LINEHAN: [RECORDER MALFUNCTION] --Elkhorn, Nebraska, and I represent Legislative District 39. I serve as Chair of this committee. The committee will take up bills in the order posted outside the hearing room. It-- they're not, they're not bills. They're LRs, right-- LRs. The list will be updated after each hearing. Today, our hearing-- our hearing today is your public part of the legislative, legislative process. This is your opportunity to express your position on the proposed legis-- proposed LRs before us today. We, we do ask that you limit or eliminate handouts. Is-- OK, is this-- this is invited testimony only. So when you come up to testify, please speak directly into the microphone. Spell-- state and spell your name for the record. Are we going to use the light system today? We will use the-- OK. Please be concise. It's my request that you limit your testimony to ten minutes. So you will have, you will have eight minutes when it's green and then one minute when it's yellow, which you should wrap up, and then the committee will be able to ask questions. So I'd introduce the committee staff. To my immediate right is legal counsel, Mary Jane Egr Edson. To my immediate left is research analyst, Grant Latimer, and a new staff member for the Revenue Committee at the end of the table at my left is committee clerk, Tomas Weekly. So now I would like the committee members to introduce themselves starting at my far right.

KAUTH: Kathleen Kauth, Legislative District 31.

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

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

ALBRECHT: Senator Joni Albrecht from northeast Nebraska: Wayne, Thurston, Dakota, and a portion of Dixon County.

DOVER: Robert Dover, District 19, Madison County, the south half of Pierce County.

LINEHAN: Is Senator Briese on the phone? OK. All right. So Senator Day is going to introduce LR by phone. So Senator Day, are you there?

TOMAS WEEKLY: It's on, but--

________________: I don't think they've called yet.

TOMAS WEEKLY: Yeah, they have not called in.

LINEHAN: OK. She needs to call in, is that the situation?

TOMAS WEEKLY: Yes.

LINEHAN: Hello.

DAY: Hello. You can hear me.

LINEHAN: Yes, Senator Day. Good morning.

DAY: Good morning.

LINEHAN: So--

DAY: Are we ready?

LINEHAN: We are ready. Thank you very much. So Senator Day, would you--

DAY: OK.

LINEHAN: Yes, go ahead with LR387.

DAY: OK, great. Good morning, Chairwoman Linehan and members of the Revenue Committee. My name is Jen Day. That's J-e-n D-a-y and I represent Legislative District 49 in Sarpy County. First, I want to thank the Revenue Committee and Chairwoman Linehan for allowing me to remotely give my introduction this morning. It was my plan to be there with you all today, but a herniated disc is not allowing me to travel any further than my couch, so I appreciate the flexibility in organizing the hearing today. I filed LR387 to explore different approaches that could be taken to provide a homestead exemption for Nebraska's partially disabled veterans. As many of you may recall, last session, this committee unanimously advanced LB853, which was the homestead exemption based on a VA disability rating for those with a 50 percent to 90 percent service-related disability with relief prorated to their disability rating. Currently, Nebraska already extends the homestead exemption for fully disabled veterans, which is considered those rated 90 percent to 100 percent disabled. Currently, Nebraska offers homestead exemptions to the following categories: persons over age 65, veterans totally disabled by a non-service connected accident or illness, qualified disabled individuals, qualified totally disabled veterans and their surviving spouses, veterans whose home was substantially contributed to by the VA and their surviving spouses, or individuals who have a developmental disability. Given the challenges that disabled veterans face, LB387

[SIC--LR387] seems consistent with Nebraska's existing homestead exemption categories of which many disabled veterans already qualify and would not receive a new or additional exemption. This idea has already been implemented in other states and currently Alaska, Illinois, Kansas and Vermont already include partial service-related disabilities in their property tax exemptions. As a quick overview, these determinations of veteran injury severity are made by a grad-- grading system under the VA schedule for rating disabilities. The ratings range from 0 to 100 percent and higher ratings may reflect a single serious disability or a combination of several smaller disabilities. The basis for these ratings are the average impairment of earning capacity that results from the service member's injury. Additionally, injury severity is often greater than the injury rating because the percentages of each disability are averaged together. So for example, a 30 percent disability rating plus 20 percent disability does not equal a total of 50 percent disability rating. Instead, combined ratings are calculated by a formula and rounded down to the nearest 10 percent, meaning veterans often have a rating that is less than, than the sum of their injuries. Furthermore, while these are partial disabilities under the VA's rating system, to most of us, these could be considered life-altering disabilities. I mentioned this in my testimony last session, but a case of 70 percent impairment for post-traumatic stress disorder involves suicidal thoughts, near continuous panic attacks, inability to manage stressful situations, and a projected 70 percent loss of earnings. To take another example, most arm amputations, unless they're done all the way to the shoulder, are below 90 percent and considered partial disabilities. So there's a divergence between the true severity of these disabilities and the rating system. Last session, a major issue we encountered specific to LB853 was an error we accidentally drafted into the bill that specific-- that specified non-service injuries, functionally putting the fiscal note at zero. However, we were unable to get an updated fiscal note until after AM1601 was formally added to the bill on General File as a committee amendment. Initially, we had predicted around $15 million in fiscal impact, given that not every disabled veteran owns a home and that there is significant existing overlap between the age, income and non-service related disability homestead exemption. However, the fiscal note assumed every disabled veteran will claim this benefit and came out to $68 million. This then prevented the bill from being scheduled because of a lack of General Funds in the final days of session. I do not highlight this to find fault in the projection, but to give context for a discussion of how to move forward with ideas to provide a worthwhile exemption in a way that best manages the fiscal impact to our state. We have no basis to contest the technical math of the fiscal note. It's correct. However, as I'm sure everyone on this committee has dealt with on their tax cut proposals, the methodology and the math contains a set of assumptions that suggest the full number would not be realized in any actual implementation. We know based on our current homestead exemption that there will be overlapping eligibility with a hypothetical expansion of the existing disabled veterans exemption. Not every veteran that's eligible will get a new amount of tax relief because they're already receiving this exemption in other forms, most likely from the age exemption. I understand, as good stewards of tax revenue, why the Fiscal Office has to give us a broad number that isolates every single Nebraskan, every single Nebraskan and applies the credit, especially if there is no sure way to determine the exact number that have overlapping eligibility. However, while I think the fiscal note contains the correct math on a spreadsheet, I would urge the committee to treat the numbers from last session as a maximalist projection rather than a firm estimate of revenue loss. With all of this said, my objective this morning is to ask, are there ways we can offer this exemption in a manner that would reduce the fiscal impact? Is there a new way that we haven't considered, whether through an enhanced income restriction, stricter cap on home values or other methods? I remain grateful that this committee advanced this idea unanimously last session and endorsed the idea on merits while also acknowledging the fiscal realities of balancing a budget. It would be my pleasure to work with any interested party in getting this over the finish line, and it's my hope that we can build on last year's progress to find a pragmatic solution to offer this targeted exemption. A veterans homestead exemption does not come anywhere close to filling the debt of gratitude that we owe to our veterans, but does make things slightly easier for those who have given us so much. With that, I'm open to any questions and I will let you know that I am going to waive my closing, but I will be watching the rest of the hearing from home.

LINEHAN: Thank you. Excuse me. Thank you, Senator Day. Are there any questions from the committee? Seeing none, thank you very much and feel better.

DAY: All right, thank you.

LINEHAN: So our first testifier is Scott--

________________: The caller, Jen Day--

LINEHAN: --Scott Gaines--

________________: --has left the conference.

LINEHAN: --Lancaster County Assessor's Office. Good morning, Mr. Gaines.

