

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee January 19, 2022

LINEHAN: Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn, Nebraska and represent District 39. I serve as Chair of this committee. The committee will take up the bills in the order posted outside the hearing room. The list will be updated after each hearing to identify which bill is currently being heard. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. We do ask-- I see what you're missing. We don't eliminate handouts anymore, right-- limit handouts. This has changed. I think probably most of you know, but important from last year. It's important to note that if you're unable to attend a public hearing and would like your position stated for the record, you must submit your position and any comments using the Legislature's online database by 12 p.m. the day prior to the hearing. Letters emailed to your senator or staff member will not become part of the permanent record. You must use the online database in order to become part of the permanent record. To better facilitate today's proceedings, I will ask that you abide by the following procedures. Please turn off cell phones and other electronic devices. 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 committee clerk when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page to distribute and I will introduce them in a second. We need 11 copies for all the copy-- excuse me, committee members and staff. If you need additional copies, please ask a page to make copies for you now. When you begin to testify, please state and spell both your last and first name for the record. Please be concise. It is my request that you limit your testimony to five minutes if necessary, and we will use the light system. So you have four minutes on green, one minute on yellow and when it turns red, you need to have finished. If there are a lot of people wishing to testify, I don't think we have that many today. If your remarks were reflected in previous testimony, or if you would like your position to be known but not-- do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. First, I introduce the committee staff: to my immediate right is legal counsel, Mary Jane Egr Edson, and to my immediate left is research analyst, Kay Bergquist. Two, we have-- we don't have Grant. Mandy, today. Grant is on some warm island of which we're-- at least I'm very jealous of. So then I'm going to introduce the pages if they

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would stand please so people can see you. So Natalie is from Norfolk and attending Wesleyan International Business, and Thomas is a return, I think, and he's from Omaha at UNL political science. So welcome. Now I'd 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. I'm from Natalie's hometown. I represent Madison and part of Pierce County.

BRIESE: Tom Briese. I represent District 41.

ALBRECHT: Joni Albrecht. I represent District 17, Wayne, Thurston, Dakota, and now a portion of Dixon County.

LINEHAN: Thank you. Please remember that senators may come and go during our hearing as they may have bills to introduce in other committees. Please refrain from applause or other indications of support or opposition. For our audience, the microphones in the room are not for amplification, but for recording purposes only. Lastly, we do use electronic devices to distribute information. 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 the hearing on LB825. Welcome, Senator Lindstrom.

LINDSTROM: Thank you, Chairwoman Linehan, and fellow members of the Revenue Committee. LB825 is an 8-year journey and some of the members here have been along that journey with me every step of the way. I'm looking at Senator Friesen. When I first introduced the bill dealing on Social Security tax and one of the things that I talked about when I was talking about three issues, knocked on 10,000 doors, was ending the tax on Social Security income. And we are one of 13 states that taxes that. We have taken steps as a committee, as a Legislature the last several years, and particularly last year, Senator Kolterman was the-- made it his personal priority last year. We, of course, passed that bill unanimously and this would be the next step in that evolution of what we're doing as far as making sure retirees are here.

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We've taken steps on the military side. To me, this is the next step into speeding that process up. And so what the bill does, and even last year, the bill has taken effect for a taxable year 2021. The bill that was passed, we did a 5 percent phaseout. LB825 speeds that up. So for a year, 2022 it would be 40 percent, 2023, 60 percent, 2024, 80 percent and then 100 percent would finish off in taxable year 2025. I will most likely make this my personal priority. Like I said, I went in fighting on this bill and might go out fighting on this bill. And I want to say that I appreciate not only Senator Linehan, but the Governor. A lot of us were there for the press conference a couple of-- a couple of weeks ago. The Governor did touch on the subject matter and making sure that our retirees stay in Nebraska, and we want to make sure that that happens. And so we'll have an opportunity this year to do a lot of the taxation issues from the income tax side, the sales tax, the property tax. But this, to me, complements that overall structure on what we need to do at the state level. So I'd appreciate your consideration on moving this forward. And again, I will most likely make this my priority and hopefully get off on the floor sooner than later. So I'd be happy to answer any questions. I think it's pretty straightforward. And we've all voted on it last year, so I don't think there's too much new that we haven't seen already.

LINEHAN: Thank you, Senator Lindstrom. Are there any questions from the committee? Seeing none. You will stay, of course.

LINDSTROM: Sure.

LINEHAN: Since you are here. Proponents. Don't be shy. You can move up if you're on this bill, you can move up. Good afternoon.

DELORIS TONACK: Good afternoon. Dr. Deloris, D-e-l-o-r-i-s, last name is Tonack, T-o-n-a-c-k. Good afternoon, Senator Linehan, and members of the Revenue Committee. For the record, I am Dr. D. Tonack, a retired mathematics and physics teacher of 40 years, a lifetime resident of Nebraska and the current president of the NSCA retired. First, thank you for supporting last year's bill, which phased out the state taxation of Social Security benefits over a 10-year period. Senator Lindstrom has continued to be supporting of elimination of the state tax. We just heard his comment about evolution over the years, and we appreciate continued support from Senator Linehan and members of this committee. NSCA retired supports moving to this 5-year phase out of Nebraska income tax on Social Security. Many of the same reasons I reported at the hearings last year still apply. In short, this is a fair way to eliminate an unfair tax on retirement benefits. Social Security was established in 1935 not to provide a tax resource

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for the government, but quote, to enable states to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, and public health, unquote. It was not intended to become a source of revenue for the states. Also, as Senator Lindstrom referred to, Nebraska is one of a small handful of states, I think it's now down to 12. I don't think it's even 13 anymore that tax Social Security benefits. Eliminating that unfair tax will help Nebraska be more retiree friendly, and passage of this bill is urgent. We have a high inflation rate and retired incomes, as you know, are fixed. I wish the phase-out would happen even earlier than the five years, but I do support LB825 as a good compromise. Although Nebraska did have a 7.4 percent increase in population from the recent 2020 census, there is still the threat of losing population in the age 55 to 75 category, especially those with incomes of \$100,000-plus. That group is an enormous return via growth in the state's economy. We need to keep those people in Nebraska. Our neighbor, by the way, Iowa phased out their tax on Social Security between 2007 and 2014. Missouri eliminated tax on Social Security benefits a few years before that. Well, let's have Nebraska join the wisdom of our surrounding states. Please advance LB825 on the floor of the full Legislature for debate and final passage. I look forward to the day when the Nebraska tax on Social Security benefits is in our rearview mirrors. Thank you very much.

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

DELORIS TONACK: Thank you.

LINEHAN: Next proponent. Good afternoon.

DAVID HOLMQUIST: Good afternoon. Good afternoon, Chair Linehan, and members of the Revenue Committee. My name is David Holmquist, D-a-v-i-d H-o-l-m-q-u-i-s-t, and I'm testifying today on behalf of AARP Nebraska in support of LB825. AARP is the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families. Key priorities of our organization include helping all Nebraskans achieve financial and health security. In particular-- in particular, AARP strongly believes that all individuals have the right to self-reliant, to be self-reliant and live with dignity in their retirement years. AARP is working hard to strengthen retirement security for all Americans. To help elevate these priority issues in 2021, AARP Nebraska worked closely with all of you in the Legislature, as well as with our Governors to enact LB64 as you heard about a few moments ago from Senator Lindstrom. This, of

