

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

[LB714 LB770 LB894 LB983 LB1140]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 21, 2008, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB714, LB770, LB1140, LB894 and LB983. Senators present: Ray Janssen, Chairperson; Carroll Burling; Abbie Cornett; Chris Langemeier; Don Preister; Ron Raikes; and Tom White. Senators absent: Merton "Cap" Dierks, Vice Chairperson. []

SENATOR JANSSEN: Good afternoon, ladies and gentlemen. Welcome to the Revenue Committee. For the record, my name is Ray Janssen. I'm from Nickerson, Nebraska. I represent the 15th Legislative District. My voice is kind of bad today. It has been for the last three days. I ventured out this morning, which I probably shouldn't have. But we're still going to have hearings whether I'm here or not. To my left is Senator Carroll Burling from Kenesaw. To my right is Senator Tom White from Omaha. To my far right is Erma James. Last week I called her "Erma Kilpatrick," but I didn't call George "George James," so...anyway, she is the clerk of the committee. To my immediate right is George Kilpatrick, the legal counsel for the committee. The other senators will be joining us. I want to get started though, so we're not here until 7:00 this evening. Our pages today and every day are Sarah Filcher and Tim Freburg. I would remind you and I know you've all heard this 1,000 times, but please turn your cell phones off and your pagers while you're in the hearing room. The sign-in sheets for the testifiers are on the tables by each door in the back of the room. They need to be completed by everyone who wishes to testify. If you are testifying on more than one bill, you need to submit a testifying sheet for each one of those bills. Please, print your name and complete the form prior to your coming up to testify. When you come up, please hand your testifying sheet to Erma over on my right there, the committee clerk. There are also clip boards in the back of the room to sign in if you do not wish to testify, but would like to indicate your support or opposition to that particular bill. These sheets will be introduced in the official record. We'll follow the agenda that's posted on the door. Introducer or the representative will present the bill, followed by the proponents and then the opponents, and then those in a neutral capacity. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, state your name and spell it for the record. If you have handouts, please bring at least ten copies for the committee and the staff. If you only have the original, we would be more than happy to make copies for you. Give the handouts to the pages to circulate to the committee. Senator Preister and Senator Cornett have joined us, along with Senator Raikes. With that, we'll begin the hearings today. Is Senator Pahls here? He is. Okay. And he will be introducing LB714. Welcome, Senator Pahls. []

SENATOR PAHLS: Thank you, Chairman Janssen and members of the committee. I am glad that there is some distance separating us. [LB714]

SENATOR JANSSEN: You can be. [LB714]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

SENATOR PAHLS: No, I appreciate your efforts today. My name is Rich Pahls, P-a-h-l-s. I represent District 31, which is the "Millard of Omaha". Today I bring forth to you what I call a relatively simple bill with a big impact on our taxpayers and our state's economy in general. LB714 eliminates state income tax on Social Security benefits, and it eliminates counting Social Security income to determine eligibility for a homestead exemption. Now, we all are aware that Nebraska faces an important challenge with the brain drain. I have personally supported the efforts of this legislation to create incentives for new jobs that pay well. We want our young people to stay and we want to attract them from other states. I believe we have a similar problem that is creeping up on us on the other end. Retirees in our state are looking for greener pastures beyond our borders because of the tax burden in our state. Other states are getting into the act and are lowering their tax rate to attract retirees. We have made some progress in the last couple of years when we repealed the state sales tax on the states by lowering income tax rates and by lowering the inheritance taxes on linear descendents. But we are still at a disadvantage when we compare ourselves to other states. Twenty-six states exclude Social Security retirement benefits. This does not include states that have no income tax. Of the states that surround us, the obvious biggest competitors would be South Dakota and Wyoming because they have no income tax. Iowa and Missouri tax Social Security benefits, but they are phasing out taxes on Social Security. Kansas and Colorado are somewhat similar to us. A number of states go much further than LB714, including some who exempt all pensions and retirement income. I chose to exempt Social Security because it has the broadest impact on our current residents. And I've also heard on some of the discussion in the past that if we only exempt certain groups, that is unfair. So that's the reason why I thought Social Security would be a much broader base. This bill addresses the two biggest tax burdens on our retired citizens: income and property tax. It is hard to say which burden is greater on retirees. Each case will be a little bit different. We need, I believe, to address both. You will hear testimony from supporters today regarding Nebraska's high ranking in the tax burden on retirees. And what I'm doing is...I've noticed you have a lot of bills in front of you, or will, dealing with taxes. I think we need to listen to what our citizens are telling us that we need to take a look at this. And I know sometimes it takes two or three tries to make something happen. Thank you. [LB714]

SENATOR JANSSEN: Any questions? You're getting off the hook, Rich. [LB714]

SENATOR PAHLS: And I won't be around for closing because we have exec session in the other room. But if you need me, just wave, and my staff will come and get me. [LB714]

SENATOR JANSSEN: Okay. [LB714]

SENATOR PAHLS: Okay. Thank you, appreciate it. [LB714]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

SENATOR JANSSEN: Um-hum. We'll take proponents first, those in favor of the legislation. Those wishing to speak in favor of LB714. There we go. Welcome. [LB714]

ROBERT M. COURTNEY: (Exhibit 1) Good afternoon, Senator Janssen and members of the Revenue Committee. My name is Robert Courtney, R-o-b-e-r-t C-o-u-r-t-n-e-y, and I'm the volunteer of statewide advocacy coordinator and a registered lobbyist for AARP Nebraska. I also volunteer for Saline County Eldercare and represent Saline County on the Lincoln Area Agency on Agency Advisory Board. So I guess that makes me an advocate for the elderly. I thank you for the opportunity to speak with you today in support of LB714. I think we'll all agree that Nebraska is not a retiree-friendly state in the terms of taxation. In a report dated May of 2007--and that's from AARP's policy board on public policy--listed Nebraska as the 13th highest property tax burden among all states. However, the methodology used to develop the report did not treat all states equally as they did not take into account property tax relief programs that were applied after the taxes had been paid. Nebraska's home state exemption provides relief prior to the payment of taxes. And each of the 12 states that rank above Nebraska in property tax burden, there's a post payment property tax relief program. So while the report factored in the property tax relief provided to Nebraskans over the age of 65, property tax relief programs in the 12 states ranked ahead of Nebraska were not factored into that calculation. It's conceivable the report understates Nebraska's property tax burden in relation to other states and we may be in the top five. This report also finds that the property taxation system in Nebraska is regressive. Persons with lower incomes pay a larger share of their income from property taxes than persons with higher incomes. The median property tax burden for those with the lowest income was 6.2 percent of income, and those with the highest incomes had a median property tax burden of 2.5 percent of income. For homeowners over 65, the median property tax burden for those with the lowest income was 8.2 percent, and those with the highest income were 3.0. By eliminating the entire amount of Social Security income from taxation, we'd lower the property tax burdens for some of the middle income families with incomes between \$35,000 and \$50,000, and that would allow them to qualify for at least a partial exemption. I don't believe any of those would be able to go clear up to 100 percent exemption on their property taxes. This change will have no effect on the low income, elderly, and disabled as their total income is currently below the minimum amount in the current law. And as a note of interest, over 50,000 people today that file their homestead exemptions are currently receiving 100 percent of their taxes are being abated. And those people will not at all be affected by this law because they're already receiving the maximum amount allowed by using their Social Security. And there was only 56,000 total property taxes claims filed last year. So you can see the majority of those filed today, this bill will not affect. Also, this change will have no affect on most incomes above \$50,000, except those that have extraordinarily high medical expenses as their income exceed the maximum allowed by current law. As you know, last year AARP Nebraska had a bill introduced into this committee that would exclude Social

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

Security benefits. We were only going about it to...it was a similar bill, we were only going to have those that were taxable under the federal would be excluded, and that fiscal note was \$15 million. This year, I noticed the fiscal note is over \$40 million and I don't quite understand why that difference is. It's confusing to me. Again, Nebraska is not a retiree-friendly state in terms of taxation. LB714 would also exempt Social Security benefits from income taxation. Social Security income is taxable in Nebraska to the degree that it is taxable by the federal government. Originally, Social Security benefits were taxed at the federal level to shore up the Social Security and Medicare programs. Since the state's income tax is based on a federal calculation of taxable income, the state of Nebraska realizes a windfall is a result of a federal action. There are only 15 states that tax a portion of Social Security benefits. Nebraska is one of only four states apply the state income tax to all taxable income. None of our neighboring states tax 100 percent of these benefits. I recently had a conversation with an AARP member that resides in Omaha. He asked if there was any current action to reduce the total taxes paid by retirees. I explained the bills currently under consideration and told him we'd have to wait and see what the outcomes were during this legislative session. His reply was if there was not change this year, he'll simply move across the river and still have all of the advantages of Omaha and still pay lower taxes. And that's the feelings of many of our members. I work for the Nebraska Air National Guard for 37 years as a budget officer, and I retired from the Nebraska Air National Guard. And many of my fellow retirees from both the Army and Air Guard leave Nebraska for a medium-sized housing area bordering a private lake in Missouri. Their total taxes are thousands less than they would have been in Nebraska. Would they have stayed here if the tax structure was changed? I asked a number of them and they all said, yes. They didn't move by choice; they moved just because of the taxes. And I think you'll find that with a number of retirees in the state. So again, Nebraska is not a retiree-friendly state in the terms of taxation. We need to take some bold moves to keep the current retirees here and to encourage those that have left to return. The passage of LB714 is a first step in these bold moves. I encourage you to move LB714 to the full Legislature for their consideration. Do you have any questions? I'd be glad to try to answer them. [LB714]

SENATOR JANSSEN: Any questions? I have one, Robert. Where would you suggest we make up that \$50 million? [LB714]

ROBERT M. COURTNEY: It's difficult. There isn't a place to make it up unfortunately, unless you raise taxes in some other area. [LB714]