SCOTT GAINES: Good morning, Senator Linehan and members of the Revenue Committee. My name is Scott Gaines, S-c-o-t-t G-a-i-n-e-s, and I am the chief administrative deputy in the Lancaster County Assessor's Office. Thank you for having us here and I'm-- my understanding of our role today is to kind of fill the committee in on the process as it pertains to the counties and our role in the homestead process. And Senator Day did a great job of kind of outlining some of that so she stole a little bit of my thunder. So I'm going to focus my comments on the category four, 100 percent service-connected disabled, as it stands today and how legislation such as LB853 would impact that. So every year, every type of homestead exemption, our office and every other assessor's office in the state will mail out the actual applications to anyone who applied for benefits in the prior year. So they're in the database, if you will, around the 1st of February. We mail that out with instructions on how to file. There are annual filing requirements for all of the categories listed. The filing period for the taxpayers to file with our office is June-- or February 2 through June 30. Our role once we receive those documents is, is pretty basic. We have to verify they meet the qualifications. So in the case of a 100 percent service-connected disabled veteran, the initial filing, we would get the VA certification that shows that they are 100 percent service-connected disabled. That's a one-time deal in their first application. Then we would verify that they own and occupy the property January 1 through August 15, pretty straightforward. For most other categories outside of the category four, we would then pass those documents on to the Department of Revenue to verify the income limitations. As Senator Day pointed out, with the category four, there are no income limitations so that's a, you know, a moot point as far as those applicants. One of the ideas that-- you know, I know the fiscal note is an issue and Senator Day, again, stole my thunder. You know, if you want to figure out how can we bring more people in, but, you know, reduce the cost, you know, right now there's no income limitation on the category four. There's no valuation on the property limitation like there is for the over 65, which is the majority of the homestead recipients in the state. So that's a way that, you know, potentially you can tweak that category to let more people in, but, but maybe not have carte blanche on some of the qualifications. With that, I would love to hear questions that you have and--

LINEHAN: Thank you.

SCOTT GAINES: --I've got nothing else. Pretty basic on our end. And as far as the implementation if LB853 had been passed, the counties would be able to implement that with some minor programming changes. Obviously, it's going to create more applicants, but I don't think it's going to be to such an extent that it's going to overwhelm an office and, you know, require new staffing or additional costs.

LINEHAN: OK. Thank you very much. Are there questions from the committee? Senator Albrecht.

ALBRECHT: Thank you. Thank you for being here today. So if somebody comes in 100 percent, it's always going to be 100 percent, but do they have to come back every year to do that?

SCOTT GAINES: They-- on annual filing requirement, they don't have to recertify the disability each year.

ALBRECHT: OK, so if everyone were able to do this, you'd just go through the same drill that they have to come in and sign up?

SCOTT GAINES: By everyone--

ALBRECHT: Like, you send out cards to everyone who applied for that. But if we were to give everybody the opportunity to have this, would that change things in your office?

SCOTT GAINES: By-- I guess, just to be clear, we, we send out the applications. We're required by statute to send out applications to anyone who applied for homestead exemption the prior year.

ALBRECHT: Um-hum.

SCOTT GAINES: Anyone who meets the criteria that-- outside of that-- I may have just turned 65. I can then apply in that year without having been in the database the prior year. Am I understanding your question?

ALBRECHT: OK. OK. So I'm just trying to see if we're working on an-- trying to get different ideas to make this work--

SCOTT GAINES: Sure.

ALBRECHT: --for the state of Nebraska and for the veterans, what would-- would you suggest anything in your office that would be more streamlined or help?

SCOTT GAINES: I mean, I know there's been discussion about something other than an annual filing requirement for various categories. The only thing I would say on that is, is as long as they're-- the applicants are required to own and occupy the property, from, from my perspective, that annual filing at least gives them some certification that, yes, I do still own and occupy this property. And that requirement is throughout all categories so if you were to soften that, the, the potential is the state may be giving benefits that the taxpayer may inadvertently be receiving without that, that annual certification that they own and occupy the property. That's-- and I know that in some of the amendments, there was, you know, some penalties imposed if they didn't notify us that they no longer owned and occupied the property, but as, as--

ALBRECHT: But you'd be checking that out anyway, right?

SCOTT GAINES: You know, with the ability that we have to verify where someone lives, you know, the ownership part of that, January 1 through August 15 is, is very provable. It's hard to prove someone doesn't live somewhere.

ALBRECHT: Thank you.

LINEHAN: Thank you, Senator Albrecht. Senator Kauth.

KAUTH: So what happens when the service member passes away? Does that exemption last through their passing or once they have passed away, that's not--

SCOTT GAINES: For the category four that we're talking about as well as category five, the substantially contributed by the VA, that benefit can pass to a surviving spouse.

KAUTH: OK.

SCOTT GAINES: And then that surviving spouse, I think in the first year they're applying as a surviving spouse, they would have a certification letter that they meet the requirement of the surviving spouse. For elderly over 65, surviving spouse would not receive benefits unless they themselves met the over 65 qualification.

KAUTH: Thank you.

LINEHAN: Thank you, Senator Kauth. Any other questions? So I think what you said and Senator Day said, one of the ways we could shrink the fiscal now would be its not-- it is somewhat income dependent and someone house value. So if somebody is making $100,000 even though they're 50 percent disabled, which someone could do, they wouldn't qualify. So to tie in the bill the way it was written, didn't have any income--

SCOTT GAINES: Right, it-- the-- and the current category has no, no income limitations and no value of the property limitations.

LINEHAN: Right.

SCOTT GAINES: So basically you meet the qualification to be 100 percent service-connected disabled, whatever property you own, that homestead becomes exempt regardless of the value of the property or your income.

LINEHAN: So if I'm over 65, what are the, what are the limits?

SCOTT GAINES: Well, the income limit is roughly--

LINEHAN: And if you don't know exact, that's fine. We [INAUDIBLE].

SCOTT GAINES: Well, it's basically got to be under-- for a married couple under about $53,000. For a single, it's about $45,000.

LINEHAN: And then the-- that's income. The house value?

SCOTT GAINES: The house value is dependent upon the average value in the county. This is so complicated. You sit down trying to explain it to somebody that's 75, 80 years old, good luck. But the-- it's based on the average value of the property within the county.

LINEHAN: OK.

SCOTT GAINES: And typically the maximum amount is the average.

LINEHAN: And in Lancaster County, what is that?

SCOTT GAINES: Off the top of my head, it's roughly $220,000, $230,000. So the typical person who meets the-- is under the income limit to get an-- 100 percent based on income would be exempt in the first $225,000 of the value of the property. So if I own a $180,000 home--

LINEHAN: So the property can be, the property can be worth more than that, but they just get the exemption on the 225?

SCOTT GAINES: The maximum-- let me, let me-- see, I've told you it was confusing.

LINEHAN: Yeah, sorry.

SCOTT GAINES: The exempt amount would be that 225. The maximum value that they can have for the over 65 is 200 percent of that. So if we had $225,000 average value, once their home exceeds $450,000-- and again we'd-- we, we decrease that in 10 percent increments as well--

LINEHAN: OK.

SCOTT GAINES: --so a roughly $450,000 home in Lincoln. If you live in value-- home value more than that, you wouldn't be eligible for, for benefits as a 65-year-old.

LINEHAN: OK. Thank you very much. Any other questions? Seeing none, thank you very much for being here. Appreciate it.

SCOTT GAINES: Thank you.

LINEHAN: Next testifier is Ruth Sorensen, Property Tax Administrator, Nebraska Department of Revenue.

RUTH SORENSEN: Good morning, Senator Linehan--

LINEHAN: Good morning.

