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COMMITTEE ON REVENUE  
March 2, 2005  
LB 628, 576

The Committee on Revenue met at 1:30 p.m. on Wednesday, March 2, 2005, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB 628 and LB 576. Senators present: Matt Connealy, Vice Chairperson; Tom Baker; Ray Janssen; Don Preister; and Ron Raikes. Senators absent: David Landis, Chairperson; Abbie Cornett; and Pam Redfield.

SENATOR CONNEALY: (Recorder malfunction)...Vice Chair of the Revenue Committee. And we're here to have two bills today. I will welcome you all here. If you are going to testify on a bill today, we do have sign-in sheets at the door. We would appreciate it if you would do that. Also, once you do come up to testify if you would spell your last name for the transcribers, that would help a lot. If you have written testimony that we could copy, that would be good for the transcribers also. The committee that's here, we'll have...maybe we have the whole group here so far, but to my far left we have Senator Don Preister; we're just being joined by Senator Ron Raikes. To my right is Senator Ray Janssen and Senator Tom Baker. Erma James is our committee clerk and George Kilpatrick is our committee counsel. To start today we'll have a bill, LB 628 from Senator Howard. Oh, come, come, sit. Thank you. Please turn off any cell phones that you have to vibrate or on off. Senator Howard, welcome.

LB 628

SENATOR HOWARD: Thank you, sir. Thank you. Members of the Revenue Committee, I'm Senator Gwen Howard, representing District 9. I am here today to introduce LB 628. This was known as the snack tax bill, but we are addressing the calorie problem so we've removed the snacks. The purpose of my introduction of this bill is to foster discussion in the Legislature concerning how school facility construction is funded in Nebraska. As our school structures age in years, school districts are facing the enormous problem of renovating or replacing facilities. A large number of Nebraska's school buildings were constructed in the 1950s and 1960s and are now reaching the point where serious renovation or replacement is necessary. In other areas,

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school districts are facing increasing student populations requiring additional new school buildings to house them. Another important issue that needs to be looked at is the role of new technology and the need for new facilities in our school to adapt to these new technologies. Increasingly, schools have devoted large sums of money to renovate schools or build additions in order to accommodate new curriculums involving computers. As the focus of our curriculum changes over the years, the new technologies are developed. It is my concern that the cost for these new facilities will fall solely on the property taxpayers. The Omaha Public Schools used a \$254 million bond issue in 1999 to fund major renovations and new construction. The Millard Public Schools just passed, a few weeks back, a \$78 million bond issue to construct several new schools. All of these bond issues are eventually paid for by the property taxpayers of each district. In other districts, like Schuyler, bond issues for facility improvements have failed, resulting in no improvements at all. My hope is that this bill will cause the Legislature to look at new and creative ways of funding school construction in the future. One area that we might consider looking at is the statewide system of planning where districts do not have to reinvent the wheel when it comes to designing new schools. A great deal of money could be saved by sharing designs for new construction. I felt too much attention was being placed on the snack food tax and not enough on the school facilities funding question. For that reason I am going to offer the committee an amendment that would strike all provisions of this bill relating to a tax on snack foods. (Exhibit 1) By including this snack food tax, my intent was to stimulate the discussion about looking outside the box for other ways of funding school construction. Without the snack food tax provisions, I hope the Revenue Committee will take a serious look at how we are funding education and how we can make creative changes that would offer some real relief so the property tax payer, while still providing excellent facilities for our children to learn. And thank you. Thank you so much for your consideration.

SENATOR CONNEALY: Thank you, Senator Howard. Questions from the committee? Seeing none,...

SENATOR HOWARD: Thank you, sir.

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SENATOR CONNEALY: ...move to the first proponent...

SENATOR HOWARD: Thank you.

SENATOR CONNEALY: ...of this bill. First proponent of  
LB 628.