SENATOR JANSSEN: Raise taxes on someone else then. [LB714]

ROBERT M. COURTNEY: Yes, for the rest of the population. [LB714]

SENATOR JANSSEN: Okay. Thank you. Thank you. I see no other questions. Thank you for your testimony. [LB714]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

ROBERT M. COURTNEY: Thank you very much. [LB714]

SENATOR JANSSEN: Next proponent? [LB714]

DAVID McBRIDE: Good afternoon, Senator Janssen, members of the committee. My name is Dave McBride, M-c-B-r-i-d-e. I'm the executive vice president, registered lobbyist for NAIFA-Nebraska, the National Association of Insurance and Financial Advisors. This bill is...our members I guess are the insurance financial advisors that work with people all across Nebraska. This issue is a little bit outside our normal scope of issues. But our interest in this is that as I talk to a lot of our members across the state, they are becoming increasingly concerned with the number of their clients, the number of taxpayers in Nebraska now that they're working with who are either changing residence or considering changing residence because of the tax situation in Nebraska, including a number of retirees, certainly higher net worth individuals who are contributing a lot to the tax base of Nebraska. We don't come with the idea of providing expert testimony in this area. Don't have any particular solutions specifically, but want to register our support for this bill certainly as one viable approach, we think, to addressing a problem that needs to be addressed, which is to do something to reduce the tax burden, particularly on our retirees and keep more of them in Nebraska. And we would be glad to work with the committee or any other interested parties in solutions. We feel this bill of Senator Pahls is certainly a worthwhile proposal and worthy of your consideration and would encourage you to support LB714. And that's really the extent of my testimony. [LB714]

SENATOR JANSSEN: Thank you, Dave. Any questions? I don't see any. Thank you. Any other proponents? Any opponents? Anyone in a neutral capacity? Mr. Hogrefe, how are you today? [LB714]

RAYMOND HOGREFE: Not quite fine. I think I'm about like you; just trying to recover from a cold, so please excuse my voice. I am Ray Hogrefe, R-a-y, Hogrefe, H-o-g-r-e-f-e. I'm a registered lobbyist and I'm speaking on behalf of the National Active and Retired Federal Employees Association here in Nebraska. In my neutral testimony, I have only a couple of brief comments. I'm testifying in a neutral position because I do not want to jeopardize the bill so far as those that it benefits. However on the other hand, I wish to advise you that I feel and we feel that the bill is discriminatory in that it does not include the federal retirees and the state highway patrol. This can jeopardize homestead exemptions or a partial exemption for some of our folks, as well as just treating us unfairly from the standpoint of state income tax. One other thing that I'd like to do is read a letter. It was dated September 6, 2007, to the president of our local chapter, and it reads: Dear Dan, please change my address to Sugarland Drive, Pleasant Hill, Missouri. By moving to Missouri, I will not need to wait until Nebraska gets around to some day catching up with the other 49 states that provide retirement benefits

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

to federal annuitants. My income taxes on 2006 income will drop \$800 next year, and continue to decrease until the Missouri law providing benefits to federal annuitants is fully implemented in 2013. And there was an article in our magazine. Also, property taxes on comparable property are about half of what they are here in Lancaster County. If you haven't traveled to Missouri recently, gasoline is about 40 cents a gallon less. I recently paid \$3.14 here--and his address at that time was Bennet, Nebraska, yet--and \$2.75 in Saint Joe. Don't ask me why. In Missouri, I will not only pay less taxes, but all of my income--annuity and other income--will be spent in Missouri. Nebraska's Governor and Legislature just don't get it and I can't wait until they do. Good luck in getting a law passed in Nebraska that will reduce taxes on federal annuities. Sincerely--and I had his permission to use this letter--Elwood D. Umland (phonetic). Are there any questions? [LB714]

SENATOR JANSSEN: I don't see any, Ray. Thank you for being here today. [LB714]

RAYMOND HOGREFE: Thank you. [LB714]

SENATOR JANSSEN: Anyone else in a neutral capacity? Seeing none, Senator Pahls waived closing, I believe. That will end the hearing on LB714. Senator Cornett has the next bill. [LB714]

SENATOR CORNETT: Good afternoon, Chairman Janssen and members of the Revenue Committee. My name is Abbie Cornett and I represent the 45th Legislative District. And for those of you who have been here in the past, here we go again. I am before you today to introduce yet another military retirement bill, bill LB770. This bill differs from LB169, which is still held in the committee in that there would be a deduction of \$24,000 per military retiree on their state income tax. If there would be a couple who both qualify for the deduction, the limit would be \$48,000. By that I mean, if two people in the military married and were both retired. Where we came up with these numbers is it's based off the state of Colorado. This bill not only is it a retirement issue, it's an economic development issue which affects all industries, not just the defense industry, which we had a bill dealing with a few years ago. We are in need in the state of doctors, teachers, and many other professional positions, and we are in need of growing our state. We are competing with 49 other states for these retirees. This bill is based on what Colorado has in place now. While I don't like comparing other states to Nebraska, it will make us more competitive to the state closest to us for one of our largest industries. I just want to point out we are still looking for employees which have training and technical skills in all areas of economic development. Some of the issues that the committee needs to keep in mind, with Nebraska having a fairly static population, not growing, we need to attract people to this state and to keep the people that we do have here. And this is one idea on how to keep an educated population in the state when they retire. The average retirement age for someone in the military is 44 years. The majority of them return to the workforce. Senator Janssen, when you asked

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

the testifier before how do we expect to make up for that income, these people return to the workforce. Their spouses work, their children work, they pay property taxes. They will never be a drain on our Medicare system because they are covered under TRICARE. If you'll remember testimony a few years ago, we have a large number of businesses in the metro area and throughout the state that are built up around the base and the defense industry. And it's a little bit reverse than normal situation in the state. We have jobs and we have openings. But we do not have people qualified to fill those positions. The salaries for these jobs are comparable with other states that offer the same jobs at the same pay. The difference is the retirement benefits that the other states give these people and it's been hard sometimes. Nebraska doesn't have the amenities that Colorado does. But a lot of the people that I've spoke to in the district very much would like to stay in Nebraska when they retire. They like the sense of community. They like the school systems. They like the people in general. But economically it doesn't make sense for them to retire here when they can retire to another state, receive the same wages that the job that they're transitioning into, and not have their retirement taxed at the same rate, so they leave. We need to find a way to make our state more tax friendly for people that are retiring and returning to the workforce and also just for the retirees in general. Thank you. [LB770]

SENATOR JANSSEN: Any questions? [LB770]

SENATOR CORNETT: Yes, Senator Langemeier. [LB770]

SENATOR LANGEMEIER: I'm going to ask one because Senator Pahls wasn't here and the last comment from the last testifier was is that that bill is discriminatory towards some other groups of retirees. Would this not have that same testimony could be given to it? [LB770]

SENATOR CORNETT: Yes, frankly. [LB770]

SENATOR LANGEMEIER: Okay, and what would your response be? [LB770]

SENATOR CORNETT: You have to start somewhere and this is an economic and a revenue generating bill. The people that we're talking about do return to the workforce and they aren't a drain on our Medicare system. And we do have numerous...I mean, a few years ago, there was over 60 jobs just from a quick survey done with an average starting wage of \$45,000 that were open that we could not attract people to. They frequently have job fairs for the industry, people come and interview and they look at our tax situation in regards to their retirement, and they take jobs in Colorado and in Florida and other states where there's the defense industry and they can move into those jobs. [LB770]

SENATOR LANGEMEIER: Thanks. [LB770]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

SENATOR JANSSEN: Other questions? I see none. Thank you, Abbie. We'll take proponents first, those in favor of the bill. [LB770]

CHRISTOPHER FERDICO: (Exhibit 2) Thank you, Senator Janssen. My name is Christopher Ferdico and I'm here on behalf of the National Guard Association of Nebraska and the Enlisted Association of Nebraska. [LB770]

SENATOR JANSSEN: Would you spell your last name for the record? [LB770]

CHRISTOPHER FERDICO: Certainly. It is F-e-r-d-i-c-o. [LB770]

SENATOR JANSSEN: Okay. [LB770]

CHRISTOPHER FERDICO: If I may approach, Senator, I have copies of basically just a summary of my comments? [LB770]

SENATOR JANSSEN: That would be fine. The pages will get them from you. [LB770]

CHRISTOPHER FERDICO: The National Guard Association of Nebraska and the Enlisted Association of Nebraska would like to take a slightly different approach in supporting this bill. The approach that we look at it from is that the true impact of LB770 helps ensure that the Nebraska government is capable of rapid, efficient, and effective response to state emergencies. As you are all aware, the National Guard is the oldest and most unique of military services. The unique nature of the National Guard derives from its dual state and federal roles. In its federal role, the National Guard is capable of defending the United States from an operational standpoint, and I think we're all familiar with the war on terror and how that's going and our impact, the positive impact that we're having on that. But more importantly, in its state role, the National Guard is the only military force that actively trains for...(recorder malfunction) This is not a role that any other active military or reserve force trains for on a daily, weekly or a monthly basis. And it's important to know that this unique role is protected by the constitution of the United States under Article 1 Section 16. It is not going away. LB770 is an efficient and effective retention tool for the Nebraska National Guard, and this is true because it encourages not only short-term retention, but it's specifically designed for long-term retention. That is retention in excess of 20 years. Long-term retention is critical to the ability of the Nebraska National Guard to effectively train and retain the unique skills necessary to support Nebraska's state mission. If the National Guard cannot retain this experience, the knowledge, the expertise of career soldiers, then its ability to serve the state will be negatively impacted. Further, if the Nebraska National Guard is limited in its ability to respond to the state mission, the state government will not be able to fill these needs because no other military force has an expertise in this specific area. And that's why I say the true impact of LB770 is to help ensure that Nebraska's government is