RUTH SORENSEN: --and members of the Revenue Committee. Thank you for the invitation to testify. Much like Mr. Gaines, I understand our role here. I'm sorry, spell my name. I'm getting sign language over here. My name is Ruth Sorensen. It's R-u-t-h S-o-r-e-n-s-e-n and I am the Property Tax Administrator. And much like Mr. Gaines indicated, we're, we're here to talk through the process at the Department of Revenue once we receive the applications from the county assessors. And I'll just clarify that February 1-- by February 1, we are required to preprint-- send preprinted applications to the assessors. So they have that preprinted application. That's what they mail to the assessors. So it's in the database, as Mr. Gaines indicated, but we preprint them and then they are responsible for sending them on to the property owners or the applicants. And so that's February 1 and then the assessors collect the applications between February 2 and June 30 and they review those. And there's also another category five where there's no income or residential-- average residential value. Category five are the veterans whose home was substantially contributed to by the VA and their surviving spouses. So that's category five. So there's two categories where it's 100 percent exempt. OK-- to clarify that. Then I have all of the assessor's role here too I didn't know about so my notes are lengthy. So then we receive-- this year, we implemented an electronic database so that the assessors can enter the data into the electronic database at the Department of Revenue and they have until August 15 to enter that information into the database. And once that is done, we then-- there's kind of like a down period a little bit because the, the assessors can accept transfers of the homestead exemption until August 15. If you had qualified for a homestead and you moved within the state, you can transfer that, that exemption to your new home. So they have until August 15 to accept those applications. And then the residential-- average residential value of the-- from the counties is sent to the Department of Revenue by September 1. Once we receive that, our process starts by sending what we call rosters, and those are the listings of the properties of the applicants in each of the counties. We try to send those in September or October and we get those-- send those over to the assessors so they have time to review and go through the listing to see if there's anything in there that should be changed. The exempt amount allowed for a homestead exemption will be reduced when the average assessed value of the homestead exceeds the maximum value, which relates to Senator Linehan's question. And then it's decreased 10 percent for each $2,500 of assessed value over the maximum value so it's an incremental 10 percent. And then we send what's called a roster A of approved applicants and a roster B of denied applicants and a file status homestead exemption/category exemption tables showing married/single and how they filed-- which category they filed under. The county assessors are given ten days to review those rosters and report any errors or discrepancies that may have been entered into the database. Because I "fat-finger" a lot when I enter stuff into the database so we want to make sure that they have a chance to double-check everything that was entered. Then their-- this is just kind of a first, quick glance at-- for the current year of what the assess-- the applicant reported for their income. So we take a look through what they reported on the Schedule I with the Form 458. And determination letters are sent to the applicants that are going to receive less than 100 percent and we just mailed those this past week. We try to get them out by the third week of October. So that allows the property owners then to contact us within 30 days to provide us more documentation, perhaps they overlook some medical expenses that they meant to report and they forgot to. And so they provide the documentation to us and we go back and look at our determination letter and the applicant and what was reported. They also have a 30-day window to petition the Tax Commissioner for review. We just created a new form this year. It's called the Form 58P for petition that will assist these applicants, this category-- these categories of, of property owners with completing the petition rather than just a simple "I disagree" because we need to have a little bit more information. So it details, you know, medical expenses, the income, what did you overlook or include that you should not have included? So that-- we go through that process. We are going through that process now. Our phones are ringing a lot. And, you know, we're more than happy to help this-- these property owners. So then the percentage, this is the applicant-provided income that again, went out on those determination letters. After that, once we've gone through that process, once we are beyond the 30 days, the process for the homestead exemptions for the current year are completed. Unless there's some appeals, then those will be pending and that will be resolved once there's a hearing if it goes to a hearing. Then we have the process of auditing in the Department of Revenue, auditing the income that was reported, and this is pursuant to 77-3517. The Tax Commissioner has three years to audit and this is because we do not get files from the Internal Revenue Service un-- sometimes until three years later and so that was provided. Generally, it's within a year and a half, two years, and then we have the opportunity to go through the 50-some thousand applications and compare income to what the IRS has-- was reported to the IRS. And we find errors on both sides. Someone forgot to report something or someone reported something that wasn't reported to the IRS. So we go through that audit and then this is a second determination letter that is sent saying, based on our audit of the income only, we have changed your exemption; increased it, decreased it, whatever that-- whatever the ultimate outcome is of that audit. So that's then sent and they have another 30 days to go ahead and appeal and protest those determinations and provide us more documentation and, and explain to us what happened. Did they not realize withdrawing from their IRA that it would increase their income, which is oftentimes the case? But that's pretty much the process in the Department of Revenue-- I don't-- I would be happy to take any questions if you have any questions. I have-- I can tell you for the veteran category two, which is veterans totally disabled by a non-service connected accident or illness, in 2021, we had 46,900 applications; 2022, this year, we had 46,100. Category four, which Mr. Gaines was discussing, the totally disabled: 2021, we had 5,611 and this year, 6,100. So-- and I'm happy to provide these numbers to you. They're on our website. But-- and again, category five that I mentioned about the surviving spouses: 2021, we had 55 and 2022 we had 51. But it varies. It goes up and down depending on if, if anybody has passed, moved. Those sorts of things will impact the number of applications that we receive. And I can also add that we have in there, there's the surviving spouse, but there's also the unremarried spouse after the age of 57 that also qualifies. That was added in 2016 by Senator--

MARY JANE EGR EDSON: Craighead.

RUTH SORENSEN: --Craighead. So, so I just wanted to briefly mention all that. I don't know if you have any total questions. I can give you a total number of applications in 2020 and 2021, 49,390, and it went up to 51,200. So they are increasing. The cost to the state was $99 million in 2020 and 2021, it's $112 million.

LINEHAN: Thank you.

RUTH SORENSEN: Sure.

LINEHAN: Are there questions from the committee? So I have one. Is there a limit on assets? So I have a house, $200,000, I'm 100 percent disabled. What if I have $1 million in a bank account?

RUTH SORENSEN: We don't consider the assets, just the income. It would be the income from that $1 million in the bank account--

LINEHAN: OK.

RUTH SORENSEN: --if you earned interest on it or dividends.

LINEHAN: OK.

RUTH SORENSEN: OK.

LINEHAN: I'm sorry, any other questions?

RUTH SORENSEN: The only other thing that I might add, if I may--

LINEHAN: Sure.

RUTH SORENSEN: --is that for the homestead exemption, there is that one acre requirement as well. So it's a homestead and one acre surrounding that homestead. So if you have an outbuilding in that one acre, that would be exempt as well.

LINEHAN: I had a question, but I can't think of it. Any other questions?

RUTH SORENSEN: I'm sorry. Did I interrupt your-- disturb your question?

LINEHAN: No, you didn't interrupt me. I was-- is there-- and this is a question that I should know, but I don't. So does values and the income levels, are they adjusted for inflation?

RUTH SORENSEN: Yes, I should have mentioned that.

LINEHAN: OK.

RUTH SORENSEN: That is in statute. They are adjusted for income and pursuant to the Consumer Price Index.

LINEHAN: OK.

RUTH SORENSEN: I was going to look for the statute number, but I--

LINEHAN: That's fine. Just so they are adjusted so we don't--

RUTH SORENSEN: They are adjusted yearly.

LINEHAN: --run people out.

RUTH SORENSEN: No.

LINEHAN: OK.

RUTH SORENSEN: They're increased yearly.

LINEHAN: Any other questions? Seeing none, thank you very much for being here.

RUTH SORENSEN: Thank you for the invitation.

LINEHAN: Appreciate it. Our next testifier is James Shuey, Department-- DAV Department of Nebraska. Good morning.

JAMES SHUEY: Good morning, everyone. My name is James, J-a-m-e-s, Shuey, S-h-u-e-y, and I'm here today to represent the DAV, Disabled American Veterans Department of Nebraska. Chairman Linehan, it's always good to see a fellow Lewiston school alum.

LINEHAN: We're not very many.

JAMES SHUEY: There's not very many of us.

LINEHAN: We're not very many, that's right.