JIM GRIESS: (Exhibit 2) Senator Connealy and members of the committee, my name is Jim Griess. I am the executive director of the Nebraska State Education Association; that's G-r-i-e-s-s, and I am here in support of LB 628. Attached to my testimony are two pie graphs that provide ample evidence as to why LB 628 should become law. The first pie graph indicates what portion of the cost of K-12 education comes from state sources--that's 41 percent; from property taxes--nearly 51 percent; and that portion that comes from miscellaneous sources. The second pie graph indicates the revenue sources used to build school facilities in Nebraska. Please notice that 96 percent of the funding for facilities comes from local property tax. The Legislature has long recognized that relying exclusively on property taxes to fund public schools is disequalizing and inherently inequitable because of the broad variance in per pupil assessed valuation. And I have some data in those handouts of the highest per pupil valuation for the 20 highest districts and the 20 lowest districts. Many districts with high per pupil assessed valuation are much wealthier than districts with low per pupil assessed valuation. To correct this inequity, the state has provided poor districts with equalization aid to level the playing field. That's what our school finance formula is all about. The second pie graph indicates, however, that the state provides no equalization aid to level the playing field relating to the construction of facilities. The poor districts are much less able to provide their children with safe, up-to-date school facilities because of the greater burden this places on property taxpayers in those districts. As a result, there is a broad disparity in the kind of facilities available to students in various school districts. There is no level playing field for facilities, and we believe that disparity denies children equal access to a quality education. The state of Arizona, over the past several years, has experienced similar problems. The failure of the Arizona legislature to level the playing field in regard to facilities resulted in several school

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districts suing the state of Arizona. The schools districts won that lawsuit, resulting in the creation of the Assistance to Build Classrooms fund, or ABC fund in that state. The Arizona courts found that the state had improperly delegated its responsibility to maintain adequate facilities to the local school districts resulting in broad, and this is a quote from the decisions, "broad capital facility disparities among the school districts." The courts mandated that the state create minimum adequacy standards for facilities which are necessary for all students to meet the academic standards of the state, and then to ensure, again quoting, "through state funding that school districts would be able to comply with those standards." Without needing to resort to litigation to correct a serious problem, LB 628 asks the Legislature to create a Nebraska School Facilities Trust Fund and to dedicate a revenue funding stream to that trust fund. The bill calls for a sales tax on snack food; and, of course, you heard from Senator Howard, she is withdrawing those provisions. I know that when the bill was drafted there was much discussion about what an appropriate revenue source ought to be. Snack tax was chosen simply to get this before the Legislature, but if there is a better source I don't think the education community would object to what that better source might be. The important thing is to find a means of leveling the playing field for the construction and maintenance of school facilities in Nebraska that are up-to-date, that facilitate learning, and are clean and safe. As with the Arizona law, the state should create a facility standard which is directly related to maximizing student achievement and then exercise its constitutional responsibility to ensure equal access by providing the resources needed to ensure that every school district can meet those standards. We urge the Revenue Committee to report this bill to the floor of the Legislature or, at a very minimum, to commission a comprehensive interim study designed to develop legislation for the next session that will put in place a comprehensive School Facilities Trust Fund. Thank you.

SENATOR CONNEALY: Thank you, Jim. Questions from the committee? Senator Raikes.

SENATOR RAIKES: Jim, a couple of questions. You mentioned equalization. Is there a...I noticed a square footage

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factor and a capital needs. Is there an equalization factor in this?

JIM GRIESS: I don't know how the mechanics of the bill is actually designed to work in terms of that equalization factor, but essentially if you have a standard and then you make sure that each district can afford to meet that standard, you have an equalization, and that's the concept that I'm supporting.

SENATOR RAIKES: Yeah, I don't see that there but maybe I'm just not looking in the right place.

JIM GRIESS: Yeah.

SENATOR RAIKES: The second thing is suppose I'm in a district in which my K-12 enrollment has fallen below 200 and the trend seems to be continuing, but my building is old and maybe there are districts close by that are experiencing some of the same situation. Should I be given money out of this state fund to build a new building?

JIM GRIESS: I think the state, if it is going to provide funds, has a right to create facility standards that relate to the size and the ability of the school district to continue to survive, and that's always been a prerogative of the Legislature.

SENATOR RAIKES: So you would endorse, in effect, a certificate of need concept?

JIM GRIESS: I know that that's one of the ways the medical industry has dealt with that issue in relationship to hospital construction, and that might be necessary if the state is going to provide adequate funding for facilities.

SENATOR RAIKES: Okay, thank you.

SENATOR CONNEALY: Other questions from the committee? Thanks, Jim.

JIM GRIESS: Thank you.

SENATOR CONNEALY: Next proponent. Okay, we'll move to opposition. Neutral. Opposition? We have a slow

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opposition or a quick neutral, whatever.

