

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

Revenue Committee
January 26, 2012

[LB970]

The Committee on Revenue met at 1:30 p.m. on Thursday, January 26, 2012, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB970. Senators present: Abbie Cornett, Chairperson; LeRoy Loudon, Vice Chairperson; Greg Adams; Lydia Brasch; Deb Fischer; Galen Hadley; Pete Pirsch; and Paul Schumacher. Senators absent: None.

SENATOR CORNETT: Good afternoon and welcome to the Revenue Committee. Before I begin today, I'd like to introduce the members of the committee. I am Senator Abbie Cornett from Bellevue. Vice Chair LeRoy Loudon from Ellsworth will be joining us shortly. Senator Deb Fischer from Valentine and Senator Greg Adams from York are to my immediate left. On my far right will be Senator Schumacher from Columbus; Senator Lydia Brasch from Bancroft; Senator Pete Pirsch from Omaha; and Senator Galen Hadley from Kearney. The research analyst today is Stephen Moore, to my right; and on my far left is committee clerk Matt Rathje. The pages today are Michael Killingsworth and Matt McNally. Before we begin the hearing today I would please ask everyone to turn your phones to either silent or vibrate while you're in the hearing room. Sign-in sheets for everyone wishing to testify are on the tables by both back doors and need to be completed prior to coming up to testify. If you are testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form. When you come up, hand it to the committee clerk prior to testifying. There are clipboards in the back of the room to sign in if you wish to indicate either your support or opposition to a bill. This will be included in the official records. We will follow the agenda posted on the door. The introducer or representative will present the bill, followed by proponents, opponents, and then neutral testimony. Only the introducer will be allowed closing remarks. As you begin your testimony, please state and spell your name for the record. If you have handouts, please bring ten copies of the handouts for committee and staff. If you have not brought handouts, we will make them for you. When you come up to testify, please hand the handouts to the committee clerk. With that, Senator Fischer will be taking over.

SENATOR FISCHER: Thank you, Senator Cornett. I would like to open the hearing on LB970. Senator Cornett, you are recognized to open. Good afternoon.

SENATOR CORNETT: Good afternoon. Good afternoon, members of the Revenue Committee. My name is Senator Abbie Cornett, C-o-r-n-e-t-t, from Bellevue. I represent the 45th Legislative District. LB970 would reduce three separate taxes. First, the individual state income tax rate would be reduced by lowering current tax rates and expanding current income brackets. The new individual income brackets and lower rates would allow a family of four to save money for their children's college education or help pay off bills at the end of the month. A single working...a 25-year-old can have more of his or her own income to save, invest, or just to have fun with. The bill would

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

Revenue Committee
January 26, 2012

also reduce the current top corporate income tax rate from 7.81 to 6.7, which would match the top individual income tax rate under the proposal. This reduction would help our competitiveness for business development and future growth. Businesses currently located in the state could potentially add a position or positions or expand with the money saved by this reduction. Finally, the bill proposes to repeal the inheritance tax in its entirety. This is a tax that is imposed upon beneficiaries of decedents. In 2007, the state of Nebraska repealed the estate tax, which was the tax that had been imposed upon assets of a person who passed away. This would mean the family farm would be able to be passed down to the next generation without having to worry about a significant tax bill to go with it, making it difficult for the farm to continue running. I've spent a significant portion of the last years looking at the expansion of the individual income brackets and relief for Nebraska families and of the lowering of the corporate income tax rate so we can draw new businesses to this state. I believe this bill will add jobs, make Nebraska competitive for business and for the careers of our children. Governor Heineman and the Tax Commissioner, Doug Ewald, are going to testify after me and will be providing a more in-depth view of the bill and what it is intended to accomplish. Thank you for your time and consideration today on LB970. And I would be happy to answer any questions. [LB970]

SENATOR FISCHER: Thank you, Senator Cornett. With that, I will turn the hearing over to Vice Chair LeRoy Louden who has joined us. Senator Louden. [LB970]

SENATOR LOUDEN: Thank you. Questions for Senator Cornett? Seeing none, thank you, Senator Cornett. Would the first proponent for LB970...welcome, Governor. [LB970]

DAVE HEINEMAN: (Exhibit 1) Good afternoon, Senator Louden, members of the Revenue Committee. For the record, I'm Dave Heineman, D-a-v-e H-e-i-n-e-m-a-n, Governor of Nebraska. I'm pleased I could help attract a crowd for you today. (Laughter) And I'm pleased to be here in support of LB970. And I want to thank Senator Cornett for her leadership and her vision regarding this bold, middle-class tax relief plan. You have my prepared remarks, which I will not...which I'm not going to speak from. But I want to add a few additional comments. As Senator Cornett mentioned, there are three components to this tax relief plan: first, income tax relief for hardworking middle-class Nebraskans. Nebraska's income tax system is unfair to middle-class families because if your adjusted gross income is greater than \$54,000 a year, you pay at the same marginal rate as Warren Buffett. I want to emphasize that Senator Cornett and I focused our efforts on the middle class. And 75 percent of the tax relief in this plan goes to middle-class Nebraskans with a combined adjusted gross income of less than \$150,000. Commissioner Ewald will provide more details on that particular issue when he testifies. As Senator Cornett mentioned, the top corporate tax rate is being reduced to the top individual tax rate to help small businesses grow. Third, our plan repeals the inheritance tax. In spite of all the noise on this issue, it is good tax policy to repeal the

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

Revenue Committee
January 26, 2012

inheritance tax. This repeal completes the elimination of the death tax. Forty-two states do not have an inheritance tax and this puts Nebraska at a competitive disadvantage. It hurts Nebraska in the Tax Foundation rankings and the inheritance tax portion is part of their property tax evaluation. As you heard Senator Cornett say, it's important to farmers, ranchers, and small businesses. Overall, since 2006 Nebraska's Tax Foundation ranking has improved from 45 to 30. That's good progress, but we're still in the bottom half and we know we can do better. Counties will argue that losing the inheritance tax revenue will force them to raise property taxes. But it doesn't have to be that way. I appreciate their challenge. I've served in local government. They should follow our model. Four years ago we eliminated the estate tax. The lost revenue from that is \$115 million. We didn't complain, we didn't cry, we didn't increase income or sales taxes. We controlled our spending. Additionally, in fiscal years 2009 and 2010 state revenues actually declined and yet we balanced our budget without raising taxes. At the local level, however, property valuations have generally continued to increase. Finally, some will argue the state can't afford tax relief, but that's simply not true. Our General Fund financial status for FY '14 and '15 assumes a 2.8 percent basic budget growth. And then when you add in the normal transfers that we do for securities, insurance, and tobacco products, the projected budget growth is 3.3 percent. And I want to emphasize, the average state budget growth for the last ten years has been 3.2 percent. The choice for us is clear: tax relief for hardworking middle-class Nebraskans, or more spending for special interest groups. I hope you'll join Senator Cornett and me in providing tax relief for our middle-class families. Thank you. And I'll be glad to answer any questions. [LB970]

SENATOR LOUDEN: Questions for Governor Heineman? Senator Adams. [LB970]

SENATOR ADAMS: Thank you, Senator Louden. Governor, thank you for being here. It's not unusual to have those that bring these bills don't show up, they have somebody else do that, so thank you. I have two or three things on my mind. And if you can respond to them I wish you would;... [LB970]

DAVE HEINEMAN: Okay. [LB970]

SENATOR ADAMS: ...if there is somebody else, Mr. Ewald or somebody else that can. In your mind as you put this together, did the timing at all come into the picture? We're in the second year of a biennium. Next year we rebuild budget and we will have better forecast on revenues...I guess my first question is, what about the timing of this, second year in a biennium? [LB970]

DAVE HEINEMAN: Well, first of all, I look at every opportunity every year that we have a chance to provide tax relief. And the first question I always ask myself is, can we afford it? I spent the greater part of this summer and this fall going over at a very high level the next two-year budget for FY '14 and '15 to make sure we could afford this,

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

Revenue Committee
January 26, 2012

because the last thing I want to do is suggest we have tax relief this year and then we have to increase taxes next year. All the work we did, I am convinced that we can still prioritize education and job creation and fund this tax relief package. So the timing has to do with when can we afford it and, secondly, we've made a lot of progress. I want to continue to move Nebraska boldly into the future. I think this helps us, particularly as we look at what's going on in the economy. [LB970]

SENATOR ADAMS: Thank you. And I don't remember the exact number, but it seems like we were into the \$600 million-plus Cash Reserve position when we started into some of our revenue...serious revenue downturns. Are you concerned at all that if we were to do something like this, given the fiscal note that's attached to it, that we won't have the Cash Reserve that we may need? And let me combine that with one other question. Are you at all concerned about the sensitivity yet of the economy and what could happen to our revenue picture? [LB970]