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

capable of rapid, efficient, and effective response to state emergencies. Retention is one of the critical issues facing, not only the active duty military, but the Nebraska National Guard, especially in this increased operational tempo that we're all operating under. Fortunately, we've been successful in that. But we need to ensure that we continue to have active, attractive and efficient tools in our toolbox to maintain that type of retention. And this is critical from a long-term standpoint because that's exactly what it focuses on and that's where its benefit is. The National Guard Association and Enlisted Association also support these bills for the positive impact that they will have on Nebraska's overall economy. As an attractive retirement option, especially for young military retirees, Nebraska can count on an increased and productive tax base in areas which will offset the income tax benefit in and of itself. I think that area has been touched on already, so I won't expand on it. If I may, Senator Langemeier, I'd like to touch on the discrimination question that you asked about earlier. It seems to me in my civilian occupation, I'm an attorney and I hear the word "discrimination" and from a lawyer standpoint that's a bad word. But I don't think it's discriminatory in the bad context from the standpoint that we initially think of. It is true that it's a benefit that may be provided to some over others. But in this circumstance, it's no different than any other benefit that the Legislature confers on any of its citizens from this impact...from the standpoint that sometimes some people are benefited and sometimes they're not. But when you do the cost benefit analysis of the particular benefit, the hope is that the benefit outweighs the cost. And clearly that's the situation in this point. So is it discriminatory from the standpoint that some people may take advantage of it and others not? Yes, but not in the bad sense because I think it pays for itself over the long run. So I thank you for letting me address that. But that would conclude my comments, if there are any questions. [LB770]

SENATOR JANSSEN: Any questions? Don't see any. Thank you. [LB770]

CHRISTOPHER FERDICO: Thank you. [LB770]

SENATOR JANSSEN: Any other proponents? Any other proponent? Any opponents? Anyone in a neutral position? Seeing none, Senator Cornett to close. [LB770]

SENATOR CORNETT: Again, this is a bill that I've brought before and in different forms. I believe it is something that is important to our state. And we need to take into account when we look at it, the fiscal note does not take into account the economic or the revenue that would be generated from it and it is a retention tool. To answer Senator Langemeier's question also and I'd forgotten to mention this earlier, there are already tax exempt people in this state from state taxes. Federal railroad retirees are not taxed in the state. We need to find a way--and this is one way to look at--at how to educate and retain or how to keep, attract, retain, whatever, an educated workforce. We need it to grow our state economically. We need it to generate revenue. This is one of the options. And I had a number of people that were going to come down and testify this

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

year, and I told them that, you know, until we saw what the forecasting board was going to do that I thought it was better to do this again at the beginning of the biennium. And I know that we have a large study going on right now as to what the economic impact will be. So we will be here again next year with that study. And I told a lot of people to hold off until we actually have that study in our hand in regards to how much revenue can be generated by this. So thank you. [LB770]

SENATOR JANSSEN: I don't see any questions. Thank you, Abbie. That ends the hearing on LB770. We move onto Senator Pedersen has LB1140. We'll stand at ease until Senator Pedersen gets here. [LB770]

EASE []

SENATOR JANSSEN: Senator Pedersen, you're on board. Did you bring lunch for everyone? [LB1140]

SENATOR PEDERSEN: Thank you. To let you know, this is my last time in this committee ever. And I want you to know you've got one of the best clerks there is. So I brought her a little gift and hope you will all, I apologize for taking the time. She's been a wonderful friend in all the years we've been here and I will not get to see you in this committee again, so I had to give her a little gift to recognize her work. [LB1140]

SENATOR JANSSEN: Well, you won't miss me. [LB1140]

SENATOR PEDERSEN: I'll see you. [LB1140]

SENATOR JANSSEN: Senator Pedersen... [LB1140]

SENATOR PEDERSEN: Thank you, Erma, for all of your work and friendship. [LB1140]

SENATOR JANSSEN: ...to introduce LB1140. [LB1140]

SENATOR PEDERSEN: Thank you, Senator Janssen and colleagues here on the Revenue Committee. For the record, I am Senator Dwite Pedersen, representing the 39th Legislative District, and I'm here today to introduce to you LB1140. This bill was brought to me by the Nebraska Education Association. LB1140 provides up to \$75,000 of federal adjusted gross pension income for all retirees from all state operated public employee retirement systems. The U.S. Civil Service retirement system, the U.S. military retirement system, and individuals receiving Social Security benefits would be excluded from paying state income tax with the exemption phased in over a five-year period. This benefit would apply to school employment retirement systems, the Omaha Public School employees retirement system, the county employee retirement system, the judges retirement system, the Nebraska state patrol retirement system, the state

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

employees retirement system, the U.S. Civil Service retirement system, the U.S. military employees retirement system, and Social Security. According to the provisions of the bill, taxpayers filing a single return in 2008 would be able to exclude up to \$15,000 retirement income. If both spouses received qualifying retirement income, the exclusion would be \$30,000. The exclusion would be phased in over a five-year period, increasing the excluded amount by 20 percent of the final cap each year until the \$75,000 maximum exclusion for single taxpayers is reached in 2013. As I stated, I brought this bill by the request of the Nebraska Education Association who I've had a close relationship in my 16 years. And I would respectfully request that any questions you may have would be to their representative who will be following me. And I thank you for your time. [LB1140]

SENATOR JANSSEN: Are there any questions from the committee for Senator Pedersen? Senator Preister. [LB1140]

SENATOR PREISTER: Thank you, Senator Janssen. Save your voice, too. Senator Pedersen, that was an impressive list of exemptions for retirees. I was just wondering if you overlooked the state senator retiree fund? [LB1140]

SENATOR PEDERSEN: I think we forgot that one. Yes. [LB1140]

SENATOR PREISTER: Thank you. [LB1140]

SENATOR LANGEMEIER: In more than one way. [LB1140]

SENATOR JANSSEN: I don't see any other questions. Are you going to stick around to close, Dwite? [LB1140]

SENATOR PEDERSEN: No. We're very busy in Judiciary and I cannot stay for closing. [LB1140]

SENATOR JANSSEN: So you're waiving closing. [LB1140]

SENATOR PEDERSEN: But I'm sure that these people behind me will take good care of you. [LB1140]

SENATOR JANSSEN: Well, adios. I will take proponents first. [LB1140]

ROGER REA: (Exhibit 3) Good afternoon, Senator Janssen and members of the committee. My name is Roger Rea, spelled R-e-a. I'm here representing both NSEA and NSEA-Retired. As Senator Pedersen indicated, we requested this bill be introduced on behalf of our members and also the other retirees in the state. And I think we have here a bill that everybody can agree would be nondiscriminatory--except for state

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

senators. I got a packet of materials that I would ask you to refer to as I go through my testimony because it's easier for me to refer to that than it is to speak extemporaneously on this stuff. The first page on the packet is simply a quick facts about the bill itself. I'll be summarizing some of those quick facts a little bit later on. The second stapled pages are the ones I want to start with. This gives the monthly total benefits that are paid by the defined benefit plans of the state of Nebraska for the school, the state judges, the state patrol, and the Omaha School employees. It does not include the amount of money paid by the county employees or the state employees because that information is not as readily available. But it tells you by each of the states where this money goes, and I'll be referring to that a little bit later on. About two-thirds the way down that first page you'll see Nebraska listed on the right-hand side about two-thirds of the way down, about \$26.1 million of the pension money. That's per month. The defined benefit plans pump a huge amount of money into the state, over \$313 million a year into the state economy. Ninety percent of the money that's paid by the defined benefit plans stays in Nebraska. But a substantial amount of it does go outside Nebraska, about 10 percent of it, about \$3 million. And you can look at these states and I'll be referring to some of those states a little later on. On the next set of pages where it says page 1 of 3 at the top, this is a county by county accounting of the defined benefit pension plan money for the judges, the state patrol, the state's school employees, and the Omaha school employees. Every single county in the state is impacted in some fashion. I would encourage you to look down the list and find the counties that are part of your district to see how much money comes per month into your county as an economic stimulus from the defined benefit plans. These are, again, huge economic stimuli to the economy. I'm going to refer to the Power Point slides next as part of my presentation. There are 16,000 retirees in the state of Nebraska from these public employee retirement pensions, roughly 13,000 in the state and about 3,000 from the Omaha retirement system. The total pensions in the state of Nebraska amounts to about \$26.1 million per month; that's over \$313 million per year. That should be enough money to create roughly 4,000 permanent jobs. If you look at it from an economic stimulus point of view, those with defined benefit plans create a huge amount of money and also create (inaudible) permanent jobs, and 90 percent of the money stays in Nebraska. I realize that I am a retiree and maybe I'm not the typical, but when I get my retirement check, I spend it all. I don't save it. All of it goes back into the economy and I think that's true of all the retirees in the state. They spend their retirement income and they spend it where they live. They spend it in the counties where they live, in your legislative districts. Next page, why does so many go out of the state? Well, I would submit there's a reason people choose to leave the state relates to taxes. Looking at the seven-state area around Nebraska, all the states that are contiguous, just looking at those seven states, how do those seven states treat pension income and Social Security income? On the next page we'll start with Nebraska. On Nebraska, retirees pay state income tax on their entire pension. In Iowa if you're over the age of 65, you get an exemption of up to \$18,000 for a single taxpayer, up to \$24,000 for a joint taxpayer in 2007. In 2009, that goes to \$24,000 and \$32,000. I believe it increases further up to 2013. Those changes