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course, reduces taxation and Social Security benefits in half by 2025. The new law strengthens the retirement security of all Nebraskans by ensuring that workers and retirees have access to their hard-earned and hard-saved dollars. To continue our important work on behalf of older Nebraskans, today, we share our support for LB825 and encourage all of you on this committee to support the measure as well. LB825 would phase out all taxes on service-- on Social Security benefits by the year 2025. As you've heard before, Nebraska is one of-- only one of 12 states that currently taxes these benefits. Many retirees tell us that they're using their Social Security to help care for their own parents, their spouses, and more and more often are taking on the financial challenge of raising or helping to raise their grandchildren. They also feel that they have limited-- limited options for rejoining the workforce and virtually no time horizon to increase their savings. These taxes on Social Security benefits could go to several essential-- essential uses, like paying for the ever-growing cost of prescription medications, as well as food, clothing, utility bills and housing costs. In fact, in 2017, 29 percent of Nebraska residents stopped taking medications as prescribed due to the cost. Moreover, older Nebraskans on fixed incomes clearly feel the effects of inflation more than the rest of us, making it even more critical that they are able to keep more of their hard-earned Social Security benefits. This will afford middle-income Nebraskans the increased financial security throughout their retirement years, hopefully allowing them to care for their families and be able to age in place of their home-- in their homes and communities at the lowest level of care, as so many of us would like to be able to. Older Nebraskans are an asset, not a liability. Within our state, Nebraska aid-- Nebraskans age 50 and over create an economic impact much greater than their portion of the population. As the percentage of state residents over 50 continues to grow, so will their contributions to our economy. According to The Longevity Economy, a report prepared by AARP and The Economist, Nebraskans 50 and older generated 39 percent of the state's gross domestic-- domestic product in 2018, and this totaled \$50 billion. Moreover, the report found that state residents 50 and older made up just 34 percent of Nebraska's population in 2018, but supported 566,000 jobs across the state and generated \$33 billion in wages and salary. Our older population in Nebraska also contributed \$2.2 billion in unpaid caregiving in 2018 for spouses, parents, aunts, uncles and Nebraska's children. AARP Nebraska looks forward to working with all of you to enact and implement the policies in-- all policies, but particularly like those like LB825 that preserve and support the economic engine in our state and help to ensure that older middle-income Nebraskans can live their retirement years with dignity

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and independence. Thank you to Senator Lindstrom for introducing LB825 and for his tireless support and work on this initiative. We appreciate the opportunity to comment and we would request your support in advancing the bill. I'm happy to answer any questions that might arise. Thank you.

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

FRIESEN: Thank you, Chairwoman Linehan. So, Mr. Homestead?

DAVID HOLMQUIST: Holmquist.

FRIESEN: Holmquist.

DAVID HOLMQUIST: Right.

FRIESEN: Sorry. We're close. What-- do you know what percent of your membership would be impacted by this bill?

DAVID HOLMQUIST: Our membership is those 50-plus, but the wide majority of our members are over 60.

FRIESEN: So--

DAVID HOLMQUIST: So I would imagine--

FRIESEN: --those over 65, for instance, how many of them would be impacted by this because not everybody pays taxes on their Social Security?

DAVID HOLMQUIST: That's true. But the wide majority will pay taxes on them. I do not have that number, but I can get it and we'll get it back to you.

FRIESEN: I'd be interested.

DAVID HOLMQUIST: I don't-- I don't have it at my fingertips, but--

FRIESEN: OK.

DAVID HOLMQUIST: --but we have smarter people than I that can get that information for me.

FRIESEN: OK. Thank you.

DAVID HOLMQUIST: Thank you.

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

DAVID HOLMQUIST: Thank you.

LINEHAN: Are there other proponents? Are there any other proponents? Are there any opponents? Hi.

TIFFANY FRIESEN MILONE: Hello. Good afternoon, Chairwoman Linehan, members of the Revenue Committee. My name is Tiffany Friesen Milone, T-i-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e, and I'm the editorial director at OpenSky Policy Institute. We're here to testify in opposition to LB825 for two reasons. First, most Social Security income is already untaxed in the state, and second, changing demographics would make any level of exemption on Social Security or pension income unsustainable over time. While we agree that ensuring seniors aren't overtaxed is a good goal and we appreciate the intent of the bill, we'd like to emphasize that most Social Security income is already untaxed by the state of Nebraska. Married Nebraska taxpayers filing jointly with adjusted gross income of less than 58,000 and all other filers with incomes less than 43,000 can already deduct the full amount of their Social Security benefits from their income. These amounts are adjusted for inflation as of 2020 and so will continue to increase annually, exempting more and more Social Security income from taxation. In 2018, income tax was paid on only 27.5 percent of Social Security benefits were added to Nebraskans with incomes less than \$75,000 according to Department of Revenue data. Also, the Legislature passed LB64 last year, which ensures no one, regardless of income, will pay income tax on more than 50 percent of their Social Security income by 2025. Before that bill passed, just over half of all Social Security in the state was exempt from tax, and that measure can be expected to increase that number. At the same time, we're exempting more and more Social Security from tax. Nebraska's aging population is outpacing the gruesome-- growth in our workforce. University of Nebraska, Omaha Center for Public Affairs research projects the number is-- number of Nebraskans age 65 and older will increase by over 90 percent from 2010 to 2050. At the same time, the number of Nebraskans aged 18 to 64 will only grow by 12 percent. That means the ratio of retirement age Nebraskans to those of working age will double over the following decades. Consequently, the revenue lost from exempting all or some Social Security income from taxation will grow significantly. At the same time, the number of seniors is growing relative to the numbers of Nebraskans in the workforce supporting them. That means that in order to provide the exemption now, we shift the weight of the tax on to future working

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Nebraskans to avoid cuts to vital services provided by the state, including those important to seniors such as health care. The 2013 Tax Modernization Committee report warned of this, finding many states that exempted retirement income have been pulling back on those exemptions due to demographic changes. It also found that the growing population of retired taxpayers and their exempt retirement income will put increasingly difficult pressure on state budgets to maintain such exemptions. Finally, the assertion is often made that exempting Social Security of other types of pensions is necessary to recruit new residents or keep people from leaving the state. However, academic research fails to find any such correlation between migration and taxes. A June 2012 paper published in the National Tax Journal found that state-to-state movement among the elderly was stable from 1970 to 2000, despite changes in state tax laws favoring the elderly. In other words, the study found that state tax policies towards the elderly have changed substantially, while elderly migration patterns have not. Another study from Brookings in 2019 found that senior migration rates have slowed since the Great Recession, with those few that did relocate, largely seeking out destinations in the Sun Belt. The factors that enter-- that other factors influence retirement decisions is supported by census data. Of the roughly 570,000 adults age 65 and older who relocated to a new state in 2018, most cited proximity to family, cost of living, health care and climate as the main factors influencing their decisions. For these reasons we oppose LB825 and I'd be happy to answer any questions.

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

FRIESEN: Thank you, Chairwoman Linehan. So a couple making 58,000 filing jointly would not pay any income tax on their Social Security. Is that what you were saying?

TIFFANY FRIESEN MILONE: Yes.

FRIESEN: And so then after that, it's a percentage as you-- as your income goes up. At what point would you pay-- what you pay taxes on all of your Social Security?

TIFFANY FRIESEN MILONE: Nobody would ever pay all on their Social Security. Under federal law, you can only include 85 percent of your Social Security and your federal AGI. And so that's what you carry over through the state. So even if you're paying-- the most, you would pay is on 85 percent.

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FRIESEN: Is there a better way to approach this? I know lower-income senior citizens are struggling sometimes to make ends meet, but this is kind of an across the board. Is there-- is there a method that would be preferable to approach this and trying to match other states?

TIFFANY FRIESEN MILONE: I think it depends on your intent. I mean, we already have the homestead exemption for seniors. So there are programs where we have targeted relief, specifically the retired population. So there could be other programs that are structured similar to that.

FRIESEN: OK. Thank you.

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

TIFFANY FRIESEN MILONE: Thank you.

LINEHAN: Are there other opponents? Anyone wanting to testify in the neutral position? Senator Lindstrom, would you like to close?

LINDSTROM: Thank you, Chairwoman. I'll be brief just to answer a couple of questions or just maybe clarify some things. So back in 2018, and I said that I've worked on this for eight years, I wasn't kidding. We-- we-- my priority bill that year was to have the consumer price index attached to the brackets that we have under statute so the single file is \$43,000 for the-- \$58,000 for joint filer. Those have increased over the last four years due to the bill that we passed, LB738. So that's crept up. And if-- and that's true. If you were relying on Social Security as your main source of income, you're not going to pay income tax on that, but it is adjusted gross income is where you pay. And to answer your question on who's affected. From LB64 last year and what the Fiscal Office did, if I remember right, it's around 320,000-325,000 Nebraskans. And it's who it affects. So again, I understand that maybe there's questions or mechanisms cited there, but to me, it's more of a competitive issue when we're talking about giving every reason for retirees to leave the state. I don't know why we do that. Not only that, but the double taxation, so when we're putting the pieces of the puzzle together, I know I've said that a lot, but we have to restructure our fundamental tax code if we're going to be competitive. And this to me is one of those things that is non-negotiable with capping any type of bracket inside of it. This thing needs to go away. Same with military retirement. So I know we'll have those discussions, but I just want to make sure that-- just

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clarify some of the questions that came up in that committee. So I'd be happy to answer anything else, and thank you.