DAVE HEINEMAN: Yes, I'm always concerned about the sensitivity of the economy. And I'm proud of how we've worked with all of you to put Nebraska in this very enviable position with the second lowest unemployment rate in America at 4.1 percent, top ten business ranking in almost every ranking that occurs out there. And we did that, you've heard me say before, because we modernized our incentives, we lowered taxes, we balanced our budget without tax increases. So, yes, I'm always sensitive to that. And we had built up our Cash Reserve. That made the real difference when we had the downturn. That's why I said, for example, the projected Cash Reserve at the end of this two-year cycle is supposed to get to about \$415 million. I'd like to see it get back up to where we were, \$500 million, \$550 million. So when the University of Nebraska proposed those capital construction projects, \$91 million, maybe a little bit more, I stood up right away and said, hey, they may have merit but bad timing; let's wait at least a year, because they want to take it out of the Cash Reserve. None of what I'm proposing is coming from the Cash Reserve. And remember, this past year our revenues grew by \$349 million. Our three-year plan for tax relief is \$327 million. So again, I believe we can afford it. I'm very sensitive to those numbers. I don't think any Governor has worked as hard as I have on these budgets, to keep them in balance, to make sure we're investing in education and job creation, because I want to keep our kids here and I want to make sure families are moving here because we have the jobs. [LB970]

SENATOR ADAMS: Thank you. [LB970]

SENATOR LOUDEN: Other questions? Senator Pirsch. [LB970]

SENATOR PIRSCH: Thank you, Governor. In looking at your proposal, a three-pronged proposal, there is a number of different ways in which tax relief can be effectuated. Can you speak to a little bit of the way, why these three particular prongs among other prongs were chosen? Was the underlying basis more in terms of tax fairness or was it in

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

Revenue Committee
January 26, 2012

terms of looking at future job creation and bringing that kind of incentive to the table?
[LB970]

DAVE HEINEMAN: Senator, working with all of you, we've made great progress. When Senator Cornett and I sat down, probably nine, ten months ago, we talked about the principles that we were looking for--how do we continue to move Nebraska forward and, as she mentioned, particularly job creation, how do we continue to create more jobs in the future. We also talked about tax fairness. That's why you repeal the inheritance tax. That's why you expand the brackets and lower the rates and focus it on the middle class. So those were all issues that we talked about in the development of this. And then the third issue, going back to what Senator Adams had mentioned, was to make sure we could afford it. Hey, I would love to do a bigger tax package. But I wanted to make sure that we could afford it. [LB970]

SENATOR PIRSCH: Thank you. [LB970]

SENATOR LOUDEN: Other questions for the Governor? I have one, Governor. And I probably can live with most of this tax package, as I say, except probably Section 1. That's inheritance tax. And, of course, as you know, I represented counties out west that were at their max as far as levy. [LB970]

DAVE HEINEMAN: Right. [LB970]

SENATOR LOUDEN: And they've depended on that inheritance tax for their rainy day funds and stuff. And, you know, if we give that away, that wasn't our money. That was their money. How do we help them through any of these crises when we have these counties that are at 47 cents or 48 cents on a dollar and they get a blizzard, bridges, whatever? [LB970]

DAVE HEINEMAN: Uh-huh. [LB970]

SENATOR LOUDEN: Where do they go for funding for that? I mean, the only alternative they have is to raise property tax. [LB970]

DAVE HEINEMAN: Well, here's what I'd share with you. First of all, it's state tax policy and we ought to implement what's good tax policy. The state decides this, okay? And again, when you look at what's going on around the country, if we want to be competitive, and I haven't talked to many farmers and ranchers, in fact the Nebraska Farm Bureau and the Nebraska Cattlemen did a news conference with me of how difficult this inheritance tax is, particularly as you think about beginning farmers and ranchers getting into the business. The good tax policy is what we need to do. And so I think that has to be the focus. Again, look at what we've done in state government. We prioritized our spending. We've had to say no to a lot of people. Again, I've served in

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

Revenue Committee
January 26, 2012

local government. We're going to have to find a way to say no. I'd also, you know, hey, we're willing to look at the tax package in terms of how you phase it in. But it needs to get eliminated. We did it for the estate tax. And again, I didn't cry to anybody or complain, and neither did any of you, about losing the \$115 million we've already lost relative to the estate tax. So I just think we've got to work this out and hopefully we can do it. [LB970]

SENATOR LOUDEN: Is there any way, I mean the fiscal note is \$51 million, a little over. Is there any way that we can tell how much of that \$51 million will be from corporate income or income taxes and all of that? And how much of it would come from doing away with the inheritance tax? Because I suspicion that the inheritance tax isn't figured into this \$51 million. Is that correct on the fiscal note? [LB970]

DAVE HEINEMAN: Well, I think your fiscal note deals with the inheritance tax portion, which, personally, I think is a little high relative to that. When I've heard the figures, I think for Douglas County may be around \$10 million, Lancaster something a little less than that. Exactly how you get to \$51 million I'm not sure. But I believe you'd have to ask the Legislative Fiscal Office about that. [LB970]

SENATOR LOUDEN: To see if they figured that in when they did that? [LB970]

DAVE HEINEMAN: But I think that's pretty much, from what I know, focused on the inheritance tax. [LB970]

SENATOR LOUDEN: Okay, thank you. Other questions for Governor Heineman? Seeing none, thank you for being here today, Governor. [LB970]

DAVE HEINEMAN: Thank you. [LB970]

SENATOR LOUDEN: Next proponent. [LB970]

DOUG EWALD: (Exhibits 2 and 3) Vice Chair Louden, members of the Revenue Committee, my name is Doug Ewald. That's D-o-u-g E-w-a-l-d, Tax Commissioner of the Nebraska Department of Revenue. I appear before you today as a proponent of LB970. As previously mentioned by Senator Cornett and Governor Heineman, this tax relief package would reduce income tax rates for all Nebraskans. It would widen income tax brackets, reduce the corporate income tax rate, and eliminate the inheritance tax. Governor Heineman's tax relief initiative will ensure Nebraska remains competitive with other states, while also providing meaningful tax relief for Nebraska families and businesses. Right now I'd like to break down the individual components a little bit for you. The individual income tax relief portion, LB970 reduces income tax rates for all Nebraskans. It also broadens each income tax bracket, reducing the tax burden. I've distributed a chart that highlights the changes in the rates and brackets compared to the

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

Revenue Committee
January 26, 2012

current rate and bracket structure. And that's this particular exhibit here that shows what we currently have in statute today versus what's proposed in the Governor's package. I guess I might elaborate a little bit here. When people talk about their marginal tax rate or the tax bracket they're in, if somebody today is making \$37,000, married filing jointly, they're in the 5.12 percent tax bracket. And that's how it's kind of referred to. That's their top marginal rate, where does that last dollar of income hit relative to what tax brackets today. And you can see there, we change from the 2.56 percent goes to 2.42 percent, 3.57 percent goes to 3.40 percent, the 5.12 percent goes to 4.90 percent, and the top bracket goes from 6.84 percent to 6.70 percent. And along with this, we stretch out those brackets so we have more income taxed at lower rates. So we widen those brackets with the greater percentage of income at those lower rates. The changes to the rates and brackets will result in significant tax relief for all Nebraska families and for Nebraska small businesses that are taxed as individuals, sole proprietors, partnerships, and S corporations. The fiscal impact of the individual income tax portion here is estimated to result in a reduction of tax revenues of approximately \$45.3 million in fiscal year '12-13, a little over \$111 million in fiscal year '13-14, and then I believe about \$117 million in '14-15, and \$123 million roughly in '15-16. I've also included in my testimony a little comparison with respect to our surrounding states. You can take a look at that chart if you will. We always focus on who our surrounding states are, because obviously in a lot of situations that's who we compete against for a lot of projects, where a lot of states in the Midwest have similar, I'll say, similar amenities, similar types of attributes, agricultural base, those type of things, and we compete for projects with those states in the Midwest. So that little chart there kind of allows you to see how we compare with the surrounding states, if you will. With respect to corporate income tax relief, LB970 also reduces corporate income tax rates on an income exceeding \$100,000 from...changes the rate from 7.81 percent to 6.7 percent. That matches the top individual rate under this bill. The tax rate for income at or below \$100,000 remains at the current 5.58 percent. LB970 will allow all Nebraska businesses, regardless of type, to only be subject to the top tax rate of 6.7 percent. Overall, LB970 will reduce the income tax liability for corporations by a little over 13 percent. The fiscal impact of the change with respect to corporate income tax rate reduction is basically \$6.5 million, \$6 million in the '12-13 fiscal year, a little over \$18 million in the '13-14, and \$25 million in '14-15, \$26 million in the fiscal year after that. So that kind of alludes to the question you had, Senator Loudon, with respect to the components of this particular package and the fiscal impact of each particular component. Also, at the bottom of that page of my testimony I have a comparison to surrounding states with respect to corporate income tax rates. The last piece is inheritance tax. LB970 repeals the income (sic) tax. As you know, the inheritance tax is imposed by the counties and does not impact the General Fund. Our best estimates with respect to this item...and this comes from our State Auditor's Web site, because they are the ones that go out and do the audits of the counties. And we know that this money can...the amount of money raised by the inheritance tax can fluctuate widely from year to year, depending on the value of people's estates when they are deceased and how that money is transferred, obviously. But we think it's