JAMES SHUEY: And to the distinguished members of the Revenue Committee, we thank you for the invitation to submit testimony on LR387 and ask for your consideration and inclusion of some form of a homestead exemption for our state's disabled veterans. As I'm sure you're all aware of by now, that a bill which would have granted a partial homestead exemption for Nebraska's most severely disabled veterans was introduced in the One Hundred Seventh Legislature's Second Session. It would have provided a partial homestead exemption on a sliding scale for disabled veterans with a 50 to 90 percent disability rating, as determined by the Department of Veterans' Affairs. LB853 was advanced from General File to Initial E&R [SIC] with no dissenting votes on March 28, 2022. On March 31, 2022, a revision to the fiscal note came in at a whopping $64 million for 2023-24 and a $75 million-plus figure for 2025-26. A closer look at breakdown of their data, we believe, showed some faults throughout their presentation; for example, their statement, the average tax loss per claimant has grown at about 10 percent per year and averaged over $3,600 per claimant in 2020. Now that's $3,600 for median property tax for a disabled veteran. These are their figures, not ours. If, in fact, they were to have applied the full $3,600 tax loss they referenced for all veterans within a 50 to 90 percent disability rating, the tax loss would have been $55 million, $9 million less than the $64 million they predicted. If they would have applied the sliding scale exemption of LB853, it would have resulted in a tax loss of $38 million, $26 million less than their $64 million projection. If he would have taken it one step further and applied the same sliding scale of 10 percent to 90 percent for homestead exemptions for all disabled veterans, he would still come up with a $53 million fiscal note, and that's without the following deductions that they refused to consider. They refuse to acknowledge the fall below the adjusted gross income threshold of $49,000 single to $57,000 married or widowed who could qualify for a single homestead exemption. Not a single disabled veteran fell into the homestead-- existing homestead exemption category. Number two, the assumption that every disabled veteran in Nebraska is residing in and owns their own home, every one. Common sense should tell you different. The Department of-- the Nebraska Department of Veterans' Affairs alone has four veterans' homes with a capacity of nearly 700 clients. It would also mean that there are no disabled veterans residing in long-term care facilities, apartments, rental properties, or have other living arrangements. Not a single one. When we inquired of the Fiscal, Fiscal Department about the average tax loss to the disabled veterans seeming to be out of line, at least in our opinion, their comment was it is possible that this particular group of homeowners, disabled veterans that is, largely lives in high property tax levy areas and/or owns above-average-value homes. Really? Disabled veterans are out there enjoying these luxurious lifestyles and living in high-end housing? That's not true in the world that I live in and that I know. It then became apparent that given what we believe, at least in our opinion, was an incorrectly inflated and flawed fiscal note in LB853, that the powers that be possibly had no choice, because of budgetary constraints, then chose not to advance it to the floor for E&R for further consideration. With your indulgence, I'd like to go off the script for just a little bit. We're certainly not here to pick a fight with the Fiscal Department, rather to point out almost every assumption or supposition that was made by them increased the fiscal note. Yet when given some facts on possible overlaps that might have decreased the cost, such as the sliding scales and possible existing homestead qualifications, they seem to be ignored. Now I don't know all the nuances and intricacies and perhaps their-- it's their policy of preparing a worst-case scenario. But I believe it could lead to a skewing or distortion of their projections. That is why today I come before you representing DAV, to make a possible proposal that hopefully you will give your full scrutiny and consideration. A flat-rate homestead exemption for disabled veterans would rule out any of the existing assumptions, estimations and presumptions that were incorporated in LB853. It might also rule out the constantly changing variables of property valuations, the changing mill levies and any future updated property exemptions. It is hoped that-- then that the Revenue Committee might come up to a-- come to an agreement on a monetary figure and a fiscal note that they could, and most importantly, would support on the floor, which would actually provide a meaningful, beneficial and hopefully understanding-- sorry, I got out of line here-- meaning and beneficial tax relief for our veterans. Please understand that this is only a preliminary draft and it would hopefully simplify any possible homestead exemption for all of Nebraska's disabled veterans as opposed to LB853. I've enclosed a copy of that proposal. It's a flat-rate proposal from $1,000 down to $200 for a 90 percent to 10 percent, just a flat rate. Fiscal note comes in somewhere around $19 million. We further believe that this proposal strength lies in its simplicity. Basing an exemption on a flat rate will lend itself to making easier adjustments and modifications such as COLAs or perhaps when someday, the Unicameral might be in a particularly generous mood and recognize the sacrifices of veterans with a possible across-the-board increase in the homestead exemption for disabled veterans. We further deem that the fact that it would apply to all of Nebraska's disabled veterans can also keep us from having to revisit this issue in the future for those veterans who might not have been eligible under the 50 to 90 percent provisions of LB853 or any such similar legislation. As proud veterans in the state of Nebraska, we've heard from this administration and others for the past several years that we want to make Nebraska the most veteran-friendly state in the nation. We've also witnessed press conferences where the administration has said this is not our money, but rather the citizens' and we need to find out a way to, find a way to give it back to them in some form. Well, here's one simple way that might help fulfill both of those missions. It will most certainly benefit our veterans by lowering our property taxes and also put Nebraska on near-equal footings with other veteran-friendly states. With Nebraska's strong economy and a steadily increasing budget surplus, coupled with the VA's projection of a nearly 2 percent decrease per year in the number of Nebraska veterans, we hope you could agree that at $15-19 million fiscal note of a possible preliminary proposal you have before you will have little or no effect, in fact, just over 1 percent of the present $1.6 billion surplus in state funds. Furthermore, we believe that a realistic $15-19 million fiscal note most certainly does not qualify as a budget buster compared to the $64-75 million projections-- or projections that accompanied LB853 in the last session. If in fact there should be disabled veterans who could receive a higher existing homestead exemption, that through-- than through this flat rate and a concession that not every disabled veteran is residing in their own home, that the $15-19 million fiscal note would most certainly come in below that figure. We thank you for your consideration on this matter and we thank you for allowing the DAV to participate in this hearing. Rest assured, we at NDAV stand ready to assist wherever and whenever we can to bring a homestead exemption for Nebraska's disabled veterans to fruition. Madam Chairman, this concludes my testimony and I'd be pleased to respond to any questions from you or the committee members concerning our views on this testimony.

LINEHAN: Thank you, Mr. Shuey. Are there questions from the committee members? Senator Kauth.

KAUTH: Hi, Mr. Shuey. You represent the DAV. Have you discussed this proposal with any of the other veterans groups? And if you have, what is their take on it?

JAMES SHUEY: No, it will be brought up the next time that the Nebraska Veteran's Council meets, which, which should be the first part of December.

KAUTH: OK.

JAMES SHUEY: So I have put it out there to them that some of the other people that I-- you know, adjutant, state adjutant and stuff like that, have not had any pushback from it, no, so--

LINEHAN: Thank you, Senator Kauth. Are there other questions from the committee? Mr. Shuey, do you have any breakdown on the number-- if there's-- so 39,888 veterans in Nebraska. That's all the veterans in Nebraska?

JAMES SHUEY: That's all of the Nebraskans that have-- that's less than a 100 percent--

LINEHAN: Disability.

JAMES SHUEY: --disability and it doesn't include the, the people who have-- or veterans who have a, a 0 percentage.

LINEHAN: OK.

JAMES SHUEY: There are veterans who out there who have a zero percent.

LINEHAN: So my question is, and I don't expect you to know this now, but if you could get it for the committee, out of these numbers, how many of them are over 65?

JAMES SHUEY: Roughly, roughly 50 percent, 40-- 47.8 percent of all Nebraska veterans are over the age of 65. And I believe the income, the existing homestead exemption income for 2022 figures are something like-- I got it-- it was raised from last year.

LINEHAN: Right, well what-- wasn't one of the problems-- and I don't-- we can all figure this out. But just for the record here, one of the problems on the bill that was introduced last year, there was no limit on incomes. Am I understanding that right?

JAMES SHUEY: Well, I don't-- you know-- well, basic--

LINEHAN: I think that was part of-- I think that was part of the problem. There's no limit on incomes there.

JAMES SHUEY: I think the intent was that you could only get one homestead exemption, which, you know, if you have a pre-- an existing homestead exemption or you qualify for a homestead exemption, then you can't double-dip.

LINEHAN: Right. That, that would be-- certainly.

JAMES SHUEY: Yes, that would-- you know, what I-- that is the intent of this, you know, and that even includes this, you know, because if there are people who can get a homestead exemption that is greater-- an existing homestead exemption that's greater than, say, $300 for a 20 percent, you know, they can take the-- they can--

LINEHAN: Right.

JAMES SHUEY: --opt to take the higher one.

LINEHAN: Right.

JAMES SHUEY: But I don't know-- the intent, not at least on our part, is not to allow double-dipping of a homestead exemption.

LINEHAN: Right.

JAMES SHUEY: You can only have one.

LINEHAN: Right.

JAMES SHUEY: So PPS, it's, it's roughly 65 percent of all veterans in the state of Nebraska-- roughly 47 percent of all Nebraska veterans are over the age of 65. And I'm not sure-- I got the figure somewhere there. The median income for them is, is somewhere around $47,000, $48,000 adjusted gross income, you know--

LINEHAN: OK.

JAMES SHUEY: --and the homestead exemption is based on the adjusted gross income of veterans-- of, of all people, so-- you know, to qualify, you know. So, you know, most disabled veterans, yeah--

LINEHAN: Right.

JAMES SHUEY: --if they're living on a--

LINEHAN: OK.

JAMES SHUEY: --on a disability, they're not going to meet the-- you know--

LINEHAN: OK. Any other questions from the committee? Seeing none, thank you very much for being here. Appreciate it very much.

JAMES SHUEY: Thank you. It's good to see you again.

LINEHAN: It's good to see you. Next testifier is Ryan McIntosh-- Captain-- no, Major. No, Lieutenant Colonel Major? I can't keep up. Finished your studies? Major McIntosh.