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

were made about two years ago. On the next page, Missouri currently exempts up to \$6,000 of pension income. And as a phase in starting next year, as you heard in the last bill, a phase in going through 2012 to exempt all of the public pension money in Missouri. Kansas is next. Kansas offers a full exemption for state pensions from Kansas; nothing from out-of-state. That's a key point. I want to come back to that a little bit later on. Kansas offers no pension exemption if you move from Nebraska to Kansas. If you earned your pension in Kansas, it's tax exempt. But people come into Kansas with other pensions don't get the exemption. That's a key point for Kansas and I'll refer to that again a little bit later on. Next page, Colorado exempts up to \$24,000 of pension income if you're over the age of 65, up to \$25,000 of pension if you're under the age of 65, between 55 and 64. Wyoming is next. They have no state income tax. Their pensions are 100 percent exempt from state income taxes. And the following page, South Dakota also has no state income tax. So again, 100 percent of the pension would be exempt from South Dakota state taxes. We looked at the state's on that spreadsheet I gave you earlier, where our pension money goes. Considering the nine top states that receive pension income from Nebraska, where are those states? I've included Wyoming because that's part of the seven-state area. It's not the 9th largest, but it's one of the top 12. Nebraska gets the largest amount of money, \$26.1 million a year. Next is Iowa, sorry, per month, \$476,000 per month. Next is Arizona. Next is Colorado, about \$250,000. South Dakota, \$222,000. Texas, \$211,000. Missouri, \$210,000. Florida, \$175,000. Kansas, \$132,000. And Wyoming, although it's not in the top nine, it is one of the seven states. It only gets \$78,000. I'd like to call your attention to South Dakota at \$222,000 and Kansas at \$132,000. South Dakota and Kansas share roughly the same amount of borderline with Nebraska. The population is closer to the state of Kansas than it is to the state of South Dakota. But South Dakota gets about half again as much of our retirement income. Now, why is it people are moving to South Dakota instead of Kansas? I suggest it's not for the climate. I suggest it's for the tax benefits. Looking at the right-hand column of that page, how's the state pension taxed? In Nebraska, 100 percent of your pension is taxed. In Iowa, you get \$32,000 exempt. In Arizona, \$2,500 exempt. Colorado, \$24,000 exempt. South Dakota has no income tax. Texas, no income tax. Missouri, \$6,000 exempt. Florida, no income tax. Kansas, full exemption for state pensions, nothing for outside pensions. That's one of the reasons I think people don't move to Kansas. And Wyoming, again, no income tax. Taking a look at the states then that are not part of the seven-state area, again: Arizona exempts up to \$2,500; Texas, there's no income tax, so it's 100 percent exempt; the following page, Florida, no income tax for the state, so it's 100 percent state exempt. What about Social Security income? The information I'm sharing with you, it came from a 1999 survey by Georgia State University. There are seven states that have no income tax. They are Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Of the 43 states that have a state income tax, 39 states exempt some or all Social Security from state income tax; 3 states follow federal exemptions rules; and according to that survey by Georgia State University, only Nebraska taxes all of your Social Security benefits. How about the seven-state area? Again, Colorado gives a full exemption for Social Security.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

Iowa is partial. Kansas is partial. Missouri is full. Nebraska is none. And South Dakota has no income tax, and neither does Wyoming. The economic impact on the state for our defined benefit plans as well as Social Security and military pensions is huge. It generates a large number of jobs and it brings money into every single county in the state. I'm not sure there's any other employer that you can say that about. You asked a question earlier, Senator Janssen, about where the money might come from. I guess the question might be what kind of economic incentive would you apply to a company that came with 16,000 employees in your state, pumps in \$300 million per year in terms of payroll, and all of that money is being spent in the state, in every single county in the state. What kind of incentives would you try to provide that company to stay here? I think it's a modest example of what the state might be able to do for pensioners. Be happy to respond to your questions. [LB1140]

SENATOR JANSSEN: Any questions? I don't see any. Thank you, sir. [LB1140]

ROGER REA: Thank you. [LB1140]

SENATOR JANSSEN: Next proponent, please? Anyone...there we go. [LB1140]

HERB SCHIMEK: Members of the committee, my name is Herb Schimek, S-c-h-i-m-e-k, represent the Nebraska State Education Association. I simply want to emphasize that the material that Roger Rea presented to you is some of the best material we've been able to put together in a long time on this particular problem. And I hope that the committee will take the time to really go through this data. It's excellent, Roger being a former physics and math teacher. It's mathematically correct. As far as where is the state going to come up with the money. The state was able to come up with the money for LB775, been able to come up with the money for all these other programs of that type. So I think if the state wants to do it, they can find the money. Thank you. Any questions? [LB1140]

SENATOR JANSSEN: Any questions? Seeing none, thank you, Herb, for being here. [LB1140]

HERB SCHIMEK: Thank you. [LB1140]

SENATOR JANSSEN: Any other proponents? [LB1140]

ROGER G. ANDREWS: (Exhibit 4) Good afternoon, Senator Janssen and members of the Revenue Committee. I am Roger G. Andrews, that's R-o-g-e-r A-n-d-r-e-w-s, and I reside at 2524 West John Street in Grand Island, Nebraska, and that's J-o-h-n on the street. I'm a retired federal employee and a member of the National Active and Retired Federal Employees Association, also known as NARFE. I am the president of the Nebraska federation of NARFE chapters. I am appearing before you today to ask for

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

your support for LB1140. We thank Senator Pedersen for introducing this legislation. This legislation is very critical to the federal and military retirees in Nebraska because almost all of these pensions are taxable by Nebraska. This really hurts the federal retiree, particularly those who retired at the lower grade level, especially those whose spouse was covered by Social Security. Because of the government pension offset, many federal retirees are eligible for little, if any, of the Social Security spousal payment and Social Security survivor benefit. Nebraska needs a tax incentive to keep government retirees in Nebraska and to attract government retirees to return or move to Nebraska. Nebraska is the only state that does not have some state income tax relief for government retirees and we're losing valuable citizens to other states because of this. And I think you've heard that from other testifiers. In fact, three of our neighboring states, Kansas, South Dakota, and Wyoming have no personal income tax or, in the case of Kansas, they exempt the total amount of civil service annuities. Government retirees have many skills that would be valuable to Nebraska. Also, of those retirees that do live here, some are in the workforce and most provide much volunteer time to worthwhile causes. In the fiscal year of 2005, there were 13,038 civil service retirement system or in FERS, the federal employees retirement system annuitants with monthly annuities of \$21,823,000, and there were 3,448 survivor annuitants with \$3,748,000 of monthly annuities. This is over \$300 million added annually to the Nebraska economy. All or almost all of the income from these annuities is subject to income tax, both federal and state. The Nebraska Federation of NARFE chapters has over 2,500 members, and almost 7 percent of these members live out of state. Why these people live out of state is not known, but they must have considerable attachment to Nebraska to maintain their NARFE membership in Nebraska. The 2000 Census listed 18,848 federal government workers in Nebraska with about 46 percent of those were females. I do not know the number of these that are near retirement age, but the baby boomers are starting to retire. It can probably be assumed that many of these will soon be retiring. Because of unfavorable income tax on government annuities in Nebraska, there will be some of these looking to move to a state that treats their annuities more favorably. Nebraska is also missing out on attracting new retirees, federal and military, to retire here. Many of these would possess skills and security clearances that would be valuable to Nebraska employers, especially in the defense area. Also, some of the retirees would be native Nebraskans and would consider moving back home if the tax situation was more favorable for them. I thank you for your time and the federal retirees of Nebraska would appreciate your affirmative vote on this bill. Thank you. [LB1140]

SENATOR JANSSEN: Any questions? Seeing none, thank you. Any other proponents? Anyone else in favor? [LB1140]

KORBY GILBERTSON: Good afternoon, Chairman Janssen, members of the committee. For the record, my name is Korby Gilbertson, it's spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n, appearing today as a registered lobbyist on behalf of the State Troopers Association of Nebraska in support of LB1140. In an effort to save time and

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

not be redundant, I'd simply say that the state troopers have supported this legislation in the past and continue to do so because of the fact that it seems as Nebraska is lagging behind what other states are doing in so far as tax benefits for recipients of government pensions. I'd be happy to answer any questions. [LB1140]

SENATOR JANSSEN: Any questions? Don't see any, Korby. [LB1140]

KORBY GILBERTSON: Thank you. [LB1140]

SENATOR JANSSEN: Thank you. Any other proponents? Any other proponents? Any opponents? No opponents? Anyone in a neutral capacity? Seeing none, I believe Senator Pedersen waived closing, didn't he? [LB1140]

SENATOR LANGEMEIER: That's right. [LB1140]

SENATOR JANSSEN: I believe he did, so that ends the hearing on LB1140. Senator Gay is on his way to introduce LB894. Stand at ease for a few moments. [LB1140]

EASE []

SENATOR JANSSEN: We're moving along pretty quick today, Senator. []

SENATOR GAY: Yeah, well, that's good. []

SENATOR JANSSEN: Senator Gay to introduce LB894. [LB894]

SENATOR GAY: Thank you, Senator Janssen, and members of the committee. For the record, Tim Gay, state senator, District 14, to introduce LB894. And I will be brief myself. We're shorthanded in the Health Committee in a packed house. So I'm just going to make my introduction and will be waiving my close. But my assistant, she will be in if you have any questions, she'll be more than happy to answer them. I'll get them to you quick. Anyway, LB894 really just increases the deduction allowed to the long-term care savings plan from \$2,000 to \$5,000 for married filing jointly and from \$1,000 to \$2,500 for individual returns. The idea of this bill is really to get a program going. It's a good program as it is, could be much better. It's a program that has just started recently to take off. We lowered the age, was one requirement. But what we found out is we're trying to implement this--and the State Treasurer will speak on this as well--is in order to get it going there needs to be enough incentive for somebody to put the money in. Many times the amount they could put in was not enough to build an adequate savings account for long-term care. So what this does is you look at a bank or your financial institution, you go there, you open the account. More banks are signing up, many more would sign up, and I think the Treasurer will discuss that of how we envision this to work. Basically, long-term care expenses that we're finding out for