LINEHAN: Thank you. Are there any further questions from the committee? Senator Albrecht.

ALBRECHT: Thank you, Chair. I just have a question. You've been doing this for eight years, so has Nebraska always had this tax or-- I mean, did it kick in 20 years ago or--

LINDSTROM: It's been around a long time on the books. I can't give you a date on it specifically. I know prior to my first session in 2015, the Revenue Committee did increase the tax brackets to allow that. I think that's why they got a little bit frustrated with me when I first brought that bill my first session because they had just taken steps to do some things. But again, as I said, I just don't-- I-- it comes out of being competitive and we should not be taxed as we never should have. And this is LB825 is-- we're going to finish this off. Again, I appreciate your support on this, but we took steps last year and so this is just making this a final deal.

ALBRECHT: And they can't--

LINDSTROM: But I don't know the day. I can't give you the data to when that first--

ALBRECHT: Thank you.

LINDSTROM: --maybe 1984.

LINEHAN: Thank you. Senator Albrecht.

LINDSTROM: [INAUDIBLE]

LINEHAN: I think we can probably figure that out.

LINDSTROM: OK.

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

LINDSTROM: Thanks.

LINEHAN: So for LB825, we have 14 proponents that sent in comments in favor. We have zero opponents, and zero neutral. And with that we close the hearing on LB285 and open the hearing on LB723. Welcome, Senator Briese.

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BRIESE: Thank you, and good afternoon Chairwoman Linehan, and fellow members of the Revenue Committee. I'm Tom Briese, T-o-m B-r-i-e-s-e. I'm here to present to you my LB723, which would fix what I consider an oversight in the language we passed in LB1107 about a year and a half ago. We now have, because of that oversight, we now have in statute what will amount to a \$200 million property tax increase in 2024, which will continue every year going forward on everyday Nebraskans. This bill would prevent that from happening.

LINEHAN: Excuse me, just a second. We need to change the number. We forgot.

BOSTAR: No, it was wrong before, and they said-- they changed it, but it's still wrong.

BRIESE: LB723 here.

LINEHAN: OK. All right. I'm sorry.

BRIESE: No problem. Our unreasonable and unsustainable overreliance on property taxes to fund local government continues to curtail economic growth across our state, and we've taken some substantial steps to alleviate this overreliance and one substantial step was the passage of LB1107. But even today, with the refundable income tax credit at its projected amount and when we account for that, we continue to collect roughly \$600 million more in property taxes and income taxes, roughly 600, excuse me, \$700 million more in property taxes than state, local and motor vehicle sales taxes. LB1107 passed at the end of a COVID-delayed summer session in July or August of 2020, did several things. It created the Imagine Act, which will provide hundreds of millions of dollars of tax credit to businesses in Nebraska. It committed the state to provide 300 million to the next project in Omaha. It also created a statutory floor under the longstanding Property Tax Credit Fund, and it created a new refundable income tax credit under what we called the Nebraska Property Tax Incentive Act. This bill addresses the credit amounts under the Nebraska Property Tax Incentive Act. Under that act, all Nebraska property taxes-- taxpayers are entitled to a refundable income tax credit for a certain percentage of taxes paid to support public schools. That percentage is set annually by the Department of Revenue and hinges on the total amount available for the credit. We initially established a total credit amount at 125 million for year 2020, for years 2021 through 2023 it is to be the previous year's amount, plus an amount tied to revenue growth. And this growth factor is calculated as follows: Generally, if the cash reserve is more than 500 million,

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any state revenue growth in excess of three and a half percent is devoted to the Nebraska Property Tax Incentive Act credit. And if the cash reserve is less than 500 million, one half of that excess over three and a half percent is dedicated to the credit. And if revenue doesn't grow at all, the total amount of the credit would be the same as the previous year, and for 2024, the credit amount, according to what we put in place then, is to be reset at 375 million. From there, for year 2025 and beyond that amount would grow at the allowable growth rate, which is defined as the percentage increase in any of the value of all real property in the state, up to a maximum of 5 percent. So what's happened? Because of the substantial revenue growth in 2020, the credit for 2021 has already grown to an estimated \$548 million. And so you see the problem here. The credit by law will remain at 548 or possibly grow for '22 and '23, but for year 2024, the credit amount is required by law to drop back to reset back by \$173 million, probably more, back to \$375 million. And that would represent a roughly \$200 million tax increase on everyday Nebraskans. We can't allow that to happen. That's why we need this bill. LB723 fixes the problem I've described. It does so by eliminating the language in there that would otherwise reset and lower the overall credit amount. Instead, under the language of LB723, the overall credit amount would grow, if at all, for the next two years, as it currently is designed to do. That under the formula, it's tied to revenue growth, and in 2024 it would continue to grow from there, if at all, according to the allowable growth percentage. And realistically, it's probably not going to grow any for year 2022. And some suggest only very slightly in year 2023 and I think the fiscal note kind of bears that out. A slight-- slight growth in 2023. LB723 would keep Nebraska taxpayers whole by stopping this roughly \$200 million tax increase on our constituents. And we need to remember that the property-- Nebraska Property Tax Incentive credit is directed or-- excuse me, is direct tax relief for all Nebraska's-- Nebraskans. It's property tax relief for each and every one of our constituents. It's not weighted towards any one group. It's the same percentage rebate of school property taxes for everyone. And in that regard, it's a very fair distribution of property tax relief. It's really a great program and we need to keep it whole. And we also, again, we have to remember, even if we account for the credit amount of \$548 million, we continue to collect roughly \$600 million more in property taxes than income taxes and roughly 700 more than sales taxes. And we had a handout there. That handout is based, I believe, on the '19-20 year, but if you factor in the increase-- the small increase in the Property Tax Credit Fund and factor in the very substantial increase in the refundable income tax credit, back to the envelope math, still puts it about a six to \$700

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million difference between property taxes and the other two categories of taxes. And so if we don't pass this, we're really signing off on a \$200 million property tax increase on each and every homeowner, business owner and farmer across the state. And I submit we can't allow that to happen, and I submit that it's critical that we pass this piece of legislation. I'd be happy to answer any questions.

LINEHAN: Thank you, Senator Briese. Are there questions from the committee? Senator Bostar.

BOSTAR: Thank you, Chair. Thank you, Senator. Can you talk to me about what happens if, let's say, statewide valuations or revenues go down?

BRIESE: The amount remains as-- you're talking about after year 2025--

BOSTAR: Yes.

BRIESE: --when we're tied to valuation?

BOSTAR: Yeah.

BRIESE: The amount remains the same.

BOSTAR: OK. Second question. So the revenue increase that it's tied to is tied directly to a valuation increase. Is that my understanding?

BRIESE: The revenue increase we're dealing with the next two years here is actual state revenue growth. And so for the next couple of years, the increases are tied to revenue growth. And I think the projections are, no revenue growth in the upcoming year. I think that's debatable. And so it will remain constant at 548 the following year. I think the fiscal note assumes a slight revenue growth that kicks it up maybe 10 or \$12 million.

BOSTAR: And then after that, it's tied to--

BRIESE: Yeah. Valuation.

BOSTAR: Assessed value.

BRIESE: Yes, yes. And that's the way LB1107 was originally designed. And basically, this eliminates that reset back to 375 and begins utilizing the value of-- excuse me, the-- yeah, the allowable growth rate, the valuation growth in the year 2024 instead of 2025.