RYAN McINTOSH: Thank you. Chairperson Linehan, members of the Revenue Committee, my name is Ryan McIntosh, M-c-I-n-t-o-s-h. I'm here today as registered lobbyist on behalf of the National Guard Association of Nebraska. The National Guard Association includes the current commissioned and warrant officers of the Nebraska Air and Army National Guard, as well as a large number of retired officers as well. I won't go into the specifics of LB853 that have already been covered, but I will note two other bills that were brought last year that do deal with the homestead exemption for disabled veterans. LB1020, among other things, would have removed the annual application requirement that was discussed earlier so long as there was no change in disability status. LB1080 would have changed the application requirement annually to every five years. Both measures lessen the burden on veterans. If you've never filled out a homestead exemption form, which I have as part of my law practice, the first couple of times you do it, it is fairly complicated. And as a veteran is aging or any person is aging, the annual requirement for an application can be burdensome. So stretching that out to five years or removing it after the first time and perhaps just an annual certification that you live in the home would be a benefit and would ensure that our veterans are receiving the benefits to which they are entitled by state law. And I think you were correct, Senator Linehan, that there was no income limitations in LB853 last year. I think imposing income limitations that are on par with the other homestead exemptions for that 50 to 90 percent range would be a very reasonable measure to get this, get this accomplished and, and reduce the fiscal note. One of the things I tried to do for this committee is, is come up with a breakdown of what a 50 percent versus 70 percent or 80 percent disability might look like. I searched high and low, talked to various organizations, including attorneys that do VA disability appeals, and it's an extremely complicated process. It's extremely case by case and I am aware of no simplified guide to provide you with any information on what different disabilities look like and, and how we write those ratings. So it is a very complicated process within the VA is all I can say. This committee has done a tremendous job in recent years of establishing policies that, that have helped veterans and encourage veterans to call Nebraska home and stay and remain here following their service. And on behalf of the National Guard Association of Nebraska, I thank you all for, for invite-- being invited to this-- to the table on this and for Senator Day for her continued efforts in supporting Nebraska's veterans.

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

RYAN McINTOSH: All right.

LINEHAN: --thank you very much.

RYAN McINTOSH: Thank you.

LINEHAN: And Senator Day waived closing, so with that, we close the hearing on LR387 and we will open the hearing on LR418. Senator Bostar, are you going to open? Good morning, Senator.

BOSTAR: Good morning. It's good to be back with all of you. And actually, before I start, I, I just want to briefly mention since this is the first time that we're back as a committee since session ended, you know, we, we lost a member of our committee, unfortunately. Well, two members of our committee are now no longer here; one Senator now Congressman Flood left us to work in the federal government and Senator Pahls passed away. And one of the things that I really appreciate about serving on this committee is the work that Chair Linehan does to make our committee a, a really cohesive group where we're, we're working to point ourselves in a common direction to benefit the state. And in doing so, you know, we all, we all get very close working together and so I'm going to miss Senator Pahls and he was a, he was a, a champion for the people of Nebraska and he had an acute sense of justice. And we're all a little worse off without him here. So with that, good afternoon.

LINEHAN: Not quite yet.

BOSTAR: Good afternoon-- good morning--

LINEHAN: It's OK.

BOSTAR: --Chair Linehan and fellow members of the Revenue Committee. I am Eliot Bostar, E-l-i-o-t B-o-s-t-a-r, and I represent Legislative District 29 in south Lincoln. Thank you for taking the time today to discuss LR418, opening a discussion about how to use our existing economic development programs to best compete for billions of dollars in global technology development. Data centers that power the Internet are critical to our future. We see each year an ever-growing demand at both the local and national level for increased reliance on cloud computing services and a greater demand for both a larger number and higher quality of Internet connections. Considering this growing need, Nebraska has an opportunity. As a centrally located Midwest state with affordable energy prices, we have a lot to offer these corporations and others that rely on data center services. Over the past few decades, Nebraska has experienced extensive, extensive investment by global tech companies who have chosen to locate their operations here in our communities. These companies that operate data centers have invested billions of dollars of capital into our state in order to help power the country's reliance on Internet connectivity. While the data center investments we've seen so far are impressive, the growth in tech-related business-- businesses and the continued reliance on Internet service and infrastructure by businesses and consumers means that further development of data centers will still be necessary. Making strategic policy decisions now, narrowly tailored to the challenges data centers face, will position Nebraska to become a major player in competing for a future of billions of dollars of economic development. Under Nebraska's current economic development programs and the Advantage Act and ImagiNE, data centers that choose to locate here are provided a package of incentives. Among those incentives is a rebate of sales taxes paid on items purchased for use within the data center. This pay-in and rebate-back approach puts Nebraska at a competitive disadvantage to other states competing for tech investments. Today's discussion will consider how to make our existing program more attractive to data centers by providing more upfront support. This is a worthy discussion because data centers are different from other economic development initiatives. Once a data center moves forward with pouring a foundation, they are positioned to make long-term investments in Nebraska and the risk of failure or leaving the state is simply different than that risk that exists with other business ventures. We've invited four speakers today who will provide a glimpse into why this rebate structure puts Nebraska at a disadvantage when competing for the economic growth that comes from data center investment and how it might be adjusted to secure Nebraska's ongoing competitiveness for significant technology investments. We'll hear from two testifiers who represent the data center industry that will offer a look at the economic impact data centers have on our state and make a case for why the state's investment in data center construction and expansion benefits our economy. They will also provide a picture of the, the competition for data center investment by demonstrating what other states are doing to lure data centers to their states and how those investments have helped the states that have made that competitive-- those competitive policy decisions. We'll also hear from two testifiers who work in the economic development space here in Nebraska and have speaked [SIC] directly with a range of businesses about our current programs and how a narrowly tailored change that affects data centers can spur substantial growth and drive industry to Nebraska. Thank you again for your time and I'll pause now to answer any preliminary questions you might have. I'm also confident that the four qualified individuals who will appear before you today can answer your questions as well.

LINEHAN: Thank you, Senator Bostar. Are there any questions from the committee? Seeing none, you will be here to close, I assume?

BOSTAR: I will.

LINEHAN: OK. Excellent. Our first testifier is Tim O'Brien, director of economic development and external relations for OPPD. Welcome.

TIM O'BRIEN: Good morning--

LINEHAN: Good morning.

TIM O'BRIEN: --Chair Linehan and members of the Revenue Committee. My name is Tim O'Brien, T-i-m O'-B-r-i-e-n. I'm the director of economic development/external relations for the Omaha Public Power District. I'm also here representing the Nebraska Economic Developers Association. I really thank you for the opportunity to provide testimony on LR418, with comments specifically focused on the areas of economic impacts and tax related to data centers. We thank Senator Bostar for introducing this resolution. Further, my comments today will be in three areas: one, background on data center development in Nebraska from an economic developers view; lessons learned; and lastly, impacts on utility. First, some background. I started my career in economic development with the Nebraska Department of Economic Development. I had the privilege of being part of several policy updates and worked on many of the data center projects in our state. Going back to the late 2000s, communities and economic developers saw a trend that our region is strong in telecommunications: call centers, back-office facilities, and data centers were in the next growing segment Nebraska could compete with due to our strengths in telecom, central location, and public power system. In 2005, the new incentive program Nebraska Advantage used terms like mainframe, tape drives, data processing, microfilm, to name a few. An update in 2008 clarified some of the definitions to meet the changing technology. This led to Yahoo! locating a data center in La Vista, along with a large back office and marketing facility in Omaha. Further, in 2010, DED completed a statewide economic development strategy that supported-- that was supported by the Battelle organization. One key finding was that software services is a key industry cluster for Nebraska. However, performance and employment change dropped the most of 12 key industry segments in-- and this was in the software and technology space, where other parts were growing around the country. So what this meant is Nebraska could be competitive to capitalize on high-wage, large investment economic development projects. I can recall at least three more updates to the incentive policy for data centers completed since 2010 to evolve with the changing industry needs. Moving to lessons learned, Nebraska has been able to pivot from call centers and back-office facilities to this growing industry segment. We learned that ready sites, tax policy, public power helped drive data center growth from large to small. There are certainly impacts that come from economic development models that other testifiers will speak to, but there's a whole ecosystem built around these facilities from dozens of suppliers, contractors to new curriculum, even in schools. We've also learned that competitiveness is not just incentives or public policy, but also the engineering and construction talent in Nebraska sets us apart. Lastly, on lessons learned, our local economic development community similarly adapted strategies over time. My last topic is impacts on the utility and there are several. Data centers' 24/7 usage helps utilize-- helps utilities plan and utilize our assets most efficiently. Two, customer growth helps benefit all customers by asset modernization, new infrastructure and rates. It also helps with cost recovery for investments that have been made in our systems. Third, rural tax base. Some data centers have chosen to develop renewable energy. One example is from Facebook or Meta. They procured more than 300 megawatts of wind power through a power purchase agreement in Dixon County. According to Enel Green Power, the facility's developer, there has been 400-- over $400 million investment locally or impact locally and nearly $1 million in nameplate capacity tax provided every year to the local levying entities. Nebraska has been an innovator in this industry segment and other states have taken notice. I appreciate the committee having this discussion today. Thank you for your consideration of my testimony, and I will answer any questions you may have.