JIM CAVANAUGH: Well, I certainly would be neutral. My name is James Cavanaugh and I represent the Snack Food Association and the National Confectioners Association, who are opposed to the green copy of the bill. However, in light of the amendment that Senator Howard has offered, we would have no objection to LB 628 as I understand it is to be amended. And as a parent of student-age children and a constituent, I would wholeheartedly endorse the concept of fixing up the schools in our area. I would be happy to answer any questions. I do have information for the committee to submit. (Exhibits 3 and 4)

SENATOR CONNEALY: Thank you. Questions from the committee? Opposed to the snack tax. Okay. Next neutral testifier?

PAUL O'HARA: Mr. Chairman and members of the committee, my name is Paul O'Hara, from Lincoln; that's O-'-H-a-r-a. I'm a registered lobbyist appearing today on behalf of the Nebraska Soft Drink Association. We commend Senator Howard for bringing a salutary bill with wonderful purposes and thank her for taking out the part that would have had us oppose it. With that, I would be happy to answer any questions you might have.

SENATOR CONNEALY: Thank you, Paul. Questions from the committee? Thank you. Next neutral.

KATHY SIEFKEN: Senator Connealy and members of the committee, my name is Kathy Siefken; Kathy with a K, S-i-e-f-k-e-n, here representing members of the Nebraska Grocery Industry Association. And we would like to go on record as being in a neutral position on LB 628 as long as the amendment is adopted.

SENATOR CONNEALY: Thank you, Kathy. Questions from the committee? Thank you.

KATHY SIEFKEN: Thank you.

SENATOR CONNEALY: Any other neutral testimony? Seeing none, Senator Howard. Senator Howard waives closing on LB 628 and so that will close the hearing on LB 628. And we'll move to LB 576, Senator Redfield's bill, and Senator

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Redfield is gone today, so welcome.

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TANYA HAYES: Thank you, Senator Connealy, members of the Revenue Committee. My name is Tanya Hayes; that is spelled T-a-n-y-a H-a-y-e-s, and I am here today to open LB 576 for discussion. LB 576 lowers the sales tax rate from its current rate to 3.75 percent. Businesses looking to expand are comparing our high tax rate here in Nebraska, like income, sales, and property tax, and because of that are discouraged from relocating. So LB 576 broadens the sales tax base by removing the current exemptions with the exception of two: food and medical care. Those would remain as is. The bill is also intended to be revenue neutral. In 2003, there was a floor debate over LB 759 and the tax increase. And at that time, Senator Redfield had a couple of amendments on that bill, and one of those amendments we actually had several senators indicate an interest in this approach through that amendment by voting for it. In addition, our office has received several calls, e-mails, and postal mail from citizens across Nebraska stating their support for this approach. LB 576 was introduced in response to this interest. The Revenue Committee currently this year, last year, and the year before, has heard a litany of complaints over the confusion created by LB 759. Now, indeed, the committee found it necessary to introduce legislation last year in 2004 to clarify the section on construction labor. The committee has also heard a litany of complaints about the detrimental effect on businesses when their customers were impacted by the new collection of sales taxes on their products and services. For some, for example, the coin-operated car washes comes to mind, it is difficult to pass this cost on. And we've heard from them quite a bit. We know that Nebraska loses taxes on remote sales, and this is another portion or another concern that instigated this bill. We do not know how much sales tax we lose in ordinary transactions. For example, if a teacher goes to pick up several calculators for a math class, and he purchased an extra calculator for himself, and is obviously very honest about it, circles the item on the receipt, reimburses the school for the item, and that's to be commended, however no sales taxes were collected on the total purchase. And there

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is really no mechanism for the teacher to reimburse the state for that sales tax. Another example is a library. When a library places an order for the latest best-seller, they can do so in bulk because the larger the order the greater the discount on the per book cost. Employees of that library may be given the option of ordering at that bulk rate. The employee reimburses the purchase price, but, again, what about the sales tax? There is no mechanism to recover that. The Department of Revenue did inform Senator Redfield in discussion about this bill, the green copy, that under the contract for the lottery for the state of Nebraska we are not allowed to collect sales tax. They did assure us that this would not require a recalculation of the sales tax and that it would remain revenue neutral. And I can attempt to answer any questions that you may have and I appreciate you allowing me to come up here.

SENATOR CONNEALY: Thank you, Tanya. Questions for Ms. Hayes? Thank you.

TANYA HAYES: Thank you.