BOSTAR: Do you see any-- so I think-- I think that system makes sense. Do you see-- do you have any concerns as, particularly in this

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committee, we often talk about and hear legislation regarding different kinds of mechanisms to limit the growth of spending for political subdivisions. So if we have legislation that coexisted with this that put limits on the growth of property tax takings without doing anything about the valuation increase, so this is tied to valuation increase. But if we simultaneously it's something that limited what you could actually take for political subdivision, do you see any concerns about how those two things could potentially interact? And I understand I'm asking you about things that aren't in statute at the moment.

BRIESE: I don't have any concerns about that whatsoever because we're still considerably out of balance. If we would ever come close to having a balanced tax structure, then maybe that could be a potential issue. First of all, we have to get a cap or some sort of control passed--

BOSTAR: Right.

BRIESE: --and that's doable. We'll talk about tomorrow, but that doesn't concern me at all for, number one, we're so far out of balance anyway that we have a long ways to go before I think those concerns would come to fruition. And secondly, we'd have to get a cap of some sort passed also. But I see where you're going with that but, boy, that's-- that's a long ways off if it should ever become a concern.

BOSTAR: If you would indulge me, I'd like to talk to you more about it at another time.

BRIESE: Sure. Be happy to.

BOSTAR: Thank you

BRIESE: You bet.

LINEHAN: Thank you, Senator Bostar. Are there any other questions from the committee? Seeing none. You will stay to close.

BRIESE: Yes.

LINEHAN: Thank you. So can I just ask you quickly--

BRIESE: Sure.

LINEHAN: --is this current with the--

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BRIESE: I think that's based on '19 and '20. So I took the total. So is you-- in the property taxes, net of credits and if you take that total property tax amount and probably subtract another 35 million for the increase in the Property Tax Credit Fund and subtract another \$548 million for what the current refundable income tax credit is at, there's still roughly nearly a \$600 million difference between--

LINEHAN: OK.

BRIESE: --property taxes and income taxes.

LINEHAN: OK.

BRIESE: That's not accounting for any income tax relief we've put in place. And so that number is probably-- the difference is probably a little more than that.

LINEHAN: OK, I got it. All right.

BRIESE: So that's why I say back to the envelope calculations.

LINEHAN: All right.

BRIESE: They didn't have the most current property tax numbers for us, and that's why we have '19 and '20 there.

LINEHAN: Perfect. OK, thank you very much.

BRIESE: You bet.

LINEHAN: Proponents. Good afternoon.

MARK MCHARGUE: Good afternoon. I am Mark McHargue, President of Nebraska Farm Bureau, M-a-r-k, M-c-H-a-r-g-u-e. Chairman Linehan and members of the Revenue Committee, I'm happy to be here to testify on behalf of Nebraska Farm Bureau for LB723, also representing the Nebraska Soybean Association, Nebraska Corn Growers Association and Nebraska Pork Producers. And we're testifying in support of LB723, which you just heard puts the floor under the income tax credits provided by the Nebraska Property Tax Incentive Act, which fund is currently at \$548 million. That number kind of keeps getting burned in. We talk about that number a lot over the last couple of months. And I want to say thank you for Senator Briese for bringing this bill. Senator has worked very diligently on continued property tax relief, but I also want to thank those of you on the committee and the Legislature as well for your really extraordinary work, I think over

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the last couple of years on property tax relief and I appreciate that. Even though we've had substantial work done on property tax relief and I want to acknowledge that up right up front, I mean, I think we've done-- we've done good work that at the end of the day, we're still not done. And I know last year I came and testified in front of you and people ask me all the time as President of Nebraska Farm Bureau, so when is-- when is enough is going to be enough? I mean, we could just count on Nebraska Farm Bureau coming and harping on property tax relief and the simple answer to that question is, as Senator Briese alluded to it, is that whenever we-- we start to get balance. I would agree with Senator Briese that we're about \$700 million by our calculations out of balance yet, and that's between the relief in sales tax, income tax and property tax. And so that will continue to be our highest priority in Nebraska Farm Bureau in relation to this conversation. According to the Platte Institute, Nebraska's effective property tax rate is the eighth highest in the country. In one of the other bills it was mentioned that we have to be competitive and when you're the eighth highest, that still is not very competitive in my book. And so that's another reason we need to continue to be working on it. So getting back to how it breaks down on the imbalance, so we roughly collect around \$10 billion total a year relative to, you put it all in a pot, bring it all in. This is what we receive for revenue. Our taxes, property taxes at 42 percent and it's pretty easy to figure that backwards and say that's about \$4.2 billion. If we roughly spend \$10 billion, the percentages work out. Sales tax about 20 percent, \$2 billion, income tax \$3.5 billion, then miscellaneous at 3 percent, which is about \$3 million. That's an easy way to kind of tell what we're talking about on a balance structure. If we want to balance those out, you could tell that that's about what we need. In LB723, I feel like it's really a pretty straight forward proposal at the end of the day. It changes the calculation of total credits available under the Property Tax Incentive Act by eliminating the original language related to the tax year 2024, which sets the amount of credit at 375. Instead, for calendar years beginning on or after 2024, the total amount of credit will be equal to the prior year, plus the allowable growth percentage, which is equal to the growth in real property value in Nebraska from the prior year to the current year, but cannot exceed 5 percent in a year. As was mentioned again by Senator Briese, without the passage of LB723, when you look forward in year 2025, we're going to leave about \$205 million on the table; 2026, 212; 2027, \$220 million. That's-- that's property tax relief that we are not going to get in Nebraska as Nebraska property owners. And-- and I would say that Nebraska Farm Bureau comes and talks about property tax a lot, but we're only about a third of the equation here. Two-thirds of this

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is going back to all Nebraskans, whether you owned residential, commercial, and so this is property tax for the entire state, not just agriculture, even though agriculture is a big part of that. A majority of this is going back to our neighbors and friends and family that own property in Nebraska. So implementing the changes called for in LB723 ensures that we continue to move in the right direction. I believe that if we don't put the floor in, I think that's going to set us back from really some substantial great work that the Legislature has done. I think this will just continue that momentum. So thank you for allowing me and I'd sure be answering any questions.

LINEHAN: Thank you, sir. Questions from the committee? Senator Pahls.

PAHLS: Thank you. I agree with you. Urban people ought to be here talking about this because most of the tax dollars go to. Don't they go to Douglas, Sarpy, and the major counties as the homeowners. Is that where most of the tax credit goes to?

MARK MCHARGUE: Owners across the entire state. I don't think it's just the rural area.

PAHLS: No, no-- I know it goes across the state. I'm not that naive. But the majority of the good-- a good part of it goes to homeowners living in the Douglas County, Sarpy and Lancaster.

MARK MCHARGUE: Sure.

PAHLS: So we actually, those of us living there, even though we don't have the-- the large agricultural areas, we're really getting our share back is what I'm trying to say.

MARK MCHARGUE: I like agree 100 percent, you know.

PAHLS: Another question I had. This summer you threw out a number of the values that agriculture gives to the state of Nebraska. Can you recall that number?

MARK MCHARGUE: So we are from-- from just an economic engine site of the category--

PAHLS: Right.

MARK MCHARGUE: --you know, we're-- we're, you know, a good 25 percent of the economic engine. How it breaks down of the actual property tax, you know, I still think we're in that third-- third of the asking.

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PAHLS: But the summer-- in the summer, you gave an exact number in the billions that ag provides from the state. I'm just curious of that number.

MARK MCHARGUE: I think-- I mean, our total economic part of the equation is like \$22 billion.

PAHLS: OK, that's fine.

MARK MCHARGUE: Yeah, somewhere in there.

PAHLS: OK.

MARK MCHARGUE: Yeah. Yeah. You're testing my memory.

PAHLS: Well, no, that number caught me because I was making comparisons.

MARK MCHARGUE: Sure.

PAHLS: Thank you.

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

MARK MCHARGUE: Thank you.

LINEHAN: Other proponents.

