 USC 5702(a). Thank you. I would be happy to answer your questions, but I think there are people behind me that would be better qualified.

LINDSTROM: Thank you. Any questions from the committee? Seeing none, thank you.

LINEHAN: Yep.

LINDSTROM: First proponent. Good afternoon.

SEAN KELLEY: Good afternoon, Vice Chair Lindstrom, members of the Revenue Committee. My name is Sean Kelley, S-e-a-n K-e-l-l-e-y, appearing today as a registered lobbyist on behalf of the Cigar Association of America. As Chairman Linehan noted, this issue has been resolved. We're very grateful for your leadership, Senator Linehan, on this issue and, and we're glad it's behind us. With that, I'm happy to answer any questions you may have.

LINDSTROM: Thank you, Mr. Kelley. Any questions from the committee? Seeing none, thank you.

SEAN KELLEY: Thank you.

LINDSTROM: Next proponent. Seeing none, any opponents? Good afternoon.

DANIEL MUELLEMAN: Good afternoon, Chair Linehan, members of the Revenue Committee. My name is Daniel Muelleman, D-a-n-i-e-l M-u-e-l-l-e-m-a-n. I'm an Assistant Attorney General with the Nebraska Attorney General's Office and I'm just here to testify in opposition to LB676. As Senator Linehan mentioned, the issue has been resolved.

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We have circulated a letter to members of the committee explaining it
in more detail. I'd be happy to answer any questions.

LINDSTROM: Quest--

LINEHAN: I'm not supposed to be sitting here.

LINDSTROM: So I guess I've never--

LINEHAN: Totally forgot.

LINDSTROM: I've never seen-- so it's been resolved, then why the
opposition?

DANIEL MUELLEMAN: What was that?

LINDSTROM: I said if, if the issue has been resolved, why the
opposition?

DANIEL MUELLEMAN: Just nominal opposition to the presentation of the
bill.

LINDSTROM: OK. OK. Any, any other questions? Seeing none, thank you.
Any other opponents? Any neutral testifiers? Seeing none, Senator
Linehan, if you'd like to close? Senator Linehan waives closes and
that will end the hearing on LB676. Oh, I'm sorry. I may have-- let me
check the letters here. No written testimony on LB676 and no letters
for the record on LB676 and that will close the hearing on LB676. We
will now move to LB679, also introduced by Chairwoman Linehan.

LINEHAN: LB679. Good afternoon, Vice Chairman Lindstrom and members of
the Revenue Committee. My name is Lou Ann Linehan, L-o-u
L-i-n-e-h-a-n, and I am here to introduce LB679. This issue was
brought to me by a former state senator. He found it to be nearly
impossible to pay local city occupation tax on his bed and breakfast.
Not only was it difficult to find the right person to accept the
payment, he was frustrated that in this day and age, the tax could not
be paid electronically. LB679 was intended to address this issue, but
unfortunately, the green copy included all city occupation taxes on
lodging. My intent was restrict it to cities of second class and
villages. This is what AM406 does. It is a white-copy amendment. Do
they have the amendment?

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MARY JANE EGR EDSON: Um-hum.

LINEHAN: OK. Thank you. It is a white-copy amendment that replaces the original bill. It applies only to second-class cities and villages. It requires the Tax Commissioner to collect these taxes on behalf of the cities and villages and then distribute the taxes appropriately. The tax allows the commissioner to retain a 3 percent administrative fee as usual, but I am open to eliminating that fee if these small cities would be affected. Thank you and I would be happy to answer any questions.

LINDSTROM: Thank you. Any questions from the committee? Seeing none, thank you.

LINDSTROM: Thank you.

LINDSTROM: First proponent of LB679. Seeing none, any opponents to LB679? Good afternoon.

LYNN REX: Senator Lindstrom, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. We're here today in opposition to LB679, to the green copy as well as the amendment. We do think that basically, if Committee Chair or counsel wants to give us the names of the city involved, we can sort of certainly contact them and help them figure out how, how they need to be collecting these. We just think that it's inappropriate to be doing it this way, just in terms of the fact that cities do this sort of thing all the time. They understand how to do it. Apparently, there's one or two that don't. To that end, we will work with them and I will say this too, the Tax Commissioner's Office has always been willing to assist them as well in terms of how they go about complying with this. So with that, I'm happy to respond to any questions you might have.

LINDSTROM: Thank you. Any questions from the committee? Seeing none, thank you.

LYNN REX: Thank you very much.

LINDSTROM: Good afternoon.