LINEHAN: Thank you very much. Are there questions from the committee? I have one. What-- Dixon County, did you say Dixon County?

TIM O'BRIEN: Dixon County, correct.

LINEHAN: And what was the amount of nameplate tax collected?

TIM O'BRIEN: It's about $1 million. So the facility is 320 megawatts and I believe the tax is $3,218 per megawatt.

LINEHAN: OK. All right, thank you. Any other questions? OK. Thank you very much for being here. I'm afraid I'm going to not say the name right. Steve--

STEVE DelBIANCO: DelBianco.

LINEHAN: --DeleBianco [SIC], NetChoice.

STEVE DelBIANCO: Thought I would spare you that. Good morning, Chair Linehan and members of the Revenue Committee. My name is Steve DelBianco, D-e-l-B-i-a-n-c-o. I'm the president and CEO of NetChoice. That's the leading American trade association for the world-leading American companies, including Amazon, Meta, Google and Yahoo!, all of whom have presence here in Nebraska. First, I want to thank you and acknowledge that you've maintained business-friendly policies here in Nebraska. But as you probably know, states never stop trying to compete to attract the jobs and investment from my member companies. And that's important because Americans and people around the world never stop adding photos, videos and documents and posts to their online storage, which means that my members are constantly having to add more data centers here and around the world. And that is why my industry leads America in annual capital investment, more than telecom, more than energy, and more than manufacturing. I'd like to refer you perhaps to the NetChoice study that we handed out today, got it on your desks. NetChoice engaged Mangum Economics to do this study later-- this summer so that you'd have some hard data that's responsive to Senator Bostar's resolution. The study found the data centers benefited Nebraska in 2021 in several ways: over half a billion dollars in direct economic impact from construction and operation of roughly a dozen data centers. If you count the economic ripple effects, it's over $1.3 billion in economic output. State and local governments in 2021 collected $35 million in tax revenue, and there were 2,700 jobs supported during the construction phase. Now, Tim O'Brien mentioned local engineering talent. On page 9 of our study, there lists 13 Nebraska businesses that have earned millions and developed expertise in data center design and construction, often with very sophisticated cooling and power systems. Meta and Google, as you probably know, are adding data centers to the campuses around Omaha, all of them under the Advantage program. If Nebraska were to build on your promising start, you could approach the levels that we see in my state of Virginia, which Congresswoman-- former Congresswoman Barbara Comstock will describe as a witness today. By growing your data center industry by just 10 percent per year, by 2035, Nebraska would realize-- think about this-- $5 billion in annual economic output from the data centers, 2,800 operational jobs, which support another 11,000 jobs in Nebraska, and over $1 billion per year in pay and benefits for Nebraska workers. The study itself discusses several states with sales tax exemptions for large new data centers and there are two illustrative examples I'd like to point out. First, Idaho enacted a sales tax exemption for large data centers in 2020. Their new incentive has no limitation on the benefit period. And then earlier this year, Meta announced an $800 million data center in Idaho, their first one. For years, my home state, where I was born in Pennsylvania, had a tax refund program not unlike ImagiNE, but it was capped and for a decade, it was completely unsuccessful at attracting even a single large data center. Over the last two years, we worked hard with Pennsylvania. And this year, they enacted and replaced the old refund program with a sales tax exemption program because they realized they were not competing with Ohio and Virginia. It has a 25-year term and we think it's going to be very successful. Nebraska Legislature is to be commended for creating the ImagiNE program. It is a great option for a medium-size project, but the benefits don't scale well for billion-dollar data centers. And if you'll allow me, I'll just give you two reasons why. First, it's really not now competitive to force a data center to pay the sales tax on the items it purchases and then to seek refunds. That's more complicated and less predictable than in other states who do it differently. They require an investment commitment, a binding investment commitment from my companies, and it has clawback provisions if the data center is not completed and meeting the thresholds on jobs and investment. That allows data center sales tax exemptions to begin from day one, as opposed to after meeting that threshold and obtaining refunds. Second reason, the term of ImagiNE's tax exemption is too short to be competitive with other states and it isn't long enough to cover the unique investment cycle for a large data center. It takes 3 to 5 years to scout sites, acquire the land, prep the land and design and get your own permits and then do the design and construction. That's a three- to five-year period. It's at that point that the servers arrive, these long, thin blade servers that store the data that all of us are capturing on our phones today. Those servers comprise about half of the initial cost of a data center, so roughly $400 million. But here's what makes things different. Every three years, these large enterprise data centers for Meta, Google replace all of the servers in the data center with servers that run faster, have greater capacity, consume less power and generate less heat. All of this efficiency allows the data center to maintain its ability to contribute in a positive way to the data center networks that they built. That's a three-year server refresh, all of which would be subject to sales tax at the expiration of the ten-year ImagiNE period. So there are also less frequent and even more expensive upgrades to things like the cooling and power systems and the fiber networks that support the data center. So ImagiNE's 15-year term really only covers 10, 11 years of actual operation during which two of those refreshes would occur, when in fact, the data centers that my members are building last for decades and go through multiple refreshes on that three-year cycle. I'll close by saying that Nebraska has made a very impressive start with data centers and if you wish, you can have a very promising future for it. Whether that future arrives in Nebraska depends on whether you choose to embrace the unique economics that I've described for large data centers in order to be competitive with other states. And I look forward to your questions.

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

FRIESEN: Thank you, Chairwoman Linehan. I know it's a little bit of a stretch to say that right now, it would just be a timing matter of when you get your sales tax revenue back. Under the ImagiNE Act, you have to apply for the refunds, but in the end you get them all back. So we're talking about a timing issue here and the cost of money. The only thing I can see, would it be true then, is that the replacement after three years, that would be the additional cost versus the incentive program?

STEVE DelBIANCO: Thank you, Senator. The time value of the money holds little value at a time when interest rates are next to nothing. But that's changed recently, right, and I, and I don't really think it's the time value of the money. The complexity of applying for and obtaining the refund, coupled with what we call the predictability problem-- there's no one in the Senate of Nebraska that would question the state's obligation to give that money back if we met the thresholds, but it's somewhat less predictable than the method that's used in every other state that has sales tax incentives. Again, with Pennsylvania changing a program that didn't work, no other state is doing a pay and then ask for a refund method, especially when we can make binding commitments on the thresholds that are necessary. Because that's the only reason that we don't have the exemption from day one is because Nebraska wants to ensure that we meet the dollar investment and the job thresholds. So you really can't meet the job threshold until the data center is completed and you've got the jobs in place, right? So if we are able to make the commitments with complete clawback provisions to pay back any sales tax that was exempted, plus the interest and penalties, however it would like to happen-- and this has been done in other states-- when that's in place, we can begin to take the exemptions from day one.

FRIESEN: So basically you're saying, we should-- we could-- any business-- I mean, we've always heard how burdensome the application process is in the ImagiNE Act or any of our economic development programs. And so everybody has kind of recommended just, just exempt us from the tax in the first place, use the clawback, takes away that-- because I think a number I heard once, about 40 percent of our incentives were used up in accounting and trying to meet the requirements of the incentive act. You know, I-- you can-- it varies by industry I suppose, but you-- so you're saying let's just exempt you right away from any taxes and then we make you competitive-- we got us competitive with any other state.