SENATOR CONNEALY: Now we'll move to proponents of the bill, and as you come forward we do have quite a few people here I think indicating to testify one way or the other today, so let's try to be brief, and you can even leave your testimony with us if you would rather not testify. Welcome.

MARK INTERMILL: (Exhibit 5) Thank you. Thank you, Senator. My name is Mark Intermill, I-n-t-e-r-m-i-l-l, and I'm here today representing AARP Nebraska. AARP Nebraska supports the concept of broadening the sales tax base in order to reduce the sales tax rate. We believe that the sales tax on goods is a regressive tax and we support actions that reduce the rate. Services are an expanding part of the economy, so the sale of those services should not be ignored as a source of revenue. Taxing goods but not services violates tax neutrality because it biases consumer choices against taxed goods. It also violates tax fairness, since only some items are taxed. Because service consumption is greater among those with higher incomes, especially for professional services such as legal and accounting services, taxing services also makes the sales tax less regressive. I expect that there will be a number of organizations who will testify in opposition to this bill

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seeking to maintain the sales tax break for their services. And some will have good cases. We would agree that sales tax should not be levied on services that are used in the production of goods and services. This essentially results in pyramiding the tax or paying a tax on taxes. But in order to limit the overall sales tax rate, we support broadening the sales tax base by including a broad array of services purchased by consumers. And we encourage the committee to consider taking action to lower sales tax rates by broadening the sales tax base.

SENATOR CONNEALY: Thank you, Mr. Intermill. Questions from the committee? Thank you, Mark. Next proponent.

JIM GRIESS: (Exhibit 6) Senator Connealy and the committee, I'm Jim Griess, G-r-i-e-s-s. I'm the executive director of the Nebraska State Education Association. As you've heard, LB 576 would expand the sales tax base while lowering the sales tax rate from 5.5 percent to 3.75 percent beginning January 1, 2006. The intent of the bill is to be revenue neutral. Every tax economist argues that a broad tax base with low rates preserves economic competitiveness, stabilizes revenue streams, and makes the tax burden fairer for the consumer and taxpayer. A broad base makes sales tax less regressive for those who spend a disproportionate share of their income on essential consumer goods. A lower sales tax rate prevents border bleeding and gives Nebraska commercial centers along our borders a competitive advantage. During the recent economic downturn, the state raised the sales tax to meet revenue shortfalls. Hopefully, we will avoid returning to that kind of situation in the near future. But should history repeat itself, the state would be in a far better situation financially to preserve funding for essential services, including education, if it was necessary to raise the sales tax rate using a broader sales tax base than currently exists. We believe LB 576 is sound economic policy, and we urge the Revenue Committee to report LB 576 to the floor. I would make one additional comment. It has come to my attention that perhaps education would also be required to levy a sales tax under the way the bill is drafted, and I would hope that that is not the case primarily because education is the great economic leveling force and I don't think we want to increase the cost of education particularly at the higher ed level, particularly for undergraduate education. So if that is a part of the

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bill as it's currently drafted, we would have a concern about that.

SENATOR JANSSEN: Thank you, Jim.

JIM GRIESS: Thank you.

SENATOR JANSSEN: Are there any questions? Just you and me. Thank you.

JIM GRIESS: Thank you.

SENATOR JANSSEN: Next proponent, please. Any more proponents? Oh, I don't see any. How about opponents? Don't all get up at the same time.

LARRY RUTH: Senator Janssen and member of the committee, my name is Larry Ruth, R-u-t-h, and I'm appearing on behalf of 17 different clients that are attached to the sign-in sheet that I have made and would like to have that list passed out. (Exhibit 7) Specifically, I have letters from three different clients and would like to have those passed out. (Exhibits 8, 9, and 10) And I'll just tell you that they are from, first of all, the Nebraska Press Association--it's opposed to the tax on services which is contained in this bill; Patrick Borchers, who is dean of Creighton University Law School, speaking on behalf of the Nebraska State Bar Association in opposition to the sales tax on legal services, and specifically the effect that the sales tax would have on the poor because Dean Borchers talks about the clinic that he has at Creighton and the large number of poor people that do have legal services; and, finally, from the Lincoln Airport Authority, speaking on behalf of itself and the airports in the state, in the bill it does repeal--in addition to tax on services, the bill also repeals a number of other sections of law. And I just might point that out. When you look at the outright repealer, and this goes to what Mr. Griess was saying previously, the outright repealer does repeal the sales tax exemption for aviation fuel. And that would therefore raise our aviation fuel in the state to the highest level, I believe, in the country for aviation fuel if we impose the sales tax on fuel. Other outright repealed sections include the sale of minerals, the sale of newspapers, and so we're opposed to that. I think what Mr. Griess was talking about was the repeal of the

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particular section that does now exist as an exemption to school organizations making sales. So that is probably what he...that might be what he is referring to. So for those reasons I would appear in opposition to the bill and ask that the folks that I've signed in for each be shown separately as appearing against the bill. Thank you.