KEN HERZ: Good afternoon, Chairman Linehan, and members of the Revenue Committee. My name is Ken Herz, K-e-n H-e-r-z. I am a former president of the Nebraska Cattlemen, and I'm here today to share Nebraska Cattlemen's perspective regarding LB723. Like you've heard, it is utmost importance to Nebraska cattlemen and others in agriculture to bring balance to the tax burden of landowners. This is the message we have shared with many of you on this committee for your entire tenure in the Legislature, and we'll continue to share until reform in the balance are achieved. I want to re-emphasize that Nebraska Cattlemen members are very appreciative of the property tax relief, which this committee has worked to provide for all Nebraska property taxpayers via the Property Tax Credit Fund and the LB1107 refundable income tax credits. Because of the unprecedented state revenue last year, taxpayers received back about 6 percent of the school property taxes they paid during 2020. This year, taxpayers may get back close to 25 percent of the school property taxes they paid during 2021 because of the amount set aside for the-- for LB1107 credits has more than

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quadrupled to \$548 million. This is on top of the existing relief provided from the Property Tax Credit Relief Fund. Again, we are very appreciative. We want to protect the \$173 million in growth of the Nebraska Property Tax Incentive Act experienced since its inception. This growth translated to real and exceptional property tax relief for Nebraska property owners. Because of this, we feel it is paramount to eliminate the requirement from the Nebraska Property Tax Incentive Act that the available dollars must be lowered to \$375 million, but instead setting the amount available to the maximum allowable for the prior year increased by allowable growth percentage. Thank you, Senator Briese, for your continued support of property tax relief for Nebraskans. LB723 is another good step toward reform and equality in the way land owners pay for education. For those reasons, we support this bill and ask this committee to advance LB723 under committee. Thank you for the opportunity to testify. I would be happy to answer any questions.

LINEHAN: Thank you very much. I have one question first. Are there some young Nebraska cattlemen here?

KEN HERZ: Yes, or YCC group.

LINEHAN: I thought I recognized them from this morning? Welcome. Do you want to stand up? Welcome, very nice. Thank you. OK, I think Senator Pahls, you had a question?

PAHLS: Yes, I did have a question. You know, when we keep talking about the property tax relief, maybe we should talk from the other end-- not taking from you originally. Here's the example that, that I'm proposing actually for this committee. Let's take a look at how much resident, because everyone has a house or resident. Why don't we drop that from 100 to 90 like we did-- we did with ag land a few years ago? Why do we take-- this is what we do. We take the money and then we, man, we're going to give it back to you. We shouldn't even take it initially. That's why I think all these taxes we're talking about, we always say, no, let's take a look at how we start out the program. In other words, if-- let's say we do reduce residential tax and this has been suggested before, so it would be nothing new. I think we ought to drop that value like to say from 100 to 90 because we did do it on ag land, we dropped the value of how we tax it. It did help you out. Well, let's do the residential. That would help everybody out in the state whether you live in the city or you live out in the country because you have a residence there. We take the money away from you and then we all just pat ourselves on the back because we're going to pass legislation to give it back to you. My thing about it is we

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shouldn't be taking it from you initially. I mean, that's where I'm coming from, and I'm trying to get some support. Let's start thinking that direction because it's nice to have the money to play with initially instead of, oh, let's hope they do give it back to us. I know we're starting to do that, but I think we-- personally we have turned it around. I mean, does that seem appealing at all?

KEN HERZ: Thank you, Senator, for your comments. Give you a little background. I became a member of Nebraska Cattlemen's board 14 years ago on the Taxation Committee, and property taxes was the highest priority we had and the relief of property taxes. We worked-- I worked continually trying to find ways to reduce property taxes, such as what you're saying. We, for whatever reason, anytime we come up with any suggestion, ways to reduce property tax, it doesn't ever advance anywhere through the Legislature. There was too much opposition to it. For the status quo, the way things are right now, this LB1107 is the first bill that I have seen that gives us significant property tax relief because we didn't do it the way-- the way you're talking about, starting from the very beginning. We-- it was actually relief coming back to us. And so we actually had support for that. But I agree completely that it was turned around backwards.

PAHLS: Well, the reason I'm thinking, 10 years from now something could happen because a whole different group of senators in there, and we could play with these-- this formula. But if-- if once we give you that tax rate initially, it's pretty hard to say we're going to change it. Just like the ag right now, if we say we're going to hike ag back up, the world would probably implode. That's why I'm just saying we need to start thinking bigger than this instead of-- and I do, I appreciate you giving me that history of how hard you've been working at this. That's why I'm making a comment that the large counties are doing quite well. If we're getting the money back, we're getting a good chunk of that money back, is the homeowner? I'm not. You know why I'm not? Because I sold my house 10 years ago. Now I lease. See, I get no property tax. Now you may say the person who owns the building that I lease, I'm going to tell you, my prices are not going down. And he has been getting a property tax relief, but I'm not. And just to let everybody know, because I have another bill or several of us have bills for the renters, 33.9 percent of Nebraska's-- Nebraskans rent, almost 34 percent rent. Those people are not receiving this tax break. And you may say, well, they are, because whoever, you know, you're leasing a place from is coming, you know, they're giving it back to you. I would challenge that routine. You just--you just have my attention right now and-- and I'll be quiet in this.

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KEN HERZ: I think what you're talking about is, is tax reform, and that is our number one priority is tax reform.

PAHLS: Keep it up.

LINEHAN: Thank you, Senator Pahls. Are there any other questions from the committee? Thank you very much for being here and thank you for your association being here. Hi.

AL JUHNKE: Hi. Madam Chair, and members of the committee, my name is Al Juhnke, A-l J-u-h-n-k-e, I'm the executive director of Nebraska Pork Producers Association, and we're here in support of Senator Briese's bill, LB723. You know, just very quickly. I think we all thought when we passed this bill that there would be floors in it. We didn't believe that we would increase-- technically increase taxes again by that floor going down. And we also said this was a start. This wasn't the end of property tax relief and reform. And so we're here in full support of Senator Briese and the committee's work that hopefully this gets out and gets corrected quickly. And the Governor, by the way, I believe, supports us. So I think we have a nice base to take care of this issue. Now, just a little education following up on Senator Pahls. One of the problems that we have unlike the other ag groups, we're-- we're with them in all the property tax relief. But remember, for those that don't know that are new on the committee maybe, our-- our barns and our sites are not agriculture property. So when you get a break on ag-- everyone says, oh, ag's getting this big break, not our barns, not our building sites, not our production sites, which I think are just as important and equal as the field production sites. And that's an anomaly in Nebraska. Because our Constitution doesn't allow us to separate the different classes of property, we've been unable to do that. Now we've made that slight correction with ag land a number of years ago. I wasn't here then. I don't know if any of you were. I want to know how that got done and how it got done and nobody's really backed it up. But really, that's what we need to be able on a legislative basis to control property taxes based on class types. And I saw your bill, Senator Pahls. I'll be talking to you more about it and I'll be probably testifying if it doesn't change because while it's a good start, and yes, every farmer has a house, garage and an acre of property that your bill would address, what it does though then would leave ag barns, ag building, ag production sites in with commercial industrial property, which we would differ heavily that we should be more towards the ag production side and not the commercial industrial. So I think you're on the right track. I'm glad there's new faces on the committee because I think we're bringing in some new ideas, Madam Chair, and we appreciate that.

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And so to that extent, we're willing to roll up our sleeves, continue working with you on continued property tax relief this year, and I'm guessing a few years going down the line. So with that, I'll stop. Again, thank you, committee for your work and we appreciate all you're doing but this is just a start and we need to lock in this floor.

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

PAHLS: I have. Constitutional amendment to get commercial and the residential we need to have a vote of the people. And that's one way of doing it. I think that's how ag, if I'm not mistaken, it was because you can't separate classes unless you go through constitutional amendment and that would be a vote of the people. And that could be one of the things we need to be taking a look at.

AL JUHNKE: Right. And Madam Chair, Senator Pahls, we hope you put ag, building properties right in that bill as an amendment, and we could take care of them both at once so we won't have to screw around so.

PAHLS: It gets complicated because separating things out, it has to be a constitutional amendment.

AL JUHNKE: Yeah, yeah.

PAHLS: That way it would be commercial property and what you're talking.