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

Revenue Committee
January 26, 2012

somewhere in that \$40 million to \$45 million range. There's probably somebody here from NACO, Larry Dix or somebody, who might be able to give a little bit better number with respect to that. But this is as it relates to information we were able to pull off the State Auditor's Web site. And, Senator Louden, that particular piece there is not in the fiscal note on this particular bill. And it's also important to note on the corporation side, there's a little bit of benefit there on the financial institution tax, because they pay the higher of the two from that standpoint. But the last page of my testimony kind of summarizes the impact by year of this particular bill. The income tax provisions of LB970 are operative for tax years beginning on January 1, 2013. So we're looking a year out here from that standpoint. And the revenue impact is based on the October 2011 revenue forecast. And the revenue impact assumes that the department issued...will issue updated withholding tables effective January 1, 2013. Therefore, beginning January 1, 2013, taxpayers will have less money withheld from their paychecks, whether they're paid weekly, biweekly, monthly, something along those lines. That concludes my formal remarks. At this point in time, I'd be more than happy to answer any questions you might have. [LB970]

SENATOR LOUDEN: Questions for Director Ewald? Senator Adams. [LB970]

SENATOR ADAMS: Thank you, Senator. Mr. Ewald, I'm going to ask something of a loaded question because I'm the one that has to answer it for myself before this session ends. And I'm looking at the corporate income tax side. Yesterday, we heard from a Nebraska-based company that is ag technology. They exist, they've grown here in Nebraska, and there is a threat of them moving if they don't get sales tax exemptions. It wasn't but two or three weeks ago some of us in the Revenue Committee had an opportunity to sit down with a company that has got us narrowed down between Nebraska and Iowa. And it's all about sales tax exemptions. I specifically asked both of those companies, what about income tax? We don't care. It's about sales tax. So you can respond if you want to; you don't have to. I'm thinking out loud here. So if we're going to give a break, do we do it on the sales tax side or the corporate side? I don't think we can afford to do both. [LB970]

DOUG EWALD: Well, I guess I think from...it's a tax policy decision and, obviously, the devil is in the details. With respect to somebody wanting a sales tax exemption, maybe highly profitable from...as a corporation and paying a lot of income tax. That's what I don't know, that's what you don't know. That's some confidential information that the company may or may not share with us. With respect to one being preferable to another, it is tax policy, obviously. It's a situation that we want to attract high quality jobs here in the state. And I'm aware of the ones you're talking about there and what they do here today or don't do and what they want to bring as added investment to our state. And that's that fine balance I guess, if you will, with respect to tax policy: how much should rates be, how broad should the brackets be, what should be taxable and what should be exempt. So that's I guess that fine balance. And I know I didn't necessarily

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

Revenue Committee
January 26, 2012

answer your question,... [LB970]

SENATOR ADAMS: Well, I didn't expect you to. [LB970]

DOUG EWALD: ...but that's part of your task and the Governor's task here as well, obviously. [LB970]

SENATOR ADAMS: Right, that's our problem. Thank you though. [LB970]

SENATOR LOUDEN: Other questions for...Senator Fischer. [LB970]

SENATOR FISCHER: Thank you, Senator Louden. Thank you, Director, for being here. In your comments on the corporate tax, I see that we are lowering or this proposal lowers the corporate tax for the higher rates, but it remains the same for those that are below that \$100,000 mark. It remains at 5.58 percent. What is the policy consideration there? And why wasn't it lowered for those that have income below that \$100,000? [LB970]

DOUG EWALD: Well, I think the...what I heard the Governor say is that he would love to do more tax relief if it was feasible from that perspective. The lower bracket seems to be competitive with the lower bracket maybe in some other states surrounding us in particular. The top bracket, when you look at that 7.81 percent, seems to be a little bit of an outlier I guess, if you will, when you look at some of the other states that we compete against. And it's probably one of the...when you look at the corporate rate and how the Tax Foundation ranks us, it's probably where we get dinged the most on the corporate side, is the higher corporate rate. [LB970]

SENATOR FISCHER: You mentioned the Tax Foundation. I know the State Chamber uses a variety of different organizations that rank the state of Nebraska. Do you look at different organizations that do that or do you look at the Tax Foundation? What do you use? And how do you think this package affects Nebraska's rankings within those different groups that rank us? [LB970]

DOUG EWALD: Well, I think the Tax Foundation is probably the one that's the most well known from that perspective. It's the one that's most out there in the public. With respect to how they evaluate, they're known for doing a lot of very good due diligence. What this particular tax package does with our rankings in the Tax Foundation, and it's ultimately what it could do, let me put it that way, because we don't know what other states are going to do in the meantime. And that's all factored into their calculations and their analysis. But I see a couple things. I see, on the corporate side, lowering that top marginal rate is definitely very favorable for us in the corporate income tax component of their rankings. The other piece of it with respect to individual side, lowering the top marginal rate for individuals, while in this case it might be just very slight, would have a

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

Revenue Committee
January 26, 2012

positive impact for us as well. And the property tax component of the ranking from the Tax Foundation, that would be the inheritance tax piece. So we're looking to, I'll say, improve three of the categories out there today with respect to their rankings. [LB970]

SENATOR FISCHER: So under this proposal we're going to see our rankings improve for income and the corporate, correct? [LB970]

DOUG EWALD: Well, I say we could... [LB970]

SENATOR FISCHER: You anticipate we would. [LB970]

DOUG EWALD: We could, depending on what other states do, obviously, with respect to that. But... [LB970]

SENATOR FISCHER: And you anticipate Nebraska would rank higher if we eliminate the inheritance tax with regards to property tax. Is that correct? [LB970]

DOUG EWALD: That's correct. And that is... [LB970]

SENATOR FISCHER: But that...does that take into account if any counties would need to raise property taxes to make up for that loss? [LB970]

DOUG EWALD: I think there's a little bit of balancing that could take place there, depending on how the Tax Foundation looks at that. With respect to the inheritance tax itself, what they basically look at, it's not the rate, it's basically do you have it or do you not have one. So it's either a yes or no. [LB970]

SENATOR FISCHER: Okay, thank you. [LB970]

SENATOR LOUDEN: Senator Pirsch. [LB970]

SENATOR PIRSCH: Thanks. And I appreciate your testimony here today. And I think you're quite right, it's a matter of tax policy that we're confronted with here today insofar as there is a finite amount of funds that we can utilize and how to get the best bang out of our bucks, limited bucks. And so for me...and there's a number of different compelling kind of ideologies about what should tax policy be based on. But for me, I think the bottom line for me is attracting and maintaining people and jobs to the state has to be right there at the top. And so the method, the three prongs that have been selected here, could you comment on...have other states, when companies are looking at expanding a business or adding jobs, are these included in the rankings in which they look to primarily to decide where to expand those jobs? I guess just getting a flavor for it, is this what other states are doing in terms of picking, you know, individual income tax, corporate income tax, and the inheritance tax, and keying on for future growth of

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

Revenue Committee
January 26, 2012

the state? [LB970]

DOUG EWALD: Yeah. Great question, Senator. And coming from the private sector, I can elaborate a little bit on that, that tax rates are important to businesses when they're looking to...for places to expand or new places to build an operation. And a great example here is we know that when we have a competitive tax structure and we're favorable to the business community, favorable business climate, we're more apt to attract other feeder businesses. You bring one type of business here, you have a bunch of ancillary-type businesses that come. And that is good for the general pool of all businesses in the state. We're attracting high-end jobs. And then businesses are competing for workers, which ends up what? Driving up salaries. You know. People, you know, one of the things I look at is I don't mind paying state income tax. The more I pay the better I like it. Why? Because that means I've had a really good year, I've been successful in what I'm doing. So states actually look at that. Another great example of something going the other way here is what the state of Illinois did last year. They increased their corporate income tax by two-thirds, their individual income tax rate by 60 percent. You see the major companies, the CEOs in Illinois coming out and they're in an uproar saying, you're killing us here. If we could relocate we would. And some are relocating. So it basically gives the state of Illinois a bad taint with respect to we're not open for business, from that perspective. So that's the message that that sends. As we continue to improve our rankings and be more competitive, we can see that we're going to have more businesses here, we're going to have better jobs for Nebraskans, and we're going to have more Nebraskans in the long run. [LB970]