STEVE DelBIANCO: Senator, I-- gosh, that number was very high for the percentage that is involved. At an $800 million data center, I sure hope it's not 40 percent administrative. But I assure you that in order to give you the binding commitment you need to give us an exemption from day one, we will do the applications. Whether they're complex or not, we'll do the applications and fill them all out. It's worth it on an $800 million project. It's worth it for us and it's worth it for Nebraska. So for the scale that I'm speaking of and the economics here, we'll do the applications and give you the binding commitment so that you have every assurance that will meet the thresholds in order to be able to take the sales tax exemptions the way other states do. It wouldn't be-- as you say, the time value of money isn't that great for the localities who keep the money for two years so what is the necessity of having the pay and refund method? Is it to guarantee that we meet the commitments? If that's what it is, we can solve that and we have in every other state.

FRIESEN: We've heard about the burden from cities who, when the refunds are requested, it does create a lot of budget problems for those entities also. So, I mean, it's, it is a timing issue. And again, our incentive program, as it always been claimed, it's complicated and it depends on the industry. I think in, in your case, the industry is a little simpler than someone who's creating a lot of jobs versus an investment. So thank you for your testimony.

STEVE DelBIANCO: Thank you.

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

STEVE DelBIANCO: Thank you, Chair.

LINEHAN: Our next testifier is Luke Peltz, vice president for the Lincoln Partnership for Economic Development.

LUKE PELTZ: Good morning, Chair Linehan and members of the Revenue Committee. My name is Luke Peltz, L-u-k-e P-e-l-t-z, and I am vice president of the Lincoln Partnership for Economic Development and office at 1128 Lincoln Mall here in Lincoln. LPED works on many different aspects of economic development, including talent, startup ecosystem as well as working with existing businesses. But I'm here today to talk about business recruitment and more specifically, what we are seeing and hearing from large-scale data centers that are looking at the area. First off, I want to thank you for passing our statewide incentive program that went into effect in January of 2021. ImagiNE Nebraska is a great program for most projects that come into our office. It offers more flexibility in uses of credits than our previous program, Nebraska Advantage. As we look at data centers and look to what consultants and companies that represent these large-scale data centers, they specifically mention that our incentives are not as competitive when we're comparing to states across the country. As you can see, the document I shared, there are 20-plus states that offer an exemption and/or a tax abatement for many of their program-- and many of the programs are 15 to 35 years in length on equipment specifically related to data centers. The intent of ImagiNE Nebraska was to be with the company for the long run, and as they continue to invest and create the jobs in the state, they will continue to receive benefits for up to 14 years, including the carryover period. One representative that we've worked with stated that a large-scale data center would only be able to utilize the program for ten years and there's no guarantee there would be another incentive program in place after those ten years. This is putting Nebraska at a major disadvantages-- disadvantage for projects of this scale. Our credit utilization time frame and carryover periods don't allow companies to fully utilize credits they've earned, which is something they don't face in other communities. Economic developers are confident that we as a state will have an incentive program in place when ImagiNE Nebraska sunsets, but data cent-- data centers that are making these financial decisions can't just wait for our optimism and must base their decision on a financial decision. We feel that large-scale data centers are a perfect fit for Lincoln and the state of Nebraska, as these companies create high-wage jobs and are committed to being good, good community representatives and are constantly giving back to the states that they're located in. We've seen this time and time again just up the road in Omaha, in Council Bluffs. States are doing everything they can to attract these types of projects and investment and we are not as competitive as we once were. And to end, I'd like to thank Senator Bostar for putting in this legislative study resolution to look into this a little deeper. Happy to answer any questions.

LINEHAN: Thank you very much, Mr. Peltz. Are there questions from the committee? So I think what you're saying is you take part in ImagiNE Act, your benefits have to be used up within 15 years where there are other states who are saying, what, forever?

LUKE PELTZ: Well, so one, one option was you would apply. So, like, if we had a project working right now and they would apply under the--

LINEHAN: ImagiNE?

LUKE PELTZ: --quality jobs program--

LINEHAN: OK.

LUKE PELTZ: --and so they would apply for that. You have seven years to, to hit your periods. Basically, the intent was you would file again under modern-- modernization aspect of it. And at that point, the program would already be sunsetted and you're still under your current application so you can't apply for a second application nine years down the road because they'll still be under their current one.

LINEHAN: OK, but-- I understand, but couldn't the Legislature, at any time in the future, discontinue a program? So let's say we have a program and say it's going to last for 30 years. Isn't any Legislature capable of coming in and saying ten years later, well, guess what, we're only going to do it for five more years?

LUKE PELTZ: I'm not an expert in that, so I, I guess I can't answer that.

LINEHAN: OK. Thank you. Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So why-- I guess, why is computer equipment, especially like the servers taxed in the first place? Because machinery and equipment, if it's an input cost, again, a lot of other businesses does not pay sales tax, I believe. Is that correct?

LUKE PELTZ: Yeah.

FRIESEN: So is there-- was there a reason, do you feel, back in the day or why is it-- I mean, I would, I would assume that these servers would be considered an input cost because without servers, you can't do the business.

LUKE PELTZ: Yeah.

FRIESEN: So are they just-- at some point, did the Legislature decide that these did not qualify or why is it that other machinery, I guess, does? What, what makes it different?

LUKE PELTZ: I'm not aware, aware of the history of this. I don't feel like I'm educated enough to answer that.

FRIESEN: OK. Thank you.

LINEHAN: Thank you very much. Senator Kauth.

KAUTH: How many full-time jobs does the data center offer once it's fully built? Not construction jobs, but people who will be there long term running it.

LUKE PELTZ: It's, it's-- it varies on the size, obviously. I mean, typically it's under 100 employees. The ones that we've worked on were 50 to, to under 100.

KAUTH: Thank you.

LINEHAN: Thank you, Senator Kauth and Senator Friesen. Are there any other questions from the committee? Seeing none, thank you very much for being here. We welcome our next testifier, Congresswoman Comstock. Hi.

BARBARA COMSTOCK: Good morning, Chair Linehan and members of the committee. My name is Barbara Comstock, C-o-m-s-t-o-c-k. I was a former congresswoman, but before that I was a member of the General Assembly. So as we know, the state house is where things get done actually, where the rubber meets the road, balanced budget and all of those things. And so I was privileged to represent an area of the commonwealth that was the world's number one sort of tech area and now is the number one concentration of data centers. And data centers provide millions in tax revenue and thousands of jobs, serving as the backbone of Virginia's vibrant tech industry while helping diversify the commonwealth's economy. And in 2000-- a 2020 Virginia study found that the average annual wages in the industry doubled to $126,000 a year between 2001 and 2018, which was two times as fast as the average private-sector employee in Virginia. But it almost wasn't to be because in 2011, Virginia, which was really kind of the top place for data centers at that time, lost out to North Carolina on the construction of a billion-dollar data center that Apple was planning. And we were competing for that data center, but we lost out to North Carolina because they updated their data center tax incentives and we didn't. So we in Virginia-- I just-- I was new to the common-- the Virginia General Assembly then. You know, we understood that, you know, when you didn't get that billion-dollar data center, that was a lot of lost revenue. So we went to work, had a bipartisan coalition. Governor Bob McDonnell was in there at that time and we forged a coalition and put the business community, our unions, our universities together and we got near-unanimous passage of the bill then. And we did hear-- you know, our tax folks said, you know, this is going to cost us money. They kept fighting us on this and said we're going to lose revenue if we do this. And we said, well, North Carolina is getting a lot of money on that data center. And we were hearing from our business community and the data center community, I don't know if we can keep building here. North Carolina and some other states are looking really attractive. So we forged on and decided, you know, zero times zero equals zero. We're going to give this a try and, and pass these new tax incentives. So fast forward and we found that states with sales and use tax exempt things-- and I'll refer you to page 13 of the report that we handed out that my colleague at NetChoice-- and I'm sorry, I should have also pointed out that I am also here representing NetChoice-- that they recognized that forgoing direct sales and use tax revenue is necessary to gain the economic impact that data centers bring along with the tax revenue associated with that economic impact. And the study that we did in Virginia found that up to 90 percent of the data center investment made by the companies that received the sales and use tax exemption would not have occurred in the Commonwealth of Virginia without the incentive. So the so-called cost of the state data center incentive is only 10 percent of the amount of the sales tax revenue exempted. And that's only the so-called cost because, you know, the cost that went to North Carolina was a big cost. And then that same study determined that in 2017, the data centers generated $4.7 million more state tax revenue from construction and suppliers that the amount of sales and use tax exemption exempted by Virginia's data center incentive. And in 2017, the state took in $1.09 in state tax revenue from data center-related activity for every $1 of potential state tax revenue that was exempted from the qualifying data centers. So that is why, you know, after