AL JUHNKE: There is one other way, Madam Chair, as long as he asked me a question. There is one other way we can look at it. The Legislature defines what ag land is. So if the constitutional amendment said that ag land would be able to be at a different rate, which at 75 percent now, and there's proposals to take it lower, the Legislature defines what that is. So the other way to take care of our ag properties is to add us to that statutory definition of what ag land is. Ag land includes all production properties and improvements. It'd be that simple and we'd be part of agriculture. So there are other ways that we've been thinking about and we're going to work with you on that going forward too.

LINEHAN: Senator Bostar. Thank you, Senator Pahls, Senator Bostar.

BOSTAR: Thank you, Chair. Thank you, sir. You know, and as you pointed out, I'm relatively new to the committee. I wasn't around when LB1107 was drafted and passed, so I don't know the history and it's been mentioned a few times. What I think I'm trying to understand is how significant or how important was the provisions that we would be

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striking in this bill? The existence of those provisions to the successful passage and the compromise legislation that ultimately became LB1107 and having that take effect. Do you, and-- and you could be actually the wrong person to ask and I will certainly be following up with Senator Briese about it, but you know, if you were around at the time, do you-- do you have any perspective about that?

AL JUHNKE: Well, Madam Chair and Senator Bostar, as we sat in these debates in this room, watched them on the floor and other things, I don't remember anybody mentioning this will be a roller coaster. Once we get that relief and it grows, we have talked about the growth of the relief in the out years. I don't remember anyone coming up here and saying, by golly, you know, this will probably go down too in the years, so I assume you're all for that. You're OK with, with less property tax relief. Nobody talked about that. And I'm just, you know, I'm-- the Bill Drafters, God bless them. And Senator Briese, God bless him. Had we thought that this was going to be a problem right out of the chute, I think we would have corrected it the day that it passed. I don't-- I don't believe that part of that compromise, and you're sitting next to one of the people, and in front of me is one of the people that sat in that room on that compromise, I don't think they compromised because this could go down on some day.

BOSTAR: OK, thank you.

AL JUHNKE: Yeah.

LINEHAN: Thank you, Senator Bostar. Are there any other questions from the committee? Thank you very much.

AL JUHNKE: Madam Chair, thank you.

LINEHAN: Thank you. Are there proponents?

DAVID GRIMES: Story of my life, I'm always one short. Hi, thank you for letting me testify this afternoon. I'm David Grimes, D-a-v-i-d G-r-i-m-e-s, and I'm here to testify on behalf of myself. I farm in Kearney County near Minden, and over the years I've served on a school board of Rural Fire District Board, currently serve on our local Natural Resources Board of directors, and I've experienced both paying property taxes and also using those taxes to provide for and protect of my community. Thank you again for the opportunity to testify today in support of LB723 and thank you, Senator Briese for bringing this forward. LB723 would assure that the state of Nebraska is committed to provide, as-- as I understand, at least \$548 million a year for income

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tax credits to property taxpayers. As I've watched over the years, it's always been a challenge to come up with a system to fund government that's fair and equitable to everybody. If we should tax ourselves based on wealth and the question has always been, what's a fair representation of wealth? Owners of real estate in Nebraska have long been taxed heavily. They've often been taxed disproportionately too and even without regard to their income and their ability to pay. Refundable state income tax credits based on locally paid property taxes help to even out the tax burdens borne by different taxpayers in Nebraska. They give significant help to folks with modest and low incomes who pay a large portion of disposable incomes on property taxes. The refundable income tax credits compensate those who might pay disproportionately high taxes in relation to those incomes and their ability to pay. Farmers, ranchers, small businesses and homeowners all often fall into that category. The refundable income tax credits did not diminish or affect local taxation, local budgets or local control. By issuing these credits, the state of Nebraska provides more equity between different taxpayers and makes a larger commitment to providing for the services that we citizens need. I think I have a little extra time. I'd like to just address a little bit the issue of, well, this doesn't give any help to somebody that pays rent, and I would disagree with that a lot. For the most part, those of us that rent, whether it be rent a pasture, and I'm sure some of these young people back here, I'll bet some of the folks in the past--

LINEHAN: They can't be asked. They can't answer.

DAVID GRIMES: Yeah, that's all right. I saw them nod.

LINEHAN: You made your point.

DAVID GRIMES: If you rented a home, rented an apartment, rent farmland, rent pastureland, part of that rent goes to pay the property taxes. And we all live in a competitive environment and my land, you know, a landlord that has a commercial property or residential property, competes with business with everybody else, and they have to stay competitive to get tenants as well. And that tax burden as it goes up and down affects those rents. My son is in his middle twenties and starting out life and farm-- and farms and ranches. We have sheep and cattle and guard dogs to keep the cows from eating the sheep in our place. And in his-- he rents what was his great-grandfather's pasture from some family. And in that rental agreement, there are specific provisions for the rent to go up or down as the property taxes go up and down. So I think as we-- always keep in mind, sorry,

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I'm starting to preach. If my wife was here she would give me a dirty look, but always keep in mind, please, that property taxes, you know, they have the most effect, probably on those of us starting out in life when maybe it's-- incomes are a little lower and we're below-- things are all riskier, too. So appreciate all the good work you folks do all the time you spend in your service. I'm not too much of an expert on anything, but I'd be happy to answer any questions.

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

DAVID GRIMES: Thank you again and I have a meeting at 3:00 in Raymond, and I'm going to take off.

LINEHAN: Thank you. Next proponent. Good afternoon.

MERLYN NIELSEN: Good afternoon, Senator Linehan and members of the Revenue Committee. Thank you for this chance to come and visit with you today. I wish to start off by thanking Senator Briese for taking the lead on LB--

LINEHAN: Name, name.

MERLYN NIELSEN: Correct. Merlyn Nielsen. M-e-r-l-y-n N-i-e-l-s-e-n. I've done this enough times, you'd think I wouldn't forget that, Senator. LB723, I find to be an excellent way to add to and make a legislation that was started two years ago would be much better as we go into the future. I'm sure that when the original bill was drafted and starting at about \$125 million and thinking goodness, if we got to 375, we'd really make quite a change. And then we didn't realize how well the state was going to come out. If we'd known that was coming, we would have never put that upper floor in there at that time and would have just let it continue to build. Usually, when I'm working on my income taxes, which I started this morning, I hate every step of that because it's a lot of recordkeeping, a lot of things we have to put together. But I found last year when I got to that step in my state income taxes, when I got to claim something back, that that worked to go find those tax numbers and put them into that form was enjoyable because I knew I was going to get something back. So I didn't bring all kinds of numbers. You've heard those from other folks today and certainly from Senator Briese, but I just wanted to come and let you know that myself am a very strong proponent for this legislation today and I thank you for the time to be able to visit with you.

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LINEHAN: Thank you, Mr. Nielson. Are there questions from the committee? Seeing none, thank you very much. Other proponents? Are there opponents?

TIFFANY FRIESEN MILONE: Hello, again. Good afternoon, Chairperson Linehan, members of the Revenue Committee. My name is Tiffany Friesen Milone, Ti-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e. I'm the editorial director at OpenSky Policy Institute. We're here to testify in opposition to LB723 because we're concerned it would obligate the state to a future tax credit without knowing whether we can afford it. There's no doubt that we're in a good fiscal position right now, in large part because of the unprecedented amount of federal aid that is flowing into the state since-- that has flowed into the state since the beginning of the pandemic. As with all good things, however, the federal funding will end and our state's economy will need to stand on its own two feet. Obligating future funds to this tax credit now while our revenues are heavily propped up by federal funding has the potential to force tough decisions by future legislators, particularly-- particularly if we see a drop in revenues after the federal funding ends. If the new floor is 548 million or higher and growing at the allowable growth rate, this credit, combined with the property tax credit, would equate to at least 15 percent of state spending annually between fiscal years '22 and '31. Our analysis assumes an allowable growth percentage of 3.9 percent, which is the previous 10-year average of property valuation growth in the state, subject to the 5 percent cap. We understand our state is heavily reliant on property taxes to fund schools and local governments, but this bill doesn't get at the heart of what's driving that reliance, which is low state support. Instead, this measure will potentially jeopardize future funding not only for these entities, but also-- also health, public safety and other priorities by tying up a large chunk of funding in perpetuity. Before I close, I also want to address the-- I mean, there's been talk about the three-legged stool and how we're still heavily weighted onto that property tax lid. We did-- I mean, I don't know how rough and calculation this is, but based on projected 2022 revenues are still including, the LB1107 credit is much more balanced. The property tax leg is at 33 percent, sales tax is at 31 percent and income tax goes to 30 percent. Prior to that, it would have been 38 percent property taxes, 29.6 percent sales and 25.4 percent income. So everything combined has resulted in a more balanced pool. But again, that's based on projected revenues. So that could change based on how reality ends up. Anyway, because of all this, we oppose LB723 and I'm happy to try to answer any questions.