SENATOR PIRSCH: And these three items in particular are major drivers of job location? [LB970]

DOUG EWALD: Well, they're major drivers in the Tax Foundation rankings, let me put it that way. And that's the things that companies evaluate when they're looking to expand or relocate. [LB970]

SENATOR PIRSCH: Okay. Thank you. [LB970]

SENATOR LOUDEN: Senator Brasch. [LB970]

SENATOR BRASCH: Thank you, Chairman. Thank you, Commissioner Ewald. I commend the ability that we would have to help middle-class, working citizens here, because it's their taxes. And my experience along the Missouri River flooding, two of my three counties experienced, it was the middle-class people who were displaced that were affected the most. They were living paycheck to paycheck with extreme hardships. The NEMA funds came in fine, they were a little delayed. This weekend I did have many conversations with both the county officials and also citizens in all three counties. And I guess my applause would be to give more people more jobs. But at the same time

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

Revenue Committee
January 26, 2012

would this affect any emergency services that the state, you know, should we have another natural disaster? I mean, our General Fund would be the General Fund. It's just, hopefully, we get more jobs, we grow the tax base. I believe that's the thought here, we attract businesses; better, higher paying jobs. Our communities, they pay...they help the counties grow. They buy houses, they buy groceries. And I believe that's the general concept or are there any thoughts about emergencies? [LB970]

DOUG EWALD: What I heard you say is there is nothing in this bill that basically helps with emergency or disaster-type situations. [LB970]

SENATOR BRASCH: Right. [LB970]

DOUG EWALD: That was the one question I heard you have in there. And, obviously, we want strong communities across the entire state of Nebraska. And we hope that this...we don't care whether you live in Chadron or in Omaha or Hastings or Kearney, from that standpoint. We want a competitive environment for the state of Nebraska. And we know there's a number of projects, and Senator Adams alluded to that there are lot of businesses looking to come to Nebraska in small communities across the state of Nebraska. So we want a healthy state of Nebraska east to west, north to south, from that standpoint. And we think that this piece of legislation helps us become more attractive, more competitive, and a healthier state from that perspective. [LB970]

SENATOR BRASCH: And the end result would be helping the counties? [LB970]

DOUG EWALD: I think, I mean, your...I think to the extent that people are able to buy more homes and create more value in the counties they live in, which results in more property taxes or more value, that's the way we get positive for the counties, in my mind. [LB970]

SENATOR BRASCH: Thank you, Commissioner. [LB970]

SENATOR LOUDEN: Senator Schumacher. [LB970]

SENATOR SCHUMACHER: Thank you for being here, Commissioner. I've got a couple of questions. First of all, on the figures on your chart on income tax, is that adjusted gross income after removal of federal deductions and federal exemptions? Is that what we're figuring that on? [LB970]

DOUG EWALD: On which... [LB970]

SENATOR SCHUMACHER: It's the chart that says "current proposed." [LB970]

DOUG EWALD: Actually, this is actually...this would be taxable income. So... [LB970]

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

Revenue Committee
January 26, 2012

SENATOR SCHUMACHER: That's after...based on after the federal numbers, federal deductions? [LB970]

DOUG EWALD: Correct. Nebraska starts with the federal adjusted gross income. But this here is basically the tax rates and brackets for the amount of income that's subject to tax in the state of Nebraska. [LB970]

SENATOR SCHUMACHER: Okay. Then, seems to me on the tax calculation, once you get through at the \$60,000 mark, you move into having to use these manual calculations based on these forms. And then above that, at a certain point, and I don't recall what it might be, but there's a bonus tax, a little kicker if you make above that limit. Do you...that is calculated when you figure your income taxes. Is that tax going away, too, or is that kicker going to still remain? [LB970]

DOUG EWALD: When you say...but I don't know what you allude to when you say a bonus or kicker tax there. [LB970]

SENATOR SCHUMACHER: There's a small tax, not small, depending on how you look at small, once you use the chart to calculate your taxes, you know, married, adjusted gross income, you pay so much. Then the tax booklet instructs you at a certain income level to make another calculation in which you're making another addition to taxes. [LB970]

DOUG EWALD: Well, I think what that does, that's the difference between using the tax tables versus flat out using the...when you get over a certain income level you move from the tax tables, which basically say if your income is between this hundred and that hundred, you walk across, whether you're married filing joint, head or household or single, and you pick out a tax number versus...which basically goes to a tax calculation over a certain level. Well, and the reason we do that, we can't print an infinite number of tax brackets anyway... [LB970]

SENATOR SCHUMACHER: Okay. And maybe this is... [LB970]

DOUG EWALD: ...in the form. So that basically, that calculation basically mirrors what you see in the tax tables in the booklet. [LB970]

SENATOR SCHUMACHER: Except that when you get through with that calculation, the manual calculation, because you're out of the table range, there is now another tax that adds on to that. And maybe it's just...I'd be interested in the answer to that question. I realize it might be a little bit technical and involved, but I think there's another tax rate that comes in after that. My question is, and if you can answer it later that's fine, whether that goes bye-bye too. [LB970]

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

Revenue Committee
January 26, 2012

DOUG EWALD: Okay, I'm not aware of that other tax rate that comes in I guess. [LB970]

SENATOR SCHUMACHER: Okay. And I think if you look at the tax booklet it jumps out at you if you get into there. Next question regarding the inheritance taxes, the inheritance taxes are calculated at three particular levels. [LB970]

DOUG EWALD: Correct. [LB970]

SENATOR SCHUMACHER: One level is for lineal descendants, brother and sisters and parents. That tax level gets you a \$40,000 per-person deduction, and then 1 percent, a relatively small amount that in 30 years of practicing law I've never heard anybody complain about. Then the next level is the...you get \$15,000 deduction, 13 percent, and that's for nieces and nephews and what they call remote relatives. And then the third level is I think a \$10,000 deduction and 18 percent, and I think that's jokingly referred to as a mistress tax, when you give your estate to somebody who is totally unrelated. [LB970]

DOUG EWALD: That's nonrelatives, correct. [LB970]

SENATOR SCHUMACHER: Right. Now of those three different categories, how much of this is in Class I lineal descendants, raised from them? How much from nieces and nephews, and how much for mistresses? [LB970]

DOUG EWALD: That would be a great question for the county officials. We don't collect that information. I don't collect that information at the state. [LB970]

SENATOR SCHUMACHER: Okay. So we don't know, I mean, how much, if we knocked out the mistress tax, how much that affects the numbers or if we made it exclusively a mistress tax? [LB970]

DOUG EWALD: I have no data to support any of those brackets. The numbers in gross that we took off were off the State Auditor's Web site, based on their audits. So I don't have the answer to that question. We don't have that data. [LB970]

SENATOR SCHUMACHER: Okay. But the counties might? [LB970]

DOUG EWALD: The counties might. [LB970]

SENATOR SCHUMACHER: Okay, or maybe the court system, since that's where it's calculated? [LB970]

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

Revenue Committee
January 26, 2012

DOUG EWALD: That's possible. [LB970]

SENATOR SCHUMACHER: Just so I understand that I'm doing my numbers right, I didn't bring my calculator with me and they've outlawed us having Apple computers or anything like that here. (Laughter) But as I understand it, for a family making \$30,000 a year, this would save them about 50 bucks a year. Is that...am I doing my numbers right? [LB970]

DOUG EWALD: Yes, I believe your numbers are correct from the standpoint that their reduction, they get the largest percentage reduction, and that is, in this particular example, about \$50, correct. [LB970]

SENATOR SCHUMACHER: Okay. And if I were making a quarter of a million dollars a year, I would get about \$350. [LB970]

DOUG EWALD: You would get actually about \$450, but you're only going to get a 3 percent change. [LB970]

SENATOR SCHUMACHER: A 3 percent or 3... [LB970]

DOUG EWALD: A 3 percent reduction. [LB970]

SENATOR SCHUMACHER: Three percent reduction, but my tax rate is about the same regardless here, about point... [LB970]

DOUG EWALD: Correct. [LB970]