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

disabled, elderly, and some of the amendments you made last year were very good, quite honestly, that allowed this to be used for other things than just long-term care, other expenses. So that was a very good addition. But what's happening is in order to get a savings rate that would be beneficial to somebody down the road if you were saving it starting at 50 on up, we'd need a little bit more money to be put in there. But some of the statistics...and I don't want bore you with statistics, I know you get a lot of those, but in 2005 alone, long-term care expenditures accounted for 36.3 percent of our Medicaid budget. And by 2025 Medicaid is expended to consume 31.2 percent of the state's General Fund. This means we'll be a \$785 million gap between needed expenditures and available funds. And we had a discussion as...you know, you're probably getting tired of me with the long-term care thing, but we had the discussion of an ever-aging population in the state and looming problems. This is again one of these bills where I think it provides for people to start planning and taking care of themselves. Again, this is more of a middle class. We're not talking a large...I envision a middle class Nebraska family saying, how can I start preparing for this? At a certain age, you start thinking about those things: retirement and it's in your 30s, long-term care, and some of those issues are more in your 50s. If we're lucky, it may be somebody in their 40s. But as people deal with this issue and have parents or loved ones that they had to deal with, they're starting to think of this more and more, and they're looking for options that are out there. This is one of the options and it's a unique option in the country, quite honestly, and you'll hear more about that. But what I think in order to improve what we have, this would go a long ways to improving what we have. So other than that, the fiscal note we received yesterday was \$450,000. And with the savings to taxpayers with the respect to the Medicaid program, we were looking to get some of those exact savings, but that's hard to do right now quite honestly. We know the problem is out there. Exactly how much this would go to help fill that gap, you know, it's unsure. But I think we got to start making strides in that direction. So that's kind of what the bill does and I will turn it over...like I say, I think there are others who will testify behind me that will give you some more information of the program and some of its benefits. And I will be waiving my closing. But if you have any questions now, I'd be more than happy to answer those. [LB894]

SENATOR JANSSEN: Any questions? Don't see any. [LB894]

SENATOR GAY: Thank you. [LB894]

SENATOR JANSSEN: And you did waive closing? [LB894]

SENATOR GAY: Yes, I will. Thank you, Senator. [LB894]

SENATOR JANSSEN: All right. We'll take proponents first. Good afternoon. [LB894]

SHANE OSBORN: (Exhibit 5) Good afternoon, Chairman Janssen and members of the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

Revenue Committee. I'm State Treasurer Shane Osborn, O-s-b-o-r-n, and I'm here in enthusiastic support of LB894. First off, I want to thank Senator Gay for bringing forth this much needed legislation and for being a strong advocate for encouraging Nebraskans to prepare for periods of disability which will afflict 60 percent of Nebraskans who reach the age of 65. Since the program's creation a little over a year ago by LB965 and with subsequent changes made last year by LB304, the long-term care savings plan had a great start in its first full year of operation. We've now established relationships with 15 financial institutions across the state with 34 communities having branches and that is expanding literally daily. In June, my office began working with the MINNOW Project, a local marketing firm in which developed and implemented our slogan: the good life longer campaign. The campaign has included: mass mailings to financial institutions across the state and a Web site, www.thegoodlifelonger.com; a radio campaign that ran 3,700 spots statewide in November and December and in January and February; and print materials that are in packets which are included for your reference. We've had good results. At the end of 2007, there were 142 accounts and \$194,807 on deposit. All deposits were made, obviously, last year since it was a new plan. LB894 would be the proverbial shot in the arm to give the long-term care savings plan the critical mass it needs to become a real force for enticing Nebraskans to prepare for periods of disability, and to protect the treasury from Medicaid as a payor of last resort. With the aging Nebraska baby boomers, this is a great focus for protecting taxpayer dollars while incentivizing savings. Nebraska is the leader in the field as well. We're the only state with this type of program. So in many ways, we are the pilot program to which states can model theirs. I have been promoting this program nationally through presentations at the National Association of State Treasurers at last December, and we're proud to report to you that four different states--Illinois, Connecticut, Maryland, and Indiana--are going to introduce similar legislation. So the plan is expanding, and a side note on that, how I would like to see this plan eventually go is to get enough states involved, get enough critical mass throughout the country, and formulate this plan in a similar way to the 529 college savings plans. And barring socialized medicine nationally, this would be a great way to take this plan federal in a long-term goal for the plan. So finally, I note this bill is similar to last year's LB338, which expanded the tax deduction for the college savings plan to \$5,000 per household. And while I can't give you results of what this would do for any of the plans obviously in its infancy, I can tell you that we saw a 38 percent increase with that increased deduction last year in the number of Nebraska accounts, the most significant increase since the plan was started. We also saw a 34 percent increase in contributions, and now we're at about \$2.2 billion in the Nebraska college savings plan. We expect a similar jump in savings with the passage of LB894. With that being said, I urge you to pass LB894 to ensure the success of Nebraska's long-term care savings plan. Trent Fellers, the director of the plan, is here as well and I'd be happy to take any questions. [LB894]

SENATOR JANSSEN: Don. [LB894]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

SENATOR PREISTER: Thank you, Senator Janssen. Thank you, Treasurer Osborn, for your testimony and being here. You said that there were I believe 142 people that have taken advantage of this system so far. [LB894]

SHANE OSBORN: Yes. [LB894]

SENATOR PREISTER: And you've done quite an advertising campaign. How does that...does that meet your expectations, exceed, under-perform, where does that (inaudible)? [LB894]

SHANE OSBORN: The advertising just...that was for 2007. [LB894]

SENATOR PREISTER: Right. [LB894]

SHANE OSBORN: But the ad campaign we put together didn't launch until November and December. So it really...we hadn't done anything, we hadn't promoted the plan. When I took office, the plan was just started and the agreements with the banks didn't make any sense. So it took me several months to go back, work with the Bankers Association, and get an agreement that made sense that they were going to get these banks to sign on. So I really...so half way through the year I didn't even have any banks signed on. I think we had one small bank, I believe. [LB894]

_____: We had five, but only one in Lincoln and then... [LB894]

SHANE OSBORN: Yeah, and so it really...you know, we couldn't get the cart in front of the horse with advertising. So that's what two months of advertising...there's \$194,000. But the plan is just too new for me to give you any startling statistics, predictions one way or the other. But I can tell you that obviously a raise in the deduction of up to \$5,000 per household is going to help get that shot in the arm to try and promote this plan. [LB894]

SENATOR PREISTER: Okay. And do you know, have you checked with the insurance companies, how many policies we have in the state period? [LB894]

SHANE OSBORN: I don't, but this plan is obviously not just for policies. This is a way to save for immediate costs of...obviously you can't after 50 buy policies with it, but let's say you had an accident and you were in a wheelchair and need to put a ramp in your house, widen some doorways, things like that. So it's more diverse than just a way to kind of pass through to buy insurance policies. [LB894]

SENATOR PREISTER: Sure. What I'm looking at is are we getting value for the investment if people are taking out these policies on their own and we're providing

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

incentives, but not getting that many people. I'm just trying to get some facts about the program. [LB894]

SHANE OSBORN: And I could under...yeah, absolutely. I don't have any reliable statistics yet. You know, give me a year, pass this bill for me, and then I'll report back to you and let you know whether it worked or not. But I can tell you that the raise in the deduction, the college savings plan, it's been top ranked in the country since it was started in '01. But this...it made a significant difference. Especially in the state of Nebraska, and that's where my focus was, was most 73 percent of that money was coming from out of state and I wanted to increase Nebraskan savings. And so I think the deduction...it takes it from, okay, that's nice to a nice solid deduction of \$5,000. [LB894]

SENATOR PREISTER: Thank you. [LB894]

SHANE OSBORN: Yes, sir. [LB894]

SENATOR JANSSEN: Senator Langemeier. [LB894]

SENATOR LANGEMEIER: Thank you. But this bill has nothing to do with the college savings plan. [LB894]

SHANE OSBORN: No. But that's the best... [LB894]

SENATOR LANGEMEIER: We've heard a lot about that, but that's irrelevant to this bill. [LB894]

SHANE OSBORN: It is. [LB894]

SENATOR LANGEMEIER: How much are we spending in this advertising that we've done for two months and how much are we planning to spend on this to get 142 people to participate? [LB894]

SHANE OSBORN: Well, in the two months, we spent about \$50,000 on advertising. That was what we had to go from the ground up; that was including building a Web site, creating it, creating a marketing plan, everything. [LB894]

SENATOR LANGEMEIER: And what's the intended spending in the future? [LB894]

SHANE OSBORN: It'll probably be about \$50,000 next year. [LB894]

SENATOR LANGEMEIER: An additional \$50,000 or just \$50,000? [LB894]

SHANE OSBORN: An additional \$50,000. [LB894]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

SENATOR LANGEMEIER: So we're going to spend another... [LB894]

SHANE OSBORN: No, \$50,000 in the next year is what we have. [LB894]

SENATOR LANGEMEIER: Okay. Thank you. [LB894]

SENATOR JANSSEN: Any other questions? Abbie, do you have a question? No. Mr. Osborn, what did you say was the total amount you have in that college savings plan now? [LB894]

SHANE OSBORN: In the college savings we've got \$2.2 billion. But we, you know, we started with nothing in that as well and that wasn't even a plan...you know, there were several other states that were already doing it before we did it. So this is the first of its kind in the country. [LB894]

SENATOR JANSSEN: Um-hum. Okay. Seeing no other questions, thank you for being here today. [LB894]

SHANE OSBORN: Okay. Thank you very much. [LB894]