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

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PAHLS: Thank you, Chair. So you're afraid in the future this may overwhelm us and we may not be able to fulfill our obligation, is that I'm hearing from you?

TIFFANY FRIESEN MILONE: Yes.

PAHLS: There's a potential, is that what you're afraid of? Not afraid of, but you're concerned about?

TIFFANY FRIESEN MILONE: Yeah, it is a concern of ours.

PAHLS: OK. Then would you have an issue with instead of taxing the people and then giving the money back, is more of value, like when--I just use right now the residential from 100 to 90?

TIFFANY FRIESEN MILONE: I don't know that we organizationally have a position on that. I think, I mean, historically, we have supported increasing state aid to schools and local governments so that they can reduce their reliance on property taxes. And so that would result in them levying fewer properties.

PAHLS: Yeah, they would have fewer property taxes to levy so then it can be-- have you had a chance to look at what the new plan on TEEOSA that they're working on this year?

TIFFANY FRIESEN MILONE: I-- I have been involved in discussions, but that is a better question for Connie Knoche on our staff.

PAHLS: Because we could ask for more state input for the majority of the schools, so that would lessen the need for property tax.

TIFFANY FRIESEN MILONE: That's my understanding.

PAHLS: It seems to me there are other ways of doing that, but you are concerned about what could be happening in a few years that-- that's what I'm saying is a different group of people sitting around this-- this little, I call it table, that for lack of a forgetting a word--

TIFFANY FRIESEN MILONE: Yeah.

PAHLS: --could change, so.

TIFFANY FRIESEN MILONE: Yes, I mean, we are heavily propped up by federal funds right now. And so once that turns, if we have obligated ourselves to increasing this credit from \$538 million plus the allowable growth rate, I'm assuming that that happens every year.

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That's a significant chunk of revenue that is not available to fund other priorities.

PAHLS: Thank you.

LINEHAN: Other questions from the committee? I'm not going to expect you to have an answer right now, but could you give me a list of the bills that OpenSky has supported that gave more money to education from state funding?

TIFFANY FRIESEN MILONE: Yeah, I can.

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

TIFFANY FRIESEN MILONE: Thanks.

LINEHAN: Are there other opponents? Anyone wanting to testify in the neutral position? OK, Senator Briese, would you like to close?

BRIESE: I'll just-- very briefly, and I want to thank everybody that came in and testified today. It's-- glad you're here. It's very important to the process and great to have you here. And Senator Pahls, you-- you really emphasized, you brought up a very critical point here, I think. When we're talking about this, this-- this mechanism is in one word, fair, in my opinion, in that it's an equal percentage of school property taxes to every taxpayer. And that is a very fair way of doing it. And that avoids those contentious debates and concerns about winners and losers and how it's going to affect them and how it's going to affect that group. And obviously, we're going to have those debates and discussions going forward someday. But-- but this is a very fair mechanism and you're right, it does treat your constituents very fairly also. And from an urban Senator standpoint, yes, you have to take a hard-- well, you'll have to anyway, I think, but you know, you should be taking a hard look at it, in my opinion, because it's really beneficial to everybody's constituents. And for that reason, I'm wholeheartedly in support of this. Obviously down the road, you know, we need to continue to address fundamental reform to the extent we can. But as we argue and debate and discuss the many aspects of fundamental reform, we can't let the taxpayers left hanging. And I think it's critical that we get this more in place. And, but anyway, with that said, again, I thank the testifiers. I appreciate that and I'd be happy to answer any questions.

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LINEHAN: Are there questions from the committee for Senator Briese? Seeing none, thank you.

BRIESE: Thank you.

LINEHAN: We didn't have letters-- do we call these letters for the record? We have comments for the record, four proponents, zero opponents and zero neutral. With that, we bring the hearing on LB723 to a close and we will open the hearing on LB688 by Senator Blood, but Senator Blood's staff is doing it. Alrighty.

BRI FULL: Good afternoon, Madam Chair, and senators of the Revenue Committee. My name is Bri Full, B-r-i F-u-l-l, and I am the legislative aide for Carol Blood--Senator Carol Blood, sorry. Senator Blood would like to apologize in advance for not being able to be here at the hearing this afternoon as she is in the hospital with her son. She has asked me to act as her proxy today to bring forward LB688 to your committee. She brings LB688 for your consideration for two main reasons. First, she wants to make the credits provided in LB1107, passed in 2020, easier to claim for taxpayers. And second, she wants to make those credits more transparent. The current system and the way it works now is not properly serving the taxpayers in Nebraska. LB1107 started with \$125 million in credits available for taxpayers. However, as reported by both the Lincoln Journal Star and the Omaha World-Herald last October, only \$73 million of that amount was actually claimed. That means this money is just sitting there when it should be in the pockets of citizens who need it the most. In an interview, even Chairwoman Linehan herself said that this unclaimed amount was pretty disturbing. Senator Blood wants to thank Chairwoman Linehan for giving her this idea after reading the article. The new program, created by LB1107, requires property owners to claim the credit when they file their income taxes. Taxpayers have the ability to recoup approximately 6 percent of the school property taxes they paid, minus any school bond payments for 2020. A very large chunk of that tax relief didn't go where the Legislature intended, and she thinks it's because of how complex the mechanism is. Many Nebraskans have to do their own taxes because they can't afford to hire someone else to do it for them. And frankly, it is elitist of us to assume that everyone can afford a tax professional to help them. Right now, it's structured as a refundable income tax credit to property owners on the basis of the amount of school district property taxes paid on their district's general fund levy. Folks, would you be able to explain that to a constituent in a way they could go home and claim that deduction? Why should we even have to explain something that we've already promised them through legislation? It shouldn't be a

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process. It should be automatic. In her travels across Nebraska she found it disturbing that so many taxpayers expressed to her that they were not aware that they were able to claim tax credit. And that's why she's introduced LB688 to simplify that mechanism. To put things into perspective, she's included the information from the Farm Bureau that gives step-by-step instructions on how to obtain your refundable income tax credit for property taxes paid to schools. You'll note it's most definitely a process. This bill keeps the current relief authorized by the body in LB1107, but changes the way the tax credit is distributed. Let me really-- reiterate that the amount of relief granted remains the same. However, by changing the mechanism from a refundable income tax credit to an appropriation, the fiscal note shows a significant increase of revenue into the General Fund, which then would trigger the LB1107 mechanisms to increase the credit by the same amount. So again, by changing the tax credit to an appropriation, the credit would inflate significantly. This highlights the issues with the existing mechanism to increase the credit, and so we have an amendment that would eliminate the current trigger and replace it with language that caps the funds available for the credits at \$548 million for the tax years 2020 and 2023. The intention of this bill is to change how the taxpayer sees this relief. They see it on their property tax statement instead of having to file a complicated form on their income tax return to claim the credit. Naturally, having it show up on their property tax statement would allow for more visibility and transparency and ultimately happier taxpayers. It is Senator Blood's intent that LB688 would operate much like the state's other main form of property tax relief, the property tax credit. This again means the relief would go to the taxpayer directly. By structuring it this way, a much simpler way, we can make sure the significant property tax relief provided by LB1107 does what we intended. Again, the intent is to make it easier for taxpayers to access all of the relief we worked so hard to provide. This is a win-win for everyone, except perhaps for the tax preparers who've been charging people more to claim the LB1107 credit and it's even worse in some cases--in some cases, Senator Blood thanks you and urges the committee to quickly vote out and pass this bill on to General File so that we may make sure not one penny of the estimated \$548 million worth of 1107-- of LB1107 credits for this year goes wrongfully unclaimed. This isn't a partisan bill, nor one of special interests. It's a bill to make things easier and more streamlined for Nebraskans. Please help her help those fellow Nebraskans. Thank you, and I'd be happy to refer your questions to Senator Blood.