JOE KOHOUT: Good afternoon, Vice Chairman Lindstrom and members of the Revenue Committee. My name is Joe Kohout, K-o-h-o-u-t, and I am here

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today on behalf of the United Cities of Sarpy County, a coalition of the mayors of the cities of Bellevue, Gretna, Papillion, Springfield, and La Vista. We oppose the green copy of LB679, which would require the Tax Commissioner to collect lodging taxes imposed by cities and villages. It is their understanding that the cities and villages in Nebraska do not have the authority to collect lodging taxes. Rather, the local jurisdictions may choose to implement a hotel/motel occupation tax. As you are likely aware, the purpose of an occupation tax is to generate revenue. Any class of city may collect an occupation tax within its boundaries and must apply it uniformly and fairly to the types of businesses in which it has imposed. The occupation tax rate, which is set by the city imposing it, may vary from city to city. Because this is a local tax, the mayors of the United Cities are uncertain why it would be necessary for the Tax Commissioner to assume responsibility for collecting this tax. Not only would this delay the receipt of funds necessary to provide municipal services, but we could-- would experience a 3 percent revenue loss as a result of the proposed administrative fee and we appreciate Senator Linehan's desire to, to remove that provision. So we have reviewed the recent amendment and that's the reason you have me instead of Mayor Kindig today because it doesn't apply to first-class cities anymore. However, under this most recent version, it still would apply to two members, Gretna and Springfield, that would continue to be under the provisions of this act. The city of Gretna does have in place a \$5 per bed occupation fee that they charge on these types of facilities. And while Springfield does not have an occupation tax for lodging, as the metropolitan area grows towards the southwest, it is likely that they would see growth and desire for amenities, particularly with this growth of businesses in the area. In the meantime, we must oppose LB679 and would ask the committee not advance it.

LINDSTROM: Thank you, Mr. Kohout. Any questions from the committee? Seeing none, thank you,

JOE KOHOUT: Thank you.

LINDSTROM: Any other opponents? Seeing none, any neutral testifiers? Seeing none, we had one letter for the record in opposition and no written testimony on LB679. Senator Linehan. Senator Linehan waives closing and that will end the hearing on LB679. We will now open the hearing on LB329, introduced by Senator Wayne.

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WAYNE: I have like two, three hearings going this afternoon, and I'm--
it's been great.

LINDSTROM: Did you take over?

LINDSTROM: Yes.

WAYNE: OK. My name is Justin Wayne, J-u-s-t-i-n W-a-y-n-e, and I represent Legislative District 13, which is north Omaha and northeast Douglas County. So this is a good bill. It's really simple. It raises money and distributes it back, probably can build that four-lane highway going to Norfolk. But I recognize that it's probably not wise for us to do a tax when we have \$100 million possibly on the floor and with COVID. So when I am passing out is the amendment that I dropped last week-- or earlier this-- sorry, yesterday, and it's a bill that I thought I introduced this year. Well, actually, I thought I introduced it last year, which I did, but I forgot it was a new biennium. So I thought it was still in the-- in the meat hopper, but it wasn't. It got IPPed when-- so here's what we're going to talk about today. This bill is actually a bill that, and combined with the bill in Judiciary, I think, will not only reduce our prison population, but it will make sure that we can invest in our workforce and grow our economy. Sounds odd that we're having a discussion about prisons in this committee, but it's actually a felon tax credit bill for workers. But how it ties to this other bill is-- well, first, let me talk a little bit about why it's important. Studies have shown multiple times that prison-- postprison outcomes tend to be better if people have work-release programs. And when I look at what's going on in our prison population and what's going on in our Community Corrections, what we often have-- you have a Community Corrections here in Lincoln, Community Corrections in McCook, Community Corrections in Omaha, but we have people from throughout the state and it doesn't make a lot of sense for somebody in Omaha to go work at Lozier or a place down by OCC and then go back to Scottsbluff. So what the-- what LB334 does, it adopts a Community Work Release Treatment Center Act. And I'm not going to read everything because I know you've been here for a while and it's-- it's a beautiful day out. But the key to this whole-- these two bills working together and where I got this idea was from TEEOSA, actually. There was a financial bill and education bill that went together, coincide, and that's how TEEOSA got created-- is when you put these two packages together, you have to look no farther than in Hastings, and that's the next tab, and Bristol Station. And actually one of our

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colleagues used to be on the board, maybe still is on the board, and this happens at the federal level. At the federal level, they have contracts for a halfway house where they continue to work with individuals and have a very high success rate. So the model that I'm bringing here to this committee regarding a tax credit-- or tax credit, which on tab 3-- and I'm-- I am sorry if we're going a little fast. I wanted to point out that this allows people to get-- receive 65 percent and it's the community-- committee statement. And the reason why that's important is, first, this came out of committee last year 8-0. I expect nothing less from this great committee. But more importantly, it gives an idea of what this was and who was against it, which was nobody. It-- we didn't have a priority last year, so it didn't really go anywhere. But this year, I think, in conjunction with what we're talking about, we can mirror these two programs to allow halfway houses throughout the state. And when I talk to employers across the state in Urban Affairs Committee, these entry-level positions, these manufacturing jobs, they're always looking for people on second and third shift. And if you have somebody in Scottsbluff who is work-- who is in prison and needs to get released back out to prison-- out of prison and back into society, having a job makes a difference. But the big-- I think most-- one of the interesting facts about what happens here is that you look at the fiscal note, and I got the fiscal note from last year, it's only about \$2 million and it's not-- I mean, that's not a-- I mean, it is a lot of money. But if we were to reduce, and this is back on the first tab, if we were to reduce the prison of the recidivism rate simply by 5 percent, because right now we release roughly 2,000 people per year from our prison system-- right now we have 900 people in community corrections. That's 900 people who are low risk, who could apply for these halfway houses across the state if we just reduce it by 5 percent. Whether it's the low end of 25 percent or it's the high end of 30 percent as far as the recidivism rate, we're actually still coming out ahead \$1.4 million to \$1.7 million of the savings of reducing that recidivism cost. So by providing the people opportunity to work, we are filling the gaps in our communities who are looking for employers-- or employees, and we're also filling the gap to make sure that we don't have a high recidivism rate, that we are lowering it. So it's a win-win for everybody. Again, I-- I-- I want to emphasize that I'm trying to keep this a little short. The original bill is a great bill, but I understand the dynamics of where we're at and what we're doing and raising the gas tax on the wholesale is probably a hard sell right