BOB HALLSTROM: Chairman Janssen, members of the committee, my name is Robert J. Hallstrom. I appear before you today on behalf of the Nebraska Bankers Association in support of LB894. The State Treasurer and Senator Gay have already talked a little bit about the merits of the program and what this particular bill would do. I'd like to just bring you up to speed a little bit with the involvement of the financial institutions; perhaps provide a little bit more information as to why maybe the program has been a little bit slow to start from the financial institutions perspective. We were approached in late November, perhaps early November-late November, after the original law was passed to put together an agreement to allow individual financial institutions to participate in this program and to provide the investment opportunity or involvement from the bank's side of things. The reason that happened so late was that to the original legislation had envisioned that there would be a central administrator or coordinator of the program, much like the college savings plan. When no one stepped forward to assume that centralized coordination role, we were kind of behind the eight ball in terms of time and getting the individual agreements put together. As Treasurer Osborn indicated, the initial agreements were not the most user-friendly in terms of the agreement itself, the reporting requirements, and so forth. So we met with State Treasurer Osborn after he took office and essentially did start from scratch in going back to the drawing board, putting those agreements together. So I've got to probably suggest and admit that the financial institutions have been a little slow coming on board. Part of the marketing effort has not only been at the constituency, but also at the financial institutions to provide them with information to encourage them to get involved

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

and offer this to the general public. I can tell you that we are having more and more customers that are contacting banks, encouraging them to sign up and have the accounts offered as part of their business. And I would hope that the program would be taking off more and more and that more financial institutions would get involved over time. Be happy to address any questions the committee might have. [LB894]

SENATOR JANSSEN: Questions of Mr. Hallstrom? Don't see any, thank you. Next proponent? [LB894]

BRENDON POLT: (Exhibit 6) Good afternoon, senators. My name is Brendon Polt, for the record that's P-o-l-t. I'm the assistant executive director of the Nebraska Health Care Association, which is a private trade association with a membership of about all of the state's nursing homes and assisted living facilities, both proprietary and nonproprietary. And I'm here to be on the record and address any questions you might have. Our board of directors has taken a position to support any and all measures that would encourage people to plan for their long-term care. Sixty percent of the nursing home days in the state are paid by Medicaid. The other 40 percent are private pay, and it's a very small fraction right now that is paid out of long-term care insurance. So we would...hopefully this bill would stimulate demand for saving and also stimulate potentially demand for the long-term care insurance policies that are an allowable expenditure. But other than that, I'd be available for any questions about nursing home care or the amount of...about the Medicaid program in general. [LB894]

SENATOR JANSSEN: Any questions? Chris. [LB894]

SENATOR LANGEMEIER: Thank you, Chairman Janssen. Thank you for your testimony. Is your association doing any promotion of this or plan to do any promotion or just support it here? [LB894]

BRENDON POLT: We haven't done anything to widespread doing any marketing to the general public on this, if that's what you're asking. No, we haven't. But it's a good idea. It's something we haven't done so far though. [LB894]

SENATOR LANGEMEIER: Okay. Thank you. [LB894]

SENATOR JANSSEN: Anyone else? Don't see any. Thank you for your testimony. Next proponent? [LB894]

ROBBIE NATHAN: (Exhibit 7) Senator Janssen, members of the Revenue Committee, thank you for the opportunity to speak today. I'm Robbie Nathan, R-o-b-b-i-e N-a-t-h-a-n, and I represent AARP in supporting LB894 introduced by Senator Gay. AARP supports strengthening public policies that encourage people to save for retirement. Long-term care is a cost that is often associated with retirement. We

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

supported the establishment of long-term care savings plans when they were first proposed in 2006. Nebraska, as prior testimonies have said, is the first long-term care savings plan program in the nation. As the first in the field, there will be adjustments that will need to be made to improve the program. LB894 represents one of those improvements. By 2030, there will be 40 percent more Nebraskans over the age of 80 than there are today, and their numbers are expected to grow by about 4 to 5 percent annually from 2030 to 2040. It's important for our state to provide individuals with incentives to take responsibility to prepare for their long-term care needs. While an incentive to save \$1,000 annually will allow a worker to build assets to cover the cost of long-term care services, a \$2,500 incentive is more likely to generate the degree of savings necessary to finance long-term care services. For a 52-year-old, contributing \$2,500 annually to a long-term care savings plan will generate \$50,000 in savings for long-term care by retirement. A \$1,000 annual contribution will generate about \$20,000 in long-term care savings. While it's difficult to say what the costs of long-term care will be in 2022, the increased savings will certainly go a lot farther. The long-term care savings plans also provide an opportunity to provide information to Nebraskans about the cost of long-term care and the importance of preparing for those costs. A recent AARP survey of persons over the age of 45 found that 51 percent of those surveyed underestimated the cost of nursing home care by at least 20 percent, and 24 percent didn't even know how much nursing home care would cost. We commend the State Treasurer's Office for their efforts to promote the long-term care savings plans and we look forward to partnering with them in that effort. For these reasons, AARP supports passage of LB894. We encourage the committee to report the bill favorably to General File. Any questions? [LB894]

SENATOR JANSSEN: Any questions? I don't see any. Thank you for being with us. [LB894]

ROBBIE NATHAN: Okay. Thank you. [LB894]

SENATOR JANSSEN: Proponent? [LB894]

BOB GRUNDMAN: (Exhibit 8) Chairman Janssen, members of the Revenue Committee, my name is Bob Grundman. I am here testifying in favor of LB894 on behalf of the Nebraska Association of Insurance and Financial Advisors, and the Nebraska Association of Health Underwriters. The name is Bob Grundman, G-r-u-n-d-m-a-n. Our associations represent insurance professionals involved in the sales and service of insurance and savings products, including long-term care insurance. Our association supported the creation of the Nebraska long-term care savings plan in 2006. It was unique because it offered the tax advantages not only to those purchasing long-term care insurance, but also to those who chose to self-insure against the risk. We supported the modifications to the plan in 2007 to make it more user-friendly. And yet as the Treasurer testified, we have just 142 people right now having those plans. We

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

believe that the low participation is due to the relatively few financial institutions offering and advertising the program. It was mentioned before that we have just 15 banks doing that. Those banks are in population centers such as: Columbus, Syracuse, Valparaiso, Hebron, Stuart, Laurel, Scottsbluff, Minden, Wallace, Bellevue, two in Grand Island, one in Fremont, American National in Omaha, and Cornhusker here in Lincoln. So it's relatively few banks in relatively few locations. We believe that their low participation is a result of the \$1,000 annual cap on the income tax deductible contributions allowed. The proposed increase to \$2,500 per person offers a greater chance for these financial institutions to cover their costs of providing that service, as well as a greater incentive for individuals to participate. If that can be foreseen, then those institutions will offer and advertise the program. This greater education about the program coming from their local banks will encourage more participation and consequently a greater safety net for aging Nebraskans. The more that we can get these local banks to advertise the program, the less money that will be required from the Treasurer's Office. We encourage the Revenue Committee to support LB894 and its proposed increase to \$2,500 per person. We believe the increase would help make it more appealing to both the institutions as well as individuals. With this legislation, more Nebraskans will be encouraged to take responsibility for their own long-term care costs, rather than relying on a Medicaid program that's already draining state and federal budgets. And then I would be happy to answer questions. [LB894]

SENATOR CORNETT: Seeing no questions, thank you very much. Next proponent?
[LB894]

JAN MCKENZIE: Senator Cornett and members of the Revenue Committee, for the record, my name is Jan McKenzie, spelled M-c-K-e-n-z-i-e, here in support of LB894 on behalf of the Nebraska Insurance Federation. And I will be very brief because I know you've heard these arguments before on other long-term care bills. But we're in support of the legislation in front of you because it allows individuals to include premium payments for long-term care insurance in their savings plans. We also believe that as we look to the future with more and more Nebraskans living longer...in fact, I was surprised today by the article in the Lincoln JournalStar about the number of people in Nebraska over the age of 107--12 people in the state are older than 107. We're living older. We're living better. And I think in many cases planning for a long retirement and a long future with eventual time spent in assisted living or a nursing home or even in your own home with some sort of assistance is probably a reality for many Nebraskans in the future. I will add one other point in terms of how things have changed since we first started talking about incenting the purchase of long-term care insurance. In the beginning, the only thing you could buy was long-term care insurance to cover a nursing home. Now, there are many variable types of products out there that allow all kinds of flexible possibilities to be covered. And I think that's one other aspect that's going to incent people and encourage people to look more seriously at purchasing. It's not just to cover a nursing home now. It may be for you to stay in your home with the assistance

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

you might need from other professionals. I will attempt to get information for Senator Preister and if the other committee members are interested in how many Nebraskans currently have purchased policies. I did not bring that with me today, but I will see if I can find that out and get that to the committee as well. [LB894]

SENATOR CORNETT: Thank you, Jan. Any questions from the committee? Seeing none, next proponent? Are there any further proponents for the bill? Seeing none, is there any opposition to the bill? Anyone in a neutral capacity? That closes the hearing on LB894. Senator Langemeier, could you please take the chair? [LB894]

SENATOR LANGEMEIER: Yup. Just you and me and you. Three of us here. Senator Cornett, you're recognized to open on LB983. [LB983]

SENATOR CORNETT: Good afternoon, Senator Langemeier and Senator White and members of the Revenue Committee when they return. I am Senator Cornett and I represent the 45th Legislative District. In 2006 legislative session, LB1010 was introduced to allow Nebraska taxpayers to take a federal tax deduction and a state tax credit for planned gifts to Nebraska-based nonprofit endowments. As originally introduced, the bill was given a fiscal note of \$7,975,000. The Revenue Committee amended LB1010 by cutting the credit percentage in half from 30 percent for individual contributions to 15 percent, and for 20 percent for corporations to 10 percent. The amendment also cut the minimum credit that could be received from \$10,000 to \$5,000. The ensuing fiscal note predicted that the revenue loss from the amended bill would be reduced to \$3,749,000. Although LB1010 generated \$3,356,000 in contributions to permanent Nebraska endowments, only \$102,470 in total credits were approved for the 2006 tax year. It is the intent of LB983 to enhance the incentives needed to stimulate the contributions of irrevocable plan gifts to permanent endowments of the Nebraska nonprofits. A cap of \$5 million will be placed on total credits to provide a predictable total possible cost to the state. The bill has the following provisions: The maximum annual credit of \$10,000 per taxpayer with 5-year carry forward; a 50 percent credit for outright gifts by C corporations; a 50 percent credit for the present value of an irrevocable plan gifts from individuals and S corporations; a 25 percent credit for outright gifts by individuals and S corporations with a maximum annual credit of \$5,000; and a \$5 million cap in total credits available each year and a mechanism for the Department of Revenue to administer that cap. The bill would be effective for the 2008 tax year and would sunset January 1, 2016. There will be people following me that can testify to how this plan has been used and the problems that they've had in the past year with it. I'd like to thank you for your time and consideration of LB983, and would attempt to answer any questions that you have. [LB983]