SENATOR JANSSEN: Thank you, Larry. Tom, do you have any questions?

SENATOR BAKER: No.

SENATOR JANSSEN: I don't have any either, so

LARRY RUTH: Bye.

SENATOR JANSSEN: You're all right.

TIP O'NEILL: Senator Janssen and Baker, the rest of the committee, I'm Tip O'Neill, that's O-'-N-e-i-l-l. I represent 14 nonprofit, privately controlled colleges and universities in Nebraska. And I refer to LB 576 as the double whammy bill. The reason for that is, in the repealer it repeals our exemption on purchases. We can make purchases sales-tax free here in Nebraska because of the great public service that we do provide. Second, there is no exemption in here for our sale of educational services. And I am fairly certain that, thus the tuition that we would charge would be a taxable service, And, obviously, that would create a significant financial hardship, not only for the institutions that I represent but for the students who also attend those institutions. So we would oppose LB 576.

SENATOR JANSSEN: Questions, Tom?

SENATOR BAKER: No.

SENATOR JANSSEN: Next opponent, please.

RON SEDLACEK: Members of the Revenue Committee, for the record, my name is Ron Sedlacek, last name is spelled S-e-d-l-a-c-e-k. I'm here today representing the Nebraska Chamber of Commerce, as well as the Omaha Chamber of Commerce in opposition to LB 576. From the business point of view, obviously we have taken a position opposed to an

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expansion of the sales tax base to include business and business transactions. As had been mentioned by a proponent of the legislation already heard, we certainly are aware of the potential for tax pyramiding. For example, if you have a business that wishes to hire a consultant for a business plan, a comprehensive business plan to start a business in Nebraska, that consultant may, in turn, will charge sales tax on his or her services, that company's services. And as well as collecting sales tax from, let's say, human resource personnel that they may contract for, job trainers, public relations people, advertising people, accountants working on the plan, lawyers, engineers, architects, general contractors, all of their subcontractors, subcontractors would be paying services to the contractor who would be paying services to the consultant, who there would be service taxes then for the consultant to the business. It just is not...it's too broad for us. And we...

SENATOR JANSSEN: How many times would that be? Did you count them?

RON SEDLACEK: Well, it would be a lot. It could be potentially a lot. At a minimum, three. Thank you.

SENATOR JANSSEN: Okay. Thank you, Ron. Any questions? All right.

SENATOR BAKER: I'll let you know if I do.

SENATOR JANSSEN: All right. Yeah, poke me.

JIM CUNNINGHAM: (Exhibit 11) Senators, good afternoon. My name is Jim Cunningham, C-u-n-n-i-n-g-h-a-m. I'm executive director of the Nebraska Catholic Conference, representing the Archdiocese of Omaha, and the dioceses of Lincoln and Grand Island. I have submitted written testimony and would just like to mention a couple of reasons why we are in opposition to this. Number one, it would repeal several longstanding exemptions for churches and schools, including church bazaars, school meals, school fees, as some examples. And, secondly, I would just add to what Mr. O'Neill stated with regard to tuition. Presumably, this extends the sale tax on services to a broad range of services, including education. I think we have to assume that that's the case. In which case, there would be sales tax on tuition paid by

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parents who send their youngsters to nongovernmental schools. This would happen either by virtue of repealing the current exemption on school fees or by making education a service for purposes of taxation. The other thing that that would do, of course, is it would impose upon school administrators the duties and responsibilities of retailers. And in our school systems we don't have a lot of administrative staff, and this would be an administrative burden, if nothing else. For these reasons I would urge that you indefinitely postpone this bill. Thank you.

SENATOR JANSSEN: Tom? Thank you, Jim.

JUSTIN BRADY: Senator Janssen and Senator Baker, my name is Justin Brady. I'm appearing today as the registered lobbyist on behalf of the Nebraska Society of CPAs, the Nebraska State Home Builders, and Intralot, who is the lottery provider for the state of Nebraska, in opposition to LB 576. And I think you've heard enough about the ability of these services to be performed out-of-state, and therefore I'll just go on record in opposition.