SENATOR SCHUMACHER: Yeah. So actually, the one party would make about \$50 and the quarter of a million dollar party would get, what was the number again? [LB970]

DOUG EWALD: For a...excuse me, get the right chart here. You are correct, they get the \$350. [LB970]

SENATOR SCHUMACHER: Three hundred fifty, that's kind of what I had just roughed out in my head here. [LB970]

DOUG EWALD: Right. [LB970]

SENATOR SCHUMACHER: Okay. At least I wasn't off by a decimal point in what I was thinking. I think that's all for now. Thank you very much for answering my questions. [LB970]

SENATOR LOUDEN: Other questions for Director Ewald? I have one, Doug. And as a

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

Revenue Committee
January 26, 2012

cowboy that's had to calculate a lot of this on the hood of a pickup, what I'm wondering here is for 2013 and '14, as it shows here, it would be \$51.8 million of about revenue that we wouldn't receive, the state. And then in the same time frame I presume the counties wouldn't receive \$43.2 million. Is that... [LB970]

DOUG EWALD: If the number I spoke to is correct, and they would have to validate that, that would be correct. [LB970]

SENATOR LOUDEN: But that's what...that's the numbers that... [LB970]

DOUG EWALD: Well, that's also going to depend on what their fiscal year, I know different counties have different fiscal years. This is based on, obviously, the state's fiscal year from July 1 through June 30. And I know that different counties have different fiscal years, so depending on when this would be phased in, January 1, where they're at in that whole fiscal year process. [LB970]

SENATOR LOUDEN: And, yeah, because we don't know what their estate tax is going to run from one year to the next. [LB970]

DOUG EWALD: Correct. [LB970]

SENATOR LOUDEN: But anyway just for, as we say, figuring on the front end of a pickup here, it's about \$43 million a year that the counties probably wouldn't be able to receive from now on, if you did away with the inheritance tax. [LB970]

DOUG EWALD: I would say their first year is probably going to be half of that, something along those lines, because this is kind of...this is effective January of '13, that's halfway through the next fiscal year. So maybe it's \$21 million, \$22 million for them... [LB970]

SENATOR LOUDEN: Okay. [LB970]

DOUG EWALD: ...in a half a year,... [LB970]

SENATOR LOUDEN: Yeah. [LB970]

DOUG EWALD: ...assuming...and that assumes that their fiscal year is the same as the state's. And we know that that's not all the same. [LB970]

SENATOR LOUDEN: Yeah. So it's really impacting the counties a great deal more than it is the state of Nebraska, this...the whole LB970 as far as loss of revenue. [LB970]

DOUG EWALD: Well, if their share in the first year is, say, \$21 million, and the state's

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

Revenue Committee
January 26, 2012

share is \$51 million, the state's share is still...that inheritance tax is not part of the \$51 million. [LB970]

SENATOR LOUDEN: Yeah. Now if it's the \$43 million or whatever, that's somewhere around, what, \$400,000 a year or 4.6, \$460,000 a year, something. How are we...I mean, this will strangle some counties. I mean, if they were...lost that huge piece of revenue over the next few years, how are we supposed to pacify them or help them? Or what do we do in there? I think I asked the Governor, you know, what happens if they have some kind of a catastrophe and they always use...most of them use this fund for their rainy day fund. How are we going to do something for them when we have several counties that are right at their maximum levy lid, because that's the only thing they have to go back on? [LB970]

DOUG EWALD: That's a good question. You know, we're very creative at the state level over the past few years in reducing spending. I don't know what they're doing out there. I don't know how many of them factor it into their budgets, like you said, versus those that are just kind of...it's we hope we get some money and we'll use it for some special projects, whether it's the fire truck or the bridge or something along those lines. But, obviously, they may have to get a little creative I guess. [LB970]

SENATOR LOUDEN: Okay, thank you. Other questions? Senator Schumacher. [LB970]

SENATOR SCHUMACHER: Just one follow-up question: In calculating the feasibility or "doability" of this and whether or not we can afford it, has there been a risk factor included in the calculations or some other way of preparing for the eventuality if the Supreme Court does not bounce Obamacare? Is that figured in this at all? [LB970]

DOUG EWALD: No, this would be...these numbers here would be based on the latest estimates from the Nebraska Forecast Advisory Board. [LB970]

SENATOR SCHUMACHER: So if the Supreme Court doesn't bounce the material provisions of Obamacare, this may not be a doable thing? [LB970]

DOUG EWALD: I don't know the answer to that, just because you can't put a forecast for numbers on there based on something that you think might happen in the future with respect to that. We can only base it on what we know as of today, what the current law is, whether it's at the federal level or the state level. [LB970]

SENATOR SCHUMACHER: The current law is we're going to have the expense unless the Supreme Court changes it. [LB970]

DOUG EWALD: Right. And that's...we put a forecast together, the Legislative Fiscal Office puts a forecast together, and then we rely on the Forecasting Advisory Board to

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

Revenue Committee
January 26, 2012

come together and come forward with their analysis or I guess what their forecast is, how much the state is going to collect in what tax categories. [LB970]

SENATOR SCHUMACHER: But on that form, under the...where Obamacare would normally appear, right now there's a big, fat zero. [LB970]

DOUG EWALD: Well, I don't know about zero. I mean, we're talking about revenue. This is the revenue forecast. That's probably an expense side of the equation I guess. [LB970]

SENATOR SCHUMACHER: Right, it is, yes. [LB970]

DOUG EWALD: So we're focusing on the revenue side of the forecast here, not the expense side of the equation. [LB970]

SENATOR SCHUMACHER: And so that contingency is not figured into the feasibility of this? [LB970]

DOUG EWALD: Well, I don't know if it's figured in. I mean, I think it assumes the fact that we're going to continue to control spending growth in the state comparable to what we had the last few years. [LB970]

SENATOR SCHUMACHER: Thank you. [LB970]

SENATOR LOUDEN: Other questions? Senator Fischer. [LB970]

SENATOR FISCHER: Thank you very much. Thank you, Commissioner. To follow up with Senator Schumacher's line of questioning, I realize your focus has been on LB970 and looking at the revenue forecast. Have...do you have any information or comments on how that would fit in, if this bill was passed, with balancing our budget? [LB970]

DOUG EWALD: I really haven't been involved with those...that discussion or, you know, with respect to the expense side. Obviously, it's one of many factors that we have to balance that expense on the spending side of the equation here. [LB970]

SENATOR FISCHER: Have you had the opportunity to consider any of the spending bills that have been introduced this session besides LB970 or any of the tax credit bills that this committee is going to be reviewing? [LB970]

DOUG EWALD: Not, obviously, to the detail of this one. We're in the process of working through those as you guys, obviously, the Revenue Committee hears those bills. So I really don't have anything with respect to any specifics on the others for you right now. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR FISCHER: Okay, thank you. [LB970]

DOUG EWALD: And I know you start hearing some I think tomorrow and... [LB970]

SENATOR LOUDEN: Other questions? Well, thank you for your testimony, Commissioner. And thank you for testifying. [LB970]

DOUG EWALD: Thank you. [LB970]

SENATOR LOUDEN: How many people wish to testify as proponents of LB970? Can I see a raise of hands. Okay, I think we'll go to the lights now. We'll do three minutes. And will the first proponent come up here. And who wants to be next, please sit in the chairs up front here someplace so we can move along quite rapidly with this testimony. [LB970]

JOHN CEDERBERG: (Exhibit 4) Good afternoon. I am John Cederberg, J-o-h-n C-e-d-e-r-b-e-r-g. I'm an accountant here in Lincoln and also the treasurer of the Nebraska Chamber of Commerce and Industry. And I'm appearing here today on behalf of three chambers: the Greater Omaha Chamber of Commerce, the Lincoln Chamber of Commerce, and the Nebraska Chamber of Commerce and Industry. The page is handing you a joint letter from the chairs of all three chambers in support of LB970. As stated in that letter, the chambers support a competitive tax climate in Nebraska that encourages individuals and businesses to live and work, create and grow businesses in Nebraska, and to create jobs in Nebraska. You've heard some discussion of the Tax Foundation, state business climate study. One of the reasons this is so influential is that the Tax Foundation is a nonprofit, nonpartisan research organization in Washington, D.C., that is very highly regarded, both in the business community and by practitioners, for their integrity and for their research. Another reason that this particular study is very influential is because it's a very broad one that takes into consideration all the forms of taxes levied in each state. Their new study was just posted to their Web site yesterday. And as Governor Heineman said, Nebraska remained at 30. We were 30 last year. This is a really nice improvement over where we were at the start of the decade when 2003, 2004, 2005 we made the bottom ten: 41st, 45th, that sort of deal. But we do have to remember that Nebraska is operating in a region that is a low tax region. To no surprise to any of us, numbers one and two are Wyoming and South Dakota respectively. The chambers are not proposing that we try to displace them; that wouldn't be practical. They have some resources we don't have. But it's a fact we've got to consider because they are on our borders. More to the point, our others neighbors--Missouri, which has a tax structure that's not terribly dissimilar to ours, is number 15; Colorado is number 16; Kansas is number 25. Only Iowa of our neighbors is ranked below us. They are ranked 41st. The other thing that needs to...or another piece that needs to be remembered is we're challenging Texas. Innovation Park is challenging Texas and our efforts to grow