SENATOR LANGEMEIER: Are there any questions? Seeing no questions, thank you very much for the opening. We'll start with proponents. First proponent, please come forward. I'll turn it back to our esteemed Chairman. [LB983]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

MAXINE MOUL: (Exhibit 9) Good afternoon, Senator Janssen and members of the Revenue Committee. My name is Maxine Moul, M-o-u-l. I'm a Lincoln resident and serve as coordinator of EndowNebraska. The cochairs are: Barb Bartle, who is president of the Foundation for Lincoln Public Schools; and Michael Geis, executive director for development at the Nebraska Medical Center in Omaha. Our coalition of Nebraska nonprofits, professional advisors, and associations and organizations is supporting the passage of LB983 to enhance provisions of the Nebraska charitable tax credit for gifts to Nebraska 503(c)(3) endowments. Each of the testifiers are providing you with copies of their testimony and we have copies of letters of support that have been written to Senator Janssen as chair of the Revenue Committee. We're pleased that Senator Cornett has introduced LB983 and that Senator Dave Pankonin of Louisville has made it his priority bill. This legislation will provide the best possible rate of return on the investment the state is making in charitable giving to Nebraska's nonprofits, and greatly increase the number of charitable gifts to permanent endowments. With a \$5 million cap on the total number of credits issued in each tax year and at the benefit rates in LB983, full utilization of the tax credits will generate at least \$20 million in new endowments each year. With a sunset of January 1, 2016, we could realize as much as \$160 million in new Nebraska nonprofit endowments. At a conservative 5 percent payout on such permanent endowments, nonprofits would then have \$8 million available to invest in Nebraska's education, social services, healthcare, the environment, and community betterment every year forever. The Nebraska Legislature's investment of Nebraska tax dollars through passage of this legislation will result in a permanent increase in nonprofit reinvestment far beyond the life of this bill. Even with the lower benefits available during the 2006 tax year, the contributions to Nebraska's nonprofit endowments was at least \$3,356,000 according to the Nebraska Department of Revenue. The cost to the state was a one-time revenue loss of \$102,470, but a 5 percent payout on that \$3.356 million will result in \$187,000 in nonprofit investments every year forever. We know that this tax incentive encourages Nebraskans to make their charitable gifts here. Mike Geis worked with a donor at the medical center who's written a letter in support to your committee. Richard Borchering says in the letter: I can attest to the fact that tax credits will keep more wealth in the state of Nebraska to serve the needs of the people of Nebraska while encouraging donors to keep charitable gifts here, rather than to out of state organizations. In fact, I elected to initiate an additional charitable gift annuity with a Nebraska charity instead of making it to St. Jude's Hospital in Tennessee that I have supported for many years. For these reasons, EndowNebraska is supporting the passage of LB983. We pledge to promote the new provisions of the Nebraska Charitable tax credit law as a powerful way to improve Nebraska's quality of life for all our citizens. I agree with the fiscal note on this bill, with \$1 million in credits expected to be issued in fiscal year '08-09 and \$3.5 million in 2009-2010. It will take some time to do effective public education on the new provisions of the law and engage donors and their financial advisors. EndowNebraska will take the lead on that work and will also aid the Department of Revenue in any way

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

we can in communicating the reservation process for the credits. I urge the Revenue Committee to advance LB983 to the floor for debate, and please support the passage of this very important legislation for all Nebraskans. Thank you and I will take any questions that you might have. [LB983]

SENATOR JANSSEN: Any questions? Seeing none, thank you, Maxine. Next proponent? [LB983]

DAVID PEIRCE: (Exhibit 10) Chairman Janssen and members of the Revenue Committee, my name is Larry Peirce, that's spelled P-e-i-r-c-e. I am a David City resident and I'm editor of the David City Banner Press newspaper. I want to tell you how the Nebraska charitable tax credit has benefited the residents of our area through the Butler County Area Foundation. I serve as a board member on that foundation. An 82-year-old retired mail carrier, Johnny Daro, made a gift to our foundation that qualified for the tax credit in 2006. He was so pleased with the results that he planned to make another gift in 2007, but he died before that was completed. His gift was small, a \$10,000 charitable gift annuity. And that illustrates how this incentive to give to the permanent endowments of Nebraska nonprofits can be used by Nebraskans of all means. Johnny's gift will help our rural community continue its efforts to attract young people back to their hometown. Butler County participates in the hometown competitiveness initiative that utilizes charitable giving to support leadership development, entrepreneurship, and youth engagement. Our leadership program with the University of Nebraska-Lincoln has graduated 50 of our residents in four years. We have probably another 18 or 19 this year. Last summer, we completed an entrepreneurship investigation camp for junior high kids in 4-H to encourage them to consider entrepreneurship as a way to start and grow their own business in our community. David City Aquinas, our local catholic high school, now has an entrepreneurship class for high school students, and our foundation funded the training of their teacher for that. The gifts of Nebraskans like Johnny Daro will provide many benefits to Nebraska communities in the future because of the tax credit the Nebraska Legislature established through LB28 in 2005 and LB1010 in 2006. I know firsthand the necessity of the Nebraska charitable tax credit. My work as a newspaper editor and as a member of the Butler County Area Foundation has given me opportunities to see a massive transfer of wealth that is occurring in the state. In 2001, the Nebraska Community Foundation completed analysis of both the magnitude and the peak of the transfer of wealth for Nebraska of each of its 93 counties. Based on these findings, NCF estimates that \$94 billion will be transferred in the next 50 years in rural Nebraska and that's 750,000 citizens. And \$258 billion will be transferred statewide. More important still is the timing with 86 of 93 counties experiencing their peak transfer on or before 2039. Twenty-six very rural counties will peak on or before 2014. I'm providing you with copies of the 2007 annual report of the Nebraska Community Foundation, which has the transfer of wealth information on the back page. In rural Nebraska, commonly referred to as land-rich and cash-poor, engaging the middle class in estate planning is essential

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

in order to capitalize on the transfer of wealth opportunity and to ensure that guests to the community are included as intergenerational wealth transfer occurs. If only a small portion of the transfer of wealth is given back to support the communities where it was made, the resulting endowments granted strategically could be transformational. There was a study and the urgency to encourage Nebraskans now to give charitably to their hometowns that drove the efforts to get the Nebraska charitable tax credits passed originally. The enhancements proposed in LB893 before you today will encourage many more Nebraskans to give back to their hometowns. The credit for irrevocable plan gifts is particularly important to those Nebraskans like Johnny who may not have a lot of cash available for annual giving, but they have assets like property, stocks, and paid up life insurance policies that can be placed in gift annuities or charitable remainder trusts. Then they can receive the income for life and then the assets will go to the nonprofit endowment of their choice. I urge the Revenue Committee to vote to advance LB983 to the floor for debate. Please support passage of this important legislation for all Nebraskans. Thank you. [LB983]

SENATOR JANSSEN: Any questions? Chris. [LB983]

SENATOR LANGEMEIER: I have to. As the editor of my district's newspaper, he's normally asking me questions, so I got to return the favor here. Very, very aware of the foundation that you sit on and I commend you for being a transplant to David City and being willing to sit on that for not being as they would refer it to a hometown boy there. So I want to commend you for that. What has happened since LB28 passed in 2006 as far as donations? Have they increased? In comparative to years in the past, have we seen an increase over the last two years? [LB983]

LARRY PEIRCE: Well, I would say for our foundation, Johnny Daro's gift is a major number that we've got. I'm not familiar with exactly the numbers that our foundation has. I think across the state it's made a difference and I would defer that question to the community foundation. But I do think that any incentive we can give people is going to make a difference. [LB983]

SENATOR LANGEMEIER: Thank you. [LB983]

SENATOR JANSSEN: Any other questions? Don't see any, Larry. Thank you. Next proponent, please? [LB983]

JIM NISSEN: (Exhibit 11) Chairman Janssen and members of the Revenue Committee, I'm Jim Nissen, N-i-s-s-e-n. I'm a resident of Lincoln and, although I'm officially retired, I continue to work part time with Wells Fargo Bank in community relations and business development. My wife Ginger and I are natives of Wayne, Nebraska. We are among the Nebraska taxpayers who have made charitable donations to the endowments of Nebraska nonprofits and qualified for the Nebraska charitable tax credit. Several years