SENATOR JANSSEN: You, too. Okay.

JOE KOHOUT: Senator Janssen and Senator Baker, my name is Joe Kohout, K-o-h-o-u-t, registered lobbyist appearing on behalf of the Omaha Airport Authority. For the reasons that Mr. Ruth previously laid out, we would ask that we also be registered as opposed to LB 576.

SENATOR JANSSEN: All right. Thank you, Joe.

JOE KOHOUT: Thank you.

ROGER KEETLE: (Exhibit 12) Good afternoon, Senator Janssen and Senator Baker. For the record, my name is Roger Keetle, K-e-e-t-l-e. I am a registered lobbyist for the Nebraska Hospital Association. We're opposed to LB 576 for the same reasons the exemption from sales tax on things that hospitals purchase is repealed by this bill. That would mean that we would have to shift the cost of that sales tax to someone. As you can see from the testimony, that's not going to be Medicare, which is 57 percent of our business; that's not going to be Medicaid, which is about 13 percent of our business; so that means about 30 percent of the

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people that have private insurance would bear the entire cost of whatever the sales tax is on the things we buy. So I've documented for you what hospitals do in the way of charitable and support services to the state, earning our tax exemption, and would urge you to indefinitely postpone LB 576.

SENATOR JANSSEN: Thank you, Roger.

ROGER KEETLE: Thank you.

ROBERT HALLSTROM: Senator Janssen, Senator Baker, my name is Robert J. Hallstrom. I appear before you today as a registered lobbyist on behalf of the National Federation of Independent Business and the Nebraska Bankers Association and the Friends of Nebraska Nonprofit Hospitals. (Exhibit 13) I'm passing around testimony that sets for the objections to small business owners on NFIB to the provisions of LB 576 which falls disproportionately upon small businesses that cannot have in-house provisions of those types of services but would be subject to the tax. The Bankers Association would be objecting to the taxation of banking services. Mr. Keetle has touched on the issues with regard to the nonprofit hospitals. We currently have an exemption that covers all purchases for those hospitals, and I think there is a good public policy reason in exchange for the community betterment and benefit that are provided by those nonprofit entities. Senator Redfield's legal aide suggested that there is an exclusion for healthcare services, but I would submit to you based on the language of the bill, that it is not near as broad as the current exemption for purchases of hospitals and would only go to the ultimate consumer, so you would have a, I would suggest, the pyramiding-type of thing where you would tax all of the inputs getting to the ultimate provision of hospital services under at least one interpretation of that provision, and even if it isn't, it's going to be narrower than the current exemption. For those reasons, we stand in opposition to LB 576.

SENATOR JANSSEN: Thank you, Bob.

ROBERT HALLSTROM: Thank you, Senator.

MIKE HYBL: Senator Janssen, Senator Baker, for the record

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my name is Mike Hybl; that's H-y-b-l. I am the registered lobbyist for the Nebraska Trucking Association, offering up our support in opposition to LB 576 largely for the reasons you've already heard. Also specifically there is a sales tax exemption which covers equipment used by interstate carriers that would significantly impact the industry. And for that reason we would oppose the bill, and I'd be happy to take any questions if you have them.

SENATOR JANSSEN: Thank you.

MIKE HYBL: Thank you.

TIM KEIGHER: Good afternoon, Senator Janssen, Senator Baker. My name is Tim Keigher; it's K-e-i-g-h-e-r. I'm the executive director of the Nebraska Petroleum Marketers and Convenience Store Association and appear before you today in opposition to LB 576 for many of the reasons you've already heard. So I don't know if I am a me-too or a me-seven, but.

SENATOR JANSSEN: Okay. One, two, three, four...ten.

TIM KEIGHER: Me-ten; okay.

SENATOR JANSSEN: Yeah. Thank you, Tim. Any other opponents?

SCOT THOMPSON: (Exhibit 14) Good morning, Senator Baker and Janssen. Afternoon. I'm number 11. I'm Scot Thompson, T-h-o-m-p-s-o-n. I'm representing the American Staffing Association, all the contingent staffing firms that reside in the state of Nebraska and in opposition to LB 576 for all the same reasons that were brought about earlier. Thank you.

SENATOR JANSSEN: All right, thank you. Any more?