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now. So I'm proposing an alternative with this amendment that was filed on the floor, so this hearing is meeting our requirements, that a tax credit for those who are working, who are coming out of the system, who are on parole, is a benefit not just to our prison system, but to our entire state. And it allows these smaller communities like Hastings, who already has a program at the federal level, to work with individuals at the state level to fill employment gaps, to work with a-- almost a public-private partnership with local businesses and economies, to get people who are going to be released back into their community a stable job. If they jam out, which we have 900 people jamming out every year, which means they just-- they get their stuff and they're released that day, if they don't have a place to live, they don't have a job, oftentimes they just turned back around to the same people they went in with, so this is a way to solve that problem. And with that, I'll answer any questions.

LINEHAN: Thank you, Senator Wayne. Are there any questions from the committee? So we had this bill last year and passed it out?

WAYNE: Yep, 8-0.

LINEHAN: OK. Senator Breise.

BRIESE: Thank-- thank you. And thank you for bringing this, Senator Wayne. Last year's fiscal note should be roughly accurate or--

WAYNE: I would think it would be the same based off-- and where they got the fiscal note, if-- when you read through it, is basic-- that was-- that's the last place, sorry. Where they got the fiscal note was based off of Iowa, who has a similar bill, and because of the cap, it's kind of not to exceed \$20,000 per individual, but it should be roughly the same.

BRIESE: Should be the same. OK, thank you.

WAYNE: The easiest way to find out is to get it to the floor and they send me a new A bill.

BRIESE: OK.

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

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WAYNE: Thank you.

LINEHAN: Do you--

WAYNE: I will-- I have to go to Government, so I will waive closing.

***JON CANNON:** Good afternoon members of the Revenue Committee. My name is Jon Cannon. I am the Executive Director of the Nebraska Association of County Officials. I appear today in a support of LB329 that would change provisions relating to taxes imposed on the average wholesale price of gasoline. NACO supports the intent of LB329 to codify the minimum average wholesale price of gasoline to be used to calculate Nebraska's gas tax. This amount was used as the average wholesale price for calculations as far back as 2008. By setting \$2.44, there is a base rate to ensure that counties receive a more stable funding source for road purposes from the Highway Allocation Fund. Otherwise, there is a risk of having a potentially significant drop in the amount of funds available for county road purposes every six months. We ask you to please consider our thoughts prior to taking action on LB329. Thank you for your willingness to consider our comments. If you have any questions, please feel free to discuss them with me.

LINEHAN: OK, do we have proponents? Do we have opponents? Do we have-- come on up.

MOE JAMSHIDI: Good afternoon. My name is Moe Jamshidi, deputy director for operations and currently the acting director, spelled M-o-e J-a-m-s-h-i-d-i. I'm basically here to oppose the original LB329 and you have my testimony in file. I'll be happy to answer any questions.

LINEHAN: You're so brave. Out of respect, do we have any questions for this witness? You're in luck.

MOE JAMSHIDI: Thank you.

***TIM KEIGHER:** Chairwomen Linehan and members of the Revenue Committee, my name is Tim Keigher. My last name is spelled K-E-I-G-H-E-R. I appear before you today on behalf of the members of the Nebraska Petroleum Marketers and Convenience Store Association (NPCA). NPCA represents over 100 independent petroleum marketers, convenience store and truck stop operators throughout the state of Nebraska operating more than 1,000 retail motor fuel facilities. I am here today providing neutral testimony concerning LB329. We are providing neutral

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testimony as our understanding of the bill, as introduced, is not to change the motor fuel tax rate, but to make changes to the distribution of the current motor fuel tax collections. NPCA does not have an opinion on how the State of Nebraska distributes the motor fuel tax proceeds to cities and counties, if LB329 remains net neutral in relation to the aggregate tax rate itself. Should the bill be amended to include an increase in the overall motor fuel tax rate, NPCA would then take a position of opposition. Thank you for your time and I would be happy to answer any questions.

LINEHAN: Thank you. Any other opponents? Anyone wishing to testify in a neutral position? We had proponents. Am I reading this right? Proponents, Jon Cannon, NACO. Neutral, Tim Keigher, Nebraska-- oh, that was the original bill too. OK, so we don't have the letters or written testimony. OK. Happy four-day weekend. I'm sorry.

_____: No, no [INAUDIBLE]--