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

ago, Ginger's mother, her brother and her sisters donated their historic family home to the Wayne County Historical Society. The family has long been involved in banking in Wayne and they were pleased to see the 1890 Rollie Ley mansion become the Wayne County Museum. But all of the volunteer efforts by the society did not provide for the maintenance and enhancement of the Ley Museum so that it could continue for generations with its turn-of-the-century architecture and artifacts. Unfortunately my wife's family did not provide for that maintenance and enhancement. In visiting with our tax advisor, he suggested a charitable gift annuity might provide for that maintenance and enhancement and we were pleased to do so and pursue that alternative. It seemed appropriate and prudent for Ginger, my wife, and me to create an endowment fund for the future maintenance of the museum. But we also hope and desire that our gift will motivate others in the spirit of giving and support, not only for the Ley Museum in Wayne, but for other institutions throughout the state of Nebraska. As a banker in Lincoln throughout my total career and a farm boy from Wayne County Nebraska, I know that the charitable tax credit can make an impact in communities of all sizes. Estate planning and raising awareness of the value of quality estate planning among leaders and prospective donors is critical because a large percentage of the transfer of wealth will occur upon the death of an individual. In 2002, the University of Nebraska-Lincoln conducted its rural poll of 6,500 rural Nebraskans. They found that 87 percent of respondents said they gave donations annually to local charities, but only 4 percent said they had included their community as a beneficiary in their estate plans. With its emphasis on planned giving, the Nebraska charitable tax credit can help motivate Nebraskans of all means to give to nonprofits and communities they have supported with their cash gifts and volunteer time. A new provision of LB983 will provide benefits for cash gifts by individuals and S corporations. It will encourage Nebraskans to give charitably to permanent endowments, even though they may not yet be able to or are not comfortable with giving an irrevocable planned gift. All of the enhancements contained in LB983 will help Nebraskans do good things through charity and thus do good things for Nebraska. I also believe that the proposed \$5 million cap on the total amount of charitable tax credits available each year is fiscally responsible and will give the Legislature a definite amount for which to budget. The present law without a cap makes it difficult to predict the fiscal impact. Ladies and gentlemen, I request your favorable consideration in advancing LB983 from the Revenue Committee and vote for this important tool to support all of the good things for our nonprofits throughout our state and our fellow citizens. Thank you very much. I would be happy to answer any questions as appropriate. [LB983]

SENATOR JANSSEN: Any questions? I don't see any, Jim. [LB983]

JIM NISSEN: Thank you, Chairman. [LB983]

SENATOR JANSSEN: Thank you for being here. Next proponent? [LB983]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

BARBARA BARTLE: (Exhibit 12) Chairman Janssen and committee members, my name is Barbara Bartle, B-a-r-t-l-e. I'm a resident of Lincoln and president of the Foundation for Lincoln Public Schools. I'm cochair of EndowNebraska, along with Mike Geis of the Nebraska Medical Center in Omaha. The bill for the Nebraska charitable tax credit was first introduced in the Legislature in 2004. That first bill had the benefits that are included in LB983: a \$10,000 maximum benefit for each taxpayer; \$20,000 for married filing jointly; and a 50 percent credit for the present value of an irrevocable planned gift. That benefit level will greatly improve the modest success of the tax credit in 2006. The Foundation for Lincoln Public Schools is well known for its programs that support student needs and help educators advance their curriculum. But we need to increase our permanent endowment to ensure that these needs will be met for future generations. The Champions Circle, a permanent endowment at the foundation, uses the Buffet-Gates philosophy of pooling funds for the greatest impact, putting the resources in the hands of those who can best address the needs. This living endowment gives the foundation flexibility throughout the years to meet needs that arise for the students in our schools. Champions Circle members are building for the future and leaving a collective legacy. The endowment will allow the foundation to fund unanticipated current and future underfunded programs, services, and projects that arise in Lincoln Public Schools. The dollars are applied where the need is greatest for students and teachers. The Champions Circle endowment will allow funds to be available for leading-edge innovation, helping pilot new ways to aid students and support schools' future needs. As demographics change, the endowment will provide innovation, equity, and balance. Kathy Thuman, president and CEO of rural banks in Maywood, Trenton, and Big Springs, was scheduled to testify before you today, but illness prevented her from doing so. She's also president of the Maywood Public Schools Foundation, which provides an excellent example of how nonprofit endowments can positively impact the lives of children. When the school aid to the Maywood school was decreased, the school foundation was able to provide needed supplies and even supported the salary of the teacher's aide. Other charitable endowments in Nebraska are providing for the maintenance of community buildings, parks and recreation facilities, healthcare institutions and education programs and services. But despite the 6,000 charities operating in Nebraska, very few have endowments. A search of GuideStar, which is the national database of nonprofits, shows that only 35 Nebraska nonprofits mention endowments. With the increase in benefits in the legislation before you, dozens--if not hundreds--of new endowments can be established. Nebraska's nonprofit organizations serve the public good and fill critical gaps not fully addressed by the business and government sectors. Endowments deliver a predictable source of funds so that important charitable works in our state can weather adversities that will inevitably impact our economy--including tax and revenue issues, and social and humanitarian crises. With a more effective charitable tax credit, donors will be encouraged to grow the endowments to sustain the work of these important organizations. We need all of the enhancements contained in LB983 to have a meaningful impact on the nonprofit endowments in our state. I'd like to conclude with

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

one of my favorite quotes from Mary Commers, who was a Lincoln Southeast English teacher for 30 years, retired now. She said: I believe no greater reward can be reaped than that of making contributions to our schools. How gratifying it is to know that you have participated in the preparation of our young people for effective, fulfilling careers. My personal goal has been reached when I learn that my donation may have helped a child attain that preparation. Thank you. [LB983]

SENATOR JANSSEN: Thank you. Is there any questions? I don't see any, Barbara. Thank you for being with us today. Next proponent? [LB983]

JIM WAGNER: (Exhibit 13) Chairman Janssen and members of the Revenue Committee, my name is Jim Wagner, W-a-g-n-e-r. I'm a resident of Lincoln and a life insurance agent with the MassMutual Financial Group. Over 50 charitable tax credit applications were filed in 2006 with the help of professional advisors, and only half of those filings were approved by the Nebraska Department of Revenue. I had the pleasure of helping a client make two donations of paid up life insurance policies to nonprofits in Nebraska. Both had face values of \$100,000, with cash values of approximately \$40,000 each. Paid up life insurance policies are easiest to donate to the irrevocable planned gifts allowed by the Nebraska charitable tax credit. It takes little effort to change the ownership and beneficiary of a policy to the permanent endowment of a Nebraska nonprofit. There certainly must be countless paid up life insurance policies owned by Nebraskans who could easily donate them in order to take advantage of this credit. But other forms of planned gifts are more complicated and can involve the professional services of an attorney, CPA, and bank trust department. The total fees could easily approach the maximum \$5,000 credit currently allowed. This is a disincentive for advisors who are best positioned to know when a gift like this can fit their client's financial world to even mention the issue. This is a huge loss of potential charity. That's why we need to increase the credit to \$10,000 per taxpayer, and increase the percentage credit on the present value of the planned gift from 15 percent to 50 percent. The client I worked with used life insurance policies that were provided by his business and no longer needed. Other business donations will be encouraged by other improvements provided by LB983. C corporations will be allowed a credit of 50 percent of an outright gift, up to a maximum of \$10,000. And S corporation, including partnerships and LLCs, will be able to receive \$10,000 in credits for 50 percent of the present value of planned gifts, and \$5,000 in credits for 25 percent of an outright gift. The credits will devolve to the shareholders and partners of the S corporations, partnerships, and LLCs. The importance of these credits for cash gifts is illustrated by the comments of Sara Boyd, vice president of the Omaha Community Foundation. "Since the passage of LB1010, I have had numerous calls from interested donors who did not understand that outright gifts did not qualify. Upon learning that outright gifts were not eligible, these donors who were not of the age to make a planned gift yet were all disappointed and confused as to what the tax credit even was. If we can't provide for more transparency in how to utilize the credit by making outright gifts eligible and

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

increasing the monetary incentive to actually be an incentive, we're doomed to determine at the sunset of LB1010 that we've failed to realize much. But if we don't take the opportunity to make this law meaningful, we haven't given it a fair chance to produce results. That's the true value of LB983." I believe that when LB983 is passed, financial advisors will be encouraged to share the new benefits with their clients and we will see a large increase in the number of credit applications filed in 2008 and beyond. The enhanced Nebraska charitable tax credit will keep more wealth in Nebraska by encouraging donors to make their charitable gifts here, rather than to out-of-state organizations. I urge you to vote to advance LB983 and encourage all of our state senators to vote for its passage. Thank you and questions? [LB983]

SENATOR JANSSEN: Any questions? I don't see any. Thank you, Jim. Next proponent? [LB983]

RON SEDLACEK: Good afternoon, Chairman Janssen and members of the Revenue Committee. My name is Ron Sedlacek, R-o-n S-e-d-l-a-c-e-k. I'm here today on behalf of the Nebraska Chamber of Commerce in support of LB983. I believe you've had three or four explanations of the mechanics of the bill, and I won't belabor you with an additional one and not be repetitive. Other than to mention that the state chamber has been supportive of this program since its inception when it was an idea. We were supportive of LB28, as well as LB1010, and would like to recommend this committee to please consider this bill seriously, advance the bill. It is a priority bill this session and we appreciate Senator Cornett, too, in her continuing interest in promoting this legislation. Believe the cap gives a good handle for the expansion involved here in this particular program and it gives you predictability. [LB983]

SENATOR JANSSEN: Any questions? Don't see any, Ron. Thank you. [LB983]

RON SEDLACEK: Thank you, Senator. [LB983]

SENATOR JANSSEN: Next proponent? [LB983]

BOB HALLSTROM: Chairman Janssen, members of the committee, my name is Robert J. Hallstrom. I appear before you today as a registered lobbyist for the Nebraska Bankers Association, H-a-l-l-s-t-r-o-m. The Bankers Association has been supportive of this legislation since its inception and is here today to go on record in support of LB983 as well. I think you can see from the involvement of bankers, both in terms of making contributions and being leaders in their community, that they are supportive and also involved in the community foundations across the state. And we want to lend our support to the bill and would encourage you to advance it to General File. Thank you. [LB983]

SENATOR JANSSEN: Any questions of Mr. Hallstrom? I see none, thank you, Bob.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

[LB983]

BOB HALLSTROM: Thank you. [LB983]

SENATOR JANSSEN: Next proponent? Any opponents? Anyone in a neutral position? Senator Cornett waives closing. That ends the hearing on LB983 and the hearings for the day. Thank you all for attending. [LB983]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
February 21, 2008

Disposition of Bills:

LB714 - Indefinitely postponed.
LB770 - Indefinitely postponed.
LB894 - Held in committee.
LB983 - Advanced to General File, as amended.
LB1140 - Indefinitely postponed.

Chairperson

Committee Clerk