Governor McDonnell, who was Republican, had gone ahead and supported and signed my bill. Later on, Terry McAuliffe, who was a Democrat, also said, hey, I think this is a good idea. He opened a lot of data centers with me. Later when I was in Congress, we'd fight, you know, for the microphone to see who would get there fastest for the bragging rights for all these data centers and the increasing revenue there. And again, this was, you know, big bipartisan coalition there. So you now have-- you know, 12 states have these data centers, but there are over 25 now that have these incentives. And as my colleague pointed out, they're continuing all the time to improve these incentives. So this is that rare economic development tool where you have no investment that you have to put in front. Because, you know, there are always so many things that we were trying to find tools to bring economic development to our state, where we were often spending money, having to put investments upfront. This requires no upfront cost that you have to put out there. You know, they-- you know, you just have to have these tax incentives. If they don't come to your state, it doesn't cost you anything. But if they do come, they're the ones put-- you know, you just have to have the tax incentives there and then they, they bring-- you know, they bring everything else. And then it also-- you have-- what these studies don't show is when these companies are there and you've probably already seen this is they do things like during the pandemic, they were providing money for your schools, you know, money-- they're partners with your community colleges, with your colleges, just providing those investments. You know, they're part of your business community working with your local chambers. And so they are-- they really become part of your, you know, business communities. They're working with, you know, you know, just partners everywhere as, as part of the ecosystem and makes you, you know, attractive. You know, and I think as your, you know, you know, the other speakers here in your local community have found, they are people that then make, you know, a whole system that then makes your business community eligible then to go out and work in other states in the same way. So happy to align with my colleague who's really the expert. I was not an expert in this area, but it's something that, you know, ten years ago, I did a bill that continues to bring, you know, millions and millions to the Commonwealth of Virginia and make us not only the number one for data centers in the country, but throughout the world. I believe they have a data center conference in Monaco and where they talk about Virginia being the data center leader. So welcome to have competition with you too.

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

BARBARA COMSTOCK: Thank you.

LINEHAN: Safe travels. Senator Bostar, would you like to close?

BOSTAR: I would. Thank you, Chair Linehan and thank you, fellow members of Revenue Committee. Senator Friesen, you brought up the manufacturing exemption and so that-- my understanding is that is a specific carve out for manufacturing inputs. And, you know, at one point, you know, the Legislature recognized the value in, in having that exemption in place and essentially this is the same. So that doesn't apply to data centers. So what we're talking about today is taking that same understanding and forward thinking for business development and growth and applying it to the industry of data centers. With that, I'm happy to answer any final questions. Thank you all for your attention in this matter. I'm going to be working on this going into the next session so if, if anyone has interest in working with me or questions or, or other things would like to accomplish, I'd be happy to work with any of you. And with that, thank you very much.

LINEHAN: Senator Friesen.

FRIESEN: As a term limited senator, it's my privilege to be able to ask a lot of questions that I won't be able to do anything about, so--

BOSTAR: We're going to miss you.

FRIESEN: --I'm-- I guess my, my question is, though, is, is-- I get the exemption they're asking for basically. I understand that. It's as we continue to go forward, are you going to look at all of the taxes? When we start to compare what we have versus Kansas or Iowa, you know, sometimes there's other taxes that are making up the difference. You got to look at the whole picture and not just one tax and so I, I hope everybody looks at the, the bigger picture to make sure that tax competitiveness is not just based on one tax that we do, whether it's property taxes or other taxes that are subject to that. But do you feel that's important to look at the whole balance rather than just one issue?

BOSTAR: Of course. Yeah, obviously it is. And, and you and I have spent the last two years working on a lot of taxes. And, and I think that we need to maintain our, our dynamism as we evaluate our taxes and we look at what other states are doing. And we need to remain competitive and stay ahead of it.

FRIESEN: But are we, are we as states-- it's kind of a race to the bottom. We can always say, well, why don't we just eliminate all taxes for businesses to come to the state and we'll track all the businesses? And it's-- I'm exaggerating, but I mean, as you see this, we've seen this amongst communities. Whoever asked, you know, for the most incentives, they win. But it's kind of a race to the bottom. And let's just give away everything and we'll track the businesses and we can just tax individuals that are here then because we need money for certain services. So, I mean, are we trying to be competitive and in the end, we end up cutting our own throat sometimes or do you feel this is necessary? I mean, I can see it as a business exemption because it's an input.

BOSTAR: Right. And I think, I think we're always striving to find the right balance of maintaining competitiveness with peer states while ensuring that we are maintaining solvency in our state budget and our ability to provide the services that our, that our constituents and our citizens require. And that's, that's an ongoing tug of war that we're going to continue doing in-- forever. The way I see this particular issue is pretty straightforward. We will not receive more data center investment unless we increase our competitiveness related to our, our tax outlook. They won't come. So as far as giving up revenues, they're non-existent revenues. They're not going to come in. So, you know, and I think as we work on legislation with this, it's going to be important to keep some of that in mind as we look at what fiscal analysis there is that comes from, from the Fiscal Office. If we don't do anything, we have the data centers we have. They're very good for our communities and that's great, but we won't get any more. And so if we do this, we can get more in. We can increase really high-paying jobs. We can increase that direct investment into our communities and reap the benefits for the state of Nebraska.

FRIESEN: I mean, I, I've heard now that there's communities in rural Nebraska now, that there's been some interest in these small data centers. Basically it's a shipping container filled with servers. If you drop it on a concrete pad and hook it up to fiber, electricity, it's a data center. It'll create some jobs, but there's no construction involved. The equipment is probably manufactured out of state, but they're coming because of our cheap energy costs. And so I don't know if these are going to come to fruition down the road, but I've, I've heard of a couple of communities that are-- might host some of these. So it is, it's an interesting business model right now in what the data center might look like down the road, but there's a lot of components in there besides taxes, I guess, that enter into that equation. So thank you, Senator Bostar.

BOSTAR: Thank you, Senator Friesen.

LINEHAN: Thank you, Senator Friesen and Senator Bostar. Senator Dover.

DOVER: What direction would you be proposed-- proposing in your legislation?

BOSTAR: I think having a sales tax exemption instead of having this particular industry go through the process of, of paying sales taxes and then, you know, securing those rebates back and the, the period of time that that takes, the process that that takes. And we're talking about, you know, the amount of equipment that these data centers are going through, the number of servers. I mean, it's, it's pretty incredible when you think about the, you know, server in a data center is going to-- I was just at one recently and, and they were talking about, you know, getting about five years of life out of one. And the-- I would guess a number of servers-- of hard drives and servers that were in that, that facility, but I probably can't even effectively guess how many there were. It's-- you know, you're talking about a server room that's three football fields and then they've got ten of those buildings and then three of those sites. And so it's-- there's a lot. So it's a lot of, of churn in materials, a lot of purchasing and, and maintenance. And that, that's a-- I think I understand how that can be a burden on, on a business. I hope that answers your question.

DOVER: Yes. Thank you.

LINEHAN: Thank you, Senator Dover. Are there any other questions? Just right now-- I know it's only a ten-year program, but they pay it and, and if they meet the qualifications, it gets rebated to them.

BOSTAR: Yes.

LINEHAN: So in the real, like, long outlook, whether they pay it and get it back or whether they just don't pay it, doesn't make any difference.

BOSTAR: Not to--

LINEHAN: And I know the fiscal notes will say it's, like, you know, [INAUDIBLE].

BOSTAR: Correct.

LINEHAN: But--

BOSTAR: No, as, as far as our books here in the state--

LINEHAN: Yeah.

BOSTAR: --it doesn't make a difference.

LINEHAN: To Senator Friesen's point, the value of money.

BOSTAR: Correct.

LINEHAN: OK. All right. Any other questions? OK. I should have-- because I walked in here late and we had little technical difficulties and I was not thinking, I should have welcomed our two new members to the Revenue Committee-- they did a great job for their first hearing-- Senator Kathleen Kauth, District 31, Millard, and Senator Dover-- Robert Dover from Norfolk who is replacing right now Congressman Flood. So thank you--

DOVER: Thank you.

LINEHAN: --both for being here this morning. Appreciate it. I hope you had fun. It was a great hearing. Thank you very much, Senator Bostar.

BOSTAR: Thank you.