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

Revenue Committee
January 26, 2012

our state is challenging Texas. Texas is number 9. And so this LB970 I think would be a step in the right direction. It would continue the improvement we have made. And I believe that with the high visibility that Governor Heineman has, as Chair of the National Governors Conference, and as Lieutenant Governor Sheehy has, as Chair of the National Lieutenant Governors Association, that the opportunity we have to grow our state and let them talk about Nebraska managed its way through the recession and was able to cut taxes. We don't spend what we don't have, as the Governor says repeatedly. I think this is a very timely opportunity for us to take the lead and to seize the initiative here in being a competitive state. My prepared remarks, I'd be very happy to answer any questions. I have appeared before this committee before and if some of you have questions, why, I'd be happy to try and address them. [LB970]

SENATOR LOUDEN: Questions for Mr. Cederberg? Senator Adams. [LB970]

SENATOR ADAMS: Thank you, Senator. You're a CPA. And I don't know what the focus of your practice is. But if you had a choice between lowering corporate income tax or giving sales tax exemptions to attract business, which one is it going to be? How much complaint do you hear in your office from corporations about corporate income tax? [LB970]

JOHN CEDERBERG: Well, Senator, first of all, let me just do five seconds of what my... [LB970]

SENATOR ADAMS: Fire away. [LB970]

JOHN CEDERBERG: ...practice is, which is to be the help desk of independent accounting firms. [LB970]

SENATOR ADAMS: Okay. [LB970]

JOHN CEDERBERG: And they are scattered all over the country. I actually have very few accounting firm clients in Nebraska. And I have no direct clients. [LB970]

SENATOR ADAMS: Okay. [LB970]

JOHN CEDERBERG: So that kind of...but it's important because that kind of colors what I'm going to say to you. In Nebraska and actually even over the country, what I hear from other states, the corporate income tax gets a lot of attention from businesses generally. The sales tax becomes an issue for specific businesses because of the business they're in or the niche that they feel a particular sales tax disadvantages them. And so I would have to respond to you that from a competitive point of view, and that's, you know, where the chambers are, the business income tax would be far in excess of the sales tax in terms of influence. One of the things that has not been mentioned about

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

Revenue Committee
January 26, 2012

the change in business income tax that is proposed is the element of fairness. Nebraska, I can tell you from my, what, three decades in the state, Nebraska has a much higher portion of its business income that goes through individual returns as S corporations, limited liability companies, partnerships, proprietorships, particularly in production agriculture proprietorships are still very common. So much more of our business income goes through individual returns than is the national average or is the case in most states. By matching the maximum corporate rate to the maximum individual rate you introduce an element of fairness to smaller businesses where their closely held competitors get a lower rate in the individual return than do they because, for whatever reason, usually it's because they have a corporate shareholder, they can't be an S corporation. And I kind of...yeah, having listened to the testimony before me, I kind of wanted to introduce that, too, that there is an element of fairness in that adjustment. [LB970]

SENATOR ADAMS: Thank you. [LB970]

SENATOR LOUDEN: Other questions? Senator Schumacher. [LB970]

SENATOR SCHUMACHER: Thank you. Thank you for being here today to kind of brainstorm a little bit with us. It seems to me that what this is all about is mobilizing capital, resources of society. And we usually have two great engines in which we mobilize the resources of society--the private sector and the public sector. And we kind of know that we got to invest pretty heavily in the education end, otherwise there isn't much future out there. And we kind of know we need roads. And we kind of know we need public safety. And unfortunately, we kind of know that we need to take care of some of the portions of society that haven't done so well. What, and we also kind of know that we got a lot of resources. We've got lots of money tied up in pension funds, we got money to buy land at \$10,000 an acre, we've got money to sit in CDs drawing no interest. How do you see that, when we put the private hat or the public hat on, that we can mobilize those capital, maybe we don't call it taxes, maybe we call it taxes, maybe it doesn't make any difference, to accomplish that? [LB970]

JOHN CEDERBERG: And that is an extraordinarily timely question because business...the private sector right now is sitting on huge amounts of cash, unprecedented amounts of cash. And we're not getting it mobilized. And I have had these conversations with my colleagues on the board of the State Chamber, you know, this is a great lunch conversation. And, you know, I've had four decades in business now. I guess I'm telling my age. In any event, it's not specifically roads, it's not specifically education, it's not specifically taxes that is keeping that cash out of circulation, out of investment. It's confidence. And I'm not here to sell a confidence game. But I am here to say that I firmly believe, personally, and I think most of the boards of the three chambers would probably line up behind me on this statement, I believe, personally, that in the state of Nebraska the confidence in our future that the

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

Revenue Committee
January 26, 2012

political leadership would show by taking this step and saying we have confidence in the economy, we have confidence we're going to make those growth projections that the Governor was talking about would confirm and encourage the confidence that the private sector might have. And I think it would get some of that money moving. And that's what we really need to do to end this recession. And if we can get that money moving faster in Nebraska than happens in Iowa or Kansas, that benefits the state of Nebraska. And, of course, having a smaller population, the prospect of individual benefits for jobs is much higher. Kind of back to Senator Adams, why this year, and I understand Senator Heidemann's conversation about it's so much easier to do these sorts of things with a budget, but we're facing a pretty bad year. You heard about Illinois. Last night going home I heard an NPR report on Illinois where they did, they increased their taxes remarkably. Illinois fell 11 spots in the Tax Foundation climate study from 2011 to 2012. That is the biggest change in either direction of any state. Guess what? Their budget still isn't balanced and they have \$8 billion...now, they have more people, too, but they have \$8 billion, with a B, of unpaid, delinquent current bills to address. We're going to continue to hear stories like this about California, New York, most of the states. North Dakota is the only state that's as solvent as Nebraska. And we all know why that is, it's the oil boom. And, you know, if we take confidence and express our confidence in the future of this state and the economy, and we're going to have those growths in revenues that are in the projections, I think that gets that money moving faster in Nebraska than it does in any of our neighboring states. And that's a good thing. [LB970]

SENATOR SCHUMACHER: Thank you. Interesting discussion to continue sometime. [LB970]

JOHN CEDERBERG: Yeah. [LB970]

SENATOR LOUDEN: Senator Hadley. [LB970]

SENATOR HADLEY: Thank you, Senator Louden. John, thank you for being here. We rank 30th, and I'm very happy about that. You know, I think that's a great national ranking. But if I'm talking to a businessperson who comes to the...thinking about moving to Nebraska and they say, your tax climate, it's really getting better, but I notice your teachers rank 42nd in pay and Education Week gave you a D- in state funding of education, so what kind of education system are my employees going to find if I locate in Nebraska? How should I answer that? [LB970]

JOHN CEDERBERG: That...actually, I should be in front of Senator Adams' committee. (Laugh) [LB970]

SENATOR HADLEY: (Laugh) I probably asked this for Senator Adams. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR ADAMS: We planted those questions. (Laughter) [LB970]

JOHN CEDERBERG: And frankly, you know, I am going to bite my tongue because you have entered into an area that is my passion. I don't know if you know it, Senator Hadley, I know Senator Adams does, that I'm kind of known at the State Chamber Board, which I've been on now for the last 20 years, I'm kind of...as the education member of the board, as the liaison between the NSEA and the chamber or something. (Laugh) No, education is my passion. And...but I have, as an accountant and long observer of this, a couple of observations. One is whatever our teachers are paid, somehow we do a wonderful job. When I was partner at Touche Ross, we'd have the partner meetings and I did have...even at Touche Ross I was not strictly a local partner. I was kind of attached to the national office. And I went around to many of the offices, New Orleans, Jacksonville--for six years I actually commuted to Jacksonville to work on one client--Philadelphia, Pittsburgh, Chicago, I helped offices all over the firm. And my partners would give me a really hard time because I participated in the firm's profit like they did, but I could send my kids to public school and they couldn't. You know, our ACT scores are good in this state. Our SAT scores, even though a few, a lower percentage take it, are good. And so I can say to my colleagues, and I do get these calls, I get these calls rather routinely from my accounting firm clients: My client is considering buying a company in Nebraska; if they have to send their employees there they want to know about the schools in particular, they want to know about the taxes and they want to know about the housing costs and they want to know about the energy costs. And, you know, I tell them we have very good private schools, but we also have extraordinarily good public schools. And I relate to them, and I'll never forget the late Senator Coordsen who sat in Senator Louden's chair. One year he told me, he says, John, we're not going to talk about your successful daughter because she might be upstairs listening. She was at the time aide to Lieutenant Governor Maurstad. But, you know, my children went through public school. I have two Phi Beta Kappa's in the family of which I'm extraordinarily proud. And I have a doctor and a pending Ph.D. in literature. My nieces and nephews have all done equally well. And every one of them went to public school. And so that's what I tell people that are considering Nebraska, that we have an extraordinary education system. I'm not an expert in how get teachers get paid. I suspicion that there is...the devil is in the details of those statistics, but the results are just superb. [LB970]

SENATOR HADLEY: Thank you, John. [LB970]

SENATOR LOUDEN: Other questions for Mr. Cederberg? Seeing none, thank you for your testimony today. [LB970]

JOHN CEDERBERG: And thank you. [LB970]

SENATOR LOUDEN: Next proponent, please. [LB970]

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

Revenue Committee
January 26, 2012

PALMER SCHOENING: (Exhibit 5) Thanks for having me. Palmer Schoening, for the record P-a-l-m-e-r, last name is S-c-h-o-e-n-i-n-g. Senator Cornett and members of the Revenue Committee, thanks a lot for the opportunity to talk about the Nebraska inheritance tax, how it affects family farmers, businesses, and the larger economy as a whole. Today, I speak to you as director of Federal and State Affairs for the American Family Business Institute based in Washington, D.C. The American Family Business Institute represents family business owners and farmers from sea to shining sea. And on behalf of our members, we're committed to the permanent repeal of the death tax at both the state and the federal level. The estate tax, unlike taxes on selling and buying goods or earning income, is a tax on your right to own property and leave it to whom you will. In fact, the IRS specifically defines the federal estate tax as a tax on your right to transfer property at your death. In other words, the death tax in whatever form it takes--estate tax, inheritance tax--is a tax on the sweat equity of former generations who have built a legacy, whether in the form of business, farm or just investments, for their children and their grandchildren. It's in direct opposition to the idea of the American dream. And it's for this reason that AFBI and consistently two-thirds of the American people find the death tax to be inherently unjust and want it done away with. Last year, AFBI worked closely with Governor Kasich and members of the Ohio Legislature to permanently repeal Ohio's estate tax which had been on the books since 1893. This effort was touted by both local and national media as a historic victory for family businesses. The American Family Business Institute has published economic studies on the impacts of both state and federal estate taxes. Former director of the CBO, Douglas Holtz-Eakin, estimates that on the federal level repealing the estate tax could add 1.5 million jobs to the American economy. And in Nebraska alone he calculates that comes out to about 10,000 jobs eventually created from the federal estate tax. Now let me just kind of explain how this works quickly. The death tax, as I'm sure you'll hear from business owners and farmers, is not just onerous when it's triggered at death. Throughout a business owner or a farmer's entire life they have to plan for the tax if they wish to pass their businesses on. This requires taking out expensive life insurance policies, hiring expensive estate planning attorneys. This is all money that's diverted out of the business, productive capital, into other uses. And when you have the federal estate tax at death, it could be up to 55 percent in 2013, and then a state inheritance tax on top of that, it's really a recipe for business destruction. Now these findings fit into a larger vein of research on the state level that show that state estate taxes are particularly hard with respect to attracting new businesses and letting the businesses in the state flourish. A 2007 study by the Connecticut Department of Revenue found that 26 states without an estate tax produced twice as many new jobs and their economies grew nearly 50 percent more from 2004 to 2007. Is that it? [LB970]

SENATOR LOUDEN: Questions for Mr. Schoening? Senator Schumacher. [LB970]

SENATOR SCHUMACHER: The federal estate tax, that's something we can't do

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

Revenue Committee
January 26, 2012

anything about here, correct? [LB970]

PALMER SCHOENING: Correct. [LB970]

SENATOR SCHUMACHER: Okay. [LB970]

PALMER SCHOENING: Yeah, and I was told I got a few more minutes for my remarks and I was going to... [LB970]

SENATOR SCHUMACHER: And the state estate tax we've eliminated here. Is that correct? [LB970]

PALMER SCHOENING: Correct. My point in pointing out the federal estate tax is the fact that your state inheritance tax on top of that adds up to about a 46.7 percent top statutory rate. With the current federal estate tax at... [LB970]

SENATOR SCHUMACHER: What number are you using when you make that statement as our state inheritance tax...or not, our county inheritance tax, what number are you using,... [LB970]

PALMER SCHOENING: Well,... [LB970]

SENATOR SCHUMACHER: ...1 percent or 18 percent? [LB970]

PALMER SCHOENING: Well, there's been a lot of talk about the Tax Foundation. And I work with those folks pretty closely. And I can tell you in the rankings what they look at is... [LB970]

SENATOR SCHUMACHER: I don't care about the rankings. I want to know what number you're using. [LB970]

PALMER SCHOENING: Eighteen percent. [LB970]

SENATOR SCHUMACHER: Eighteen percent. [LB970]

PALMER SCHOENING: Correct. [LB970]

SENATOR SCHUMACHER: And do you have any idea how few estates in this state pay the 18 percent? [LB970]

PALMER SCHOENING: I think that question came up earlier, and that would be for the counties to tell us. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR SCHUMACHER: Okay, so you don't know. And have you, in your analysis of all of this, have you taken in consideration that Nebraska is a state which, unfortunately, probably, oh, 40 to 50 percent generally, and that's kind of just a rough guesstimate, of the kids have moved out of state? So when that...in those few instances where a kid inherits more than \$40,000, that 1 percent would, in about 40 percent of the cases, would leave the state because they're going to grab the check and run. On the other hand, that 1 percent is retained by the counties and allowed to build a bridge or a gravel road that enhances the value of that farm. [LB970]

PALMER SCHOENING: I wouldn't think that's necessarily true, just the fact that the family members who are paying the 1 percent will leave the state. I think my point is when business owners are looking at the state of Nebraska, what they look at is the worst-case scenario, the top statutory rate, which is a 46.7 percent rate. And that's how they do the Tax Foundation rankings as well. [LB970]

SENATOR SCHUMACHER: It would be... [LB970]

PALMER SCHOENING: So I guess that was my point. [LB970]

SENATOR SCHUMACHER: Right, but... [LB970]

PALMER SCHOENING: And, you know, with respect to building roads and funding other things, those are perfectly admirable projects. But you shouldn't depend on dead people's money to do that. [LB970]

SENATOR LOUDEN: Other questions for Mr. Schoening? Seeing none, thank you for your testimony. Next proponent. [LB970]

BRADLEY STEVENS: Good afternoon, Chairman Louden, Senators, members of the committee. My name is Brad Stevens, that's B-r-a-d S-t-e-v-e-n-s. I'm the Nebraska State Director of American's for Prosperity. Appreciate your time today. I'll be brief as I can because you have a long day ahead of you. But I believe it's important that you have the perspective of our members across the state, many who are working right now, many who are going to benefit tremendously from LB970. We support Senator Cornett's LB970 as an effective tool to accomplish two very important objectives: first, providing significant tax relief to struggling Nebraska families while, second, simultaneously encouraging economic investment and job creation by strengthening the state's business climate. Governor Heineman was absolutely right when he said hardworking taxpayers are tired of government taking too much of their paycheck. While Nebraska has taken steps in the right direction toward reducing the tax burden and controlling spending, with appropriate credit to this committee and this legislative institution, we still have a long way to go. You've already...I'll skip over the Tax Foundation. You heard enough about that. But our point is that our neighbors are in the

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

Revenue Committee
January 26, 2012

driver's seat based on their lower ranking, their better ranking in the business climate to compete against Nebraska for business relocation and economic investment. We also know that Nebraska families pay an extremely high local and state tax burden. The Wall Street Journal reported that Nebraska's tax burden on income is the 20th highest in the nation. When total taxes, fees, and the burden of government spending are accounted for, Nebraska's local and state tax burden is greater than 30 other states, including all of our neighboring states, except for Kansas. Look at Governor Heineman and Senator Cornett's plan briefly and the practical effect for Nebraska families. A family of four making \$50,000 a year will see their income tax liability fall by nearly 11 percent. That is a big deal. So LB970 prevents a targeted approach that will zero in on job creation, create economic opportunity in Nebraska. And by eliminating the death tax on Nebraska's family-run businesses, farms, and ranches, money will stay in our state and be reinvested in our economy as opposed to moving to South Dakota, Missouri, or Colorado. Eliminating the inheritance tax and reducing the income tax will help struggling families and the businesses and the unfair double tax that discourages economic investment in our state and creates job. So thank you for your time. I'd be happy to answer any question you may have. [LB970]

SENATOR LOUDEN: Any questions for Mr. Stevens? Senator Fischer. [LB970]

SENATOR FISCHER: Thank you, Senator Louden. Thank you, Mr. Stevens, for being here today. We've heard about the Tax Foundation. And I have been told that the Tax Foundation, in their rankings, they place maybe a heavier emphasis on income tax. Is that a true, false, or you don't know statement? [LB970]

BRADLEY STEVENS: You know, I believe that's also true. But I can't say with certainty. But that's a question that, along those lines and Senator Adams has brought up is, well, why not other taxes? Why the income tax in particular? And I want to talk about that in terms of conversation I was able to have with Iowa Governor Branstad's chief of staff, Jeff Boeyink. And he talked about Iowa having a very high income tax, particularly corporate tax rate, and that one of their chief priorities this year. And so we want to put everything in context in our neighbors and states that we are competing with for jobs and economic investment. So one of their priorities this year is reducing their corporate income tax rate. So Iowa is going to be able to go out and talk to the Tax Foundation and other businesses and talk about how they're lowering their rates, a competitor of ours. So in that context we understand that high...and you talked about again, that they have, you know, higher unemployment compared to Nebraska and other states because businesses are not relocating. We talked about Illinois having very high tax rate. They want to get Illinois businesses to move to Iowa. They can't do it because they have a high corporate tax rate. So at one end, you know, businesses are discouraged from coming to states that have high corporate tax rates. So corollary is when you have low corporate tax rates, and you can talk about you're lowering that rate, you are going to encourage business investment. You can compete for jobs, which is exactly what we

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

Revenue Committee
January 26, 2012

need to be doing right now in Nebraska. So that's why I believe, Senator Fischer, Senator Adams, with your previous questions, this is an appropriate tax to be zeroing in on. [LB970]

SENATOR FISCHER: Can you tell me how South Dakota and Wyoming rank? [LB970]

BRADLEY STEVENS: With the Tax Foundation report that came out yesterday South Dakota is number two, Wyoming is number one. [LB970]

SENATOR FISCHER: And they have no income tax, correct? [LB970]

BRADLEY STEVENS: I believe so. [LB970]

SENATOR FISCHER: Okay, thank you. [LB970]

BRADLEY STEVENS: Thank you. [LB970]

SENATOR LOUDEN: Senator Adams. [LB970]

SENATOR ADAMS: Thank you, Senator Louden. Your comment--if I quote you incorrectly, why, you just jump right on it--you said that other states are in the driver's seat. [LB970]

BRADLEY STEVENS: I believe so. [LB970]

SENATOR ADAMS: Then, our unemployment rate is lower than theirs. [LB970]

BRADLEY STEVENS: That's absolutely a great question. When we're talking about the context of encouraging new businesses to come to Nebraska, and, yes, we do have an overall low, low, low employment rate. It's a great question, a great point. And I believe it's the strength of our rural economy. I believe it's the strength of our agriculture sector, that is the reason for that. When you look at Omaha, Omaha has, you know, I'm not going to say high, but you know urban areas in Nebraska do have a relatively high or undesirable unemployment rate. So, yes, Nebraska is doing better. And I think that also goes to, again, we put in the last context of the last three, four years. Nebraska has addressed its spending problem. This institution, this committee has addressed that by not raising taxes, which has made Nebraska competitive. But we need to do more, we need to do better, because again, when you have other states that can say we're ranked number one, we're ranked number two, and they're going after big companies, big corporations or, again, mom-and-pop shops that are looking to relocate or just start up, that's a big deal. I think that is why I say that puts them in the driver's seat, because they're at an advantage there based on those rankings. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR ADAMS: Would you agree that part of the reason that we have been able to address our budget problems has been because we have made cuts,... [LB970]

BRADLEY STEVENS: Absolutely. [LB970]

SENATOR ADAMS: ...painful cuts, but we also had a substantial Cash Reserve that came from revenues? [LB970]

BRADLEY STEVENS: Absolutely. And what I heard Governor Heineman say and others is that this, LB970, this package will not detract from establishing a responsible rainy day fund. And I have no reason to believe the contrary. [LB970]

SENATOR ADAMS: Thank you. [LB970]

BRADLEY STEVENS: Thank you, Senator. [LB970]

SENATOR LOUDEN: Senator Fischer, a follow-up question. [LB970]

SENATOR FISCHER: If I could just do a quick follow-up on that, Mr. Stevens, do you know the population growth for Nebraska over the last ten years? [LB970]

BRADLEY STEVENS: I'm sorry, over the last ten years, no, I do not. [LB970]

SENATOR FISCHER: Do you know the population growth of these South Dakota, Wyoming, that are ranked one and two? Have they gained in population in the last ten years? [LB970]

BRADLEY STEVENS: I'm sorry, I do not know the answer to that. [LB970]

SENATOR FISCHER: Okay, thank you. [LB970]

SENATOR LOUDEN: Okay. Senator Hadley. [LB970]

SENATOR HADLEY: Thank you, Senator Louden. Mr. Stevens, I just have to almost facetiously say that Iowa is looking at raising its gas tax 4 cents now to take care of their road problems. Is that something we should look at here also then? [LB970]

BRADLEY STEVENS: No. [LB970]

SENATOR HADLEY: Okay. (Laughter) Secondly, I would like...(laughter) that's a great answer. I wasn't saying we should. I was just pointing out that they are. After...I spent 20 years living in South Dakota. [LB970]

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

Revenue Committee
January 26, 2012

BRADLEY STEVENS: Yes, sir. [LB970]

SENATOR HADLEY: And I will say this, Nebraska was the envy of South Dakota. I mean, Nebraska... [LB970]

BRADLEY STEVENS: Well, Nebraska is the greatest state in the Union. [LB970]

SENATOR HADLEY: Yeah. [LB970]

BRADLEY STEVENS: But I will say this, you have many Nebraskans who move to South Dakota because they don't have to pay the state income tax. So I believe that, you know, on both sides you're going to hear people who, you know, the grass is always greener. But, you know, if I could...if I wouldn't have to pay any state income tax, I'd have a lot more money in my pocket that I could spend on my, you know, providing for the mortgage, providing for, you know, college savings for my child, things of that nature, which I believe that's more important to me than making sure that the state...the budget for the state of Nebraska has whatever X amount of dollars more. [LB970]

SENATOR HADLEY: Thank you, Mr. Stevens. [LB970]

SENATOR LOUDEN: Other questions that just require a short answer? (Laughter) I have a question I guess or a comment. And it kind of bothers me when they always compare South Dakota to Nebraska. [LB970]

BRADLEY STEVENS: Sure. [LB970]

SENATOR LOUDEN: I live up there pretty close to South Dakota. South Dakota is a unique situation all its own, and so is Wyoming for that matter. But South Dakota, you want to remember there's 70,000 or 80,000 people up there that are Native Americans that are in a different land of their own. That's in South Dakota. That takes in a big chunk of the territory of South Dakota. They got an air base up there that's probably comparable to Offutt with a smaller population and Rapid City and that whole western end is geared around Ellsworth Air Force Base. And then you, as you work west, then they do have some agriculture production. But Nebraska is altogether a different setup state. We have agriculture production that's getting to be second to none in here. And so when they talk about how we should compare to South Dakota our sales tax, these are altogether two different countries up there. And we have to follow a course of our own. So my question is, while we're talking about bringing businesses into Nebraska, now are we bringing businesses in that are going to value-add to the products we raise here or are we stealing businesses from somebody else? And then that particular state is going to have to run someplace else and steal businesses from somebody else. I mean, when we start lowering these numbers so we can bring people in, are we bringing them in to value-add to a product or are we stealing people from someplace

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

Revenue Committee
January 26, 2012

else? [LB970]

BRADLEY STEVENS: Sure. I'll address the first question. Yes, we should not always compare to South Dakota. But that's also compared to Missouri, which is in a very different situation than South Dakota is and I heard today is comparable in their tax structure dollars. Our business climate is ranked 30th, Missouri is at 15. So they're in a much better opportunity to compete for jobs and economic investment; Colorado, number 16. So