TOM HAUG: My name is Tom Haug, and that's H-a-u-g. Dear senators and members of the Revenue Committee, I want to thank you for allowing me to testify against LB 576. I'm a local veterinarian here and practice in Lincoln. I'm against LB 756 (sic--576) for several reasons. First, I want to address the exemption from sales taxes for veterinary services that has been in state statutes that would be removed with LB 576. And then I would like to

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address the broadening of the sales tax base, in general. Veterinary medicine is much like the human medical field. We are using many of the recent technological advancements that are also new to human medicine. Although the fee for them is greatly reduced compared to our other human counterparts, without third-party payment it's relatively expensive for the average pet owner. As a result, often the cost of the procedures we perform become very expensive and are often unplanned, especially in the case of an emergency. This can put a heavy burden on the shoulders of a pet owner who more often than not regard their pets as one of their children. Adding a sales tax to our service only makes their burden heavier. Also, we have had to carry substantial accounts receivable which often do not get paid. Although this is certainly frustrating, many of these animals simply need some type of care. As a result, we'll often write off the bill as a bad debt. These are soft-dollar costs, whereas if a state sales tax was imposed, the unpaid sales taxes would also have to be paid out of other revenues. This would cause us to limit severely our accounts receivable in an attempt to avoid the double whammy of writing off the bad debt and paying the unpaid sales taxes, and possibly limiting our veterinary care to those who we may question if they can pay for it. Veterinary medicine is just starting to see third-party payments. As with health insurance and human medicine, there are discounts and limitations of the payment and other adjustments established by the insurance company. How these adjustments and limitations would be taxed is not addressed in this bill. Also, it is different to charge a tax on an item rather than a service. If the consumer cannot pay for an item, it can be put back on the shelf. If the consumer is not satisfied with the service, it's much more difficult to return the service and the tax associated with it. In 2001, the Legislature increased sales taxes to 5.5 percent and broadened the base to include some services for a trial basis of one year. The next year it became permanent. The increase in taxes on some services associated with repairs and maintenance of equipment has caused our costs in these areas to increase. Our sales taxes have increased about 50 percent over the last year. Our unemployment taxes increased by 230 percent this year after doubling each of the last two years without any claims and will probably double again next year. As a veterinarian, I am not suffering as a result of these tax increases, although I am

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earning less. I am seeing some unsettling trends that result that raises earned by our employees have not been as large as previous years because more dollars are now being diverted to pay taxes. That previously did not exist. I have noticed a trend where perspective employees are looking elsewhere. Our business's tax burdens have increased at a faster rate than business revenues. This makes us hesitant to make large purchases. If other businesses are in similar circumstances, this cannot be a good thing for the state economy. I would encourage you senators to look for ways to control tax burdens and thereby increase business than to continually look for ways to increase tax or broaden the tax base. Thank you.

SENATOR BAKER: I have a question.

SENATOR JANSSEN: Okay.

SENATOR BAKER: Just to prove I'm listening, did you say there are now third-party payments, they're getting to where we're having insurance?

TOM HAUG: They are just starting.

SENATOR BAKER: Is that right.

TOM HAUG: I've had one or two probably in the last couple years...

SENATOR BAKER: Depend on...obviously, they have to...

TOM HAUG: ...and I anticipate it becoming more.

SENATOR BAKER: Is that right.

TOM HAUG: It's real infant, so.

SENATOR BAKER: Hum. Okay. Thank you. That's interesting.

SENATOR JANSSEN: Thank you for being here today.

TOM HAUG: Thank you.

SENATOR JANSSEN: Next opponent.

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HENRY CERNY: Hi. My name is Henry Cerny, C-e-r-n-y. I am here on behalf of the Nebraska Veterinary Medical Association, and we are opposed to the part that taxes veterinary services based upon a lot of our work is through food animal and our profit is very narrow on cattle and swine. That would increase the cost to the farmer, and a lot of times, as hog prices have dropped and others, we have lost revenue because they are simply not bringing the animals in. They would rather let them die than pay for services they can't economically afford. I think this is certainly...would be more received, I guess, if all the human fields were taxed equally, if that was even proposed. But I think singling out veterinary services, as what Dr. Haug said, is of no benefit to the state, either in livestock or in pet ownership. That's...thank you.

SENATOR JANSSEN: Thank you. Thanks for being here, Henry. Any other opponents? Anyone in a neutral capacity? Seeing none, that ends the hearing on LB 576.