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LINEHAN: Thank you. Do we have any questions? I think we can get questions to Senator Blood if we have to.

BRI FULL: Thank you.

LINEHAN: Do we have proponents? Are there any opponents? Anyone wanting to testify in neutral position?

TIFFANY FRIESEN MILONE: Good afternoon, Chairperson Linehan, and members of the Revenue Committee. My name is Tiffany Friesen Milone, T-i-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e. I'm editorial director at OpenSky Policy Institute. We're here in a neutral capacity-- capacity because while we support simplifying the LB1107 mechanism, we think there are better ways to address the state's overreliance on property taxes. LB1107 passed over the summer of 2020, created a complex mechanism to ease the impact of property taxes on taxpayers. Specifically, it created a refundable income tax credit against General Fund school district property taxes paid. It did not actually reduce property taxes. As has been reported, and as she stated in the opening, not everyone has been able or been claiming their credit. For example, both the World-Herald and the Jink-- Journal Star reported that of the \$125 million allocated to the program, not even 60 percent was claimed last year. LB688 intends to change the LB1107 mechanism to work more like that of the Property Tax Credit program, which would provide a tangible reduction in property taxes that's easier for taxpayers to claim. It's nothing we needed on there and furthermore, and perhaps even more importantly, it would enable taxpayers to link the significant property tax relief provided by this body to their property taxes and not to their income taxes. Finally, LB688 should make property taxes more transparent, which is a principle of good taxation. The fiscal note illustrates how complicated the LB1107 mechanism is, as she said, as the-- as the credits currently structured because it doesn't come into the General Fund eliminating it and then distributing it as a property tax credit would register as a \$548 million increase in the General Fund, which then triggers a commensurate increase in the credit. This demonstrates our overall opposition to triggers. They're unpredictable and often have unintended consequences. Finally, I'd like to point out that the amount of funding involved in this bill is significant, and while we support altering the existing mechanism, I'd like to take a second to once again express our concern about the overall fiscal impact of LB1107 and the concept of providing top-- property tax credits over increasing state aid to local governments. Nebraska is, as we all know, heavily reliant on property taxes to fund schools and local government services. While we support measures that ease the impact of

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that reliance on taxpayers, we'd also like to see more state funding going to those entities, allowing them to lower their levies for 49th in the amount of state aid going to schools and 47th in the amount of going-- amount of going to local governments. We continue to agree with the Tax Modernization Committee that increasing state funding to property taxing entities is the best way to address property taxes. Thanks for your time and I'm happy to answer any questions.

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

TIFFANY FRIESEN MILONE: Thank you.

LINEHAN: Someone else who wants to testify in the neutral position?

JON CANNON: Good afternoon, Chairwoman Linehan, distinguished members of the only committee whose members are referred to as being distinguished. My name is Jon Cannon. J-o-n C-a-n-n-o-n. I am the executive director of the Nebraska Association of County Officials. You may have heard of us referred to sometimes as NACO, and we are here in neutral capacity on LB688. First, we'd like to thank Senator Blood and her staff for bringing this. This isn't always an important conversation when we talk about property taxes, especially in the state. The people that have come before me have talked about that issue in particular. We are here in the neutral capacity, primarily because our board has not yet met to take positions on bills. But as the executive director of NACO, I have a certain amount of discretion. If you have a new NACO-- NACO executive director next week, we'll understand that I guessed wrong. So fingers crossed on that one. Are-- the reason we wanted to show up here and visit in a new neutral capacity is to discuss some of the complications and concerns that we might have about this bill and bring them to our attention. If there's something that we can do to see a way forward we're certainly welcome-- welcome to having that conversation. It starts off as philosophical, but it very quickly weaves into a practical concern that we have. This is-- one of the key parts of this is that distribution of these funds would go directly to the schools. It would not go through the treasurer's office and so in that-- in that respect, it really resembles more of state aid to counties rather than a credit. Ordinarily, when we calculate a credit, when you've got the tax statement those are funds that are going through the treasurer's office and then that distribution, it goes from the treasurer to each of those political subdivisions. So again, as a practical matter, this doesn't really square with how we would usually calculate and look at a credit. As for instance, we do homestead exemptions. The-- the

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reimbursement of counties is done as a distribution to the county treasurer and then the county treasurer distributes that to each of the political subdivisions. Same thing with the property tax credit. From a practical standpoint, with all the calculations that we have so far, you know, as far as LB2, homestead exemption, property tax credit, they're in with all the different moving parts that are involved, there is the potential that there could be a miscalculation somewhere and we would certainly want to make sure that neither the citizen nor the political subdivision is being shorted in any way. One very practical aspect this bill has, schools report their unused property tax credit, while treasurer's report the unused regular property tax credit. So you've got two different reporting mechanisms. That makes it a little bit interesting for us. One big difference between this and the property tax-- the regular property tax credit is that this is calculated based on taxes paid while the property tax credit is tied to valuation. And so when displaying that on a property tax statement, if that's the route that we actually did want to go, it's going to be-- necessarily it's going to be confusing to the taxpayer. And oh, by the way, we have a solution. I didn't want to come to this committee and give you a problem without having a solution. We already have an insert that we provide to all the taxpayers in the state that describes the amount of state aid that is provided to each individual taxpayer. That's from Nebraska Revised Statutes, Section 77-1704.01 and it describes down to the penny exactly how much state aid has been distributed by the state. We agree that how we fund our local political subdivisions is the fundamental key to property tax relief. We encourage efforts in that regard, but it is complex and we need to make sure that we get the details right. Happy to work with Senator Blood and the committee to see if we can have something workable. So with that, I'll-- happy to take any of your questions.

LINEHAN: Are there questions from the committee? Well, I will admit here publicly that I haven't really looked at this bill. The money goes to the schools?

JON CANNON: Yes, ma'am.

LINEHAN: Not to the people. I don't understand.

JON CANNON: The distribution goes from the treasurer to each school district in the state.

LINEHAN: OK, well, I will read the bill now. I'm sorry. Are there other questions? You talked about the insert?

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JON CANNON: Yes, ma'am.

LINEHAN: So I'm going to-- since you're proud of that, I'm going to ask you a question that's not related to the bill but my s-- poor staff has been hearing about it. Is there a way that-- so you get yours and so this isn't about Douglas County, this is about Johnson County. I get it. And the only school listed on my site that gets state aid is the school that's in Johnson County. Why wouldn't we list also the school that actually paid property taxes too? I think it would be very-- I love the insert. I think it's wonderful. I'm assuming the Legislature passed legislation at some point that said you have to do that, right?

JON CANNON: Yes, ma'am.

LINEHAN: I assume that. But it seems like every school district that the property taxpayer-- I don't know. We just-- this isn't the time. I need to have a meeting with you on that.

JON CANNON: Yes, ma'am.

LINEHAN: I think we could be more informative than that. It's great, but we could do a little better, I think. And I don't think the new income tax credit doesn't go on there because it goes back to the people, but they already get that.

JON CANNON: Yes, ma'am. And for what it's worth--

LINEHAN: Sorry.

JON CANNON: --certainly applaud the efforts that got LB1107 past the finish line a couple of sessions ago. I will say, since I know that he's watching, Larry Dix said, you'll never have to talk about property taxes again. So--

LINEHAN: I didn't, in my wildest dreams, think that was true.
(LAUGHTER) Any other questions? OK. Do we have any letters directed or whatever we call them now? OK, then that brings the hearing on LB688 to a close. Oh, do you want to close? I'm sorry. OK. This was not the most exciting hearing for you in attendance today to watch, but they get more exciting as we get further along. Thank you very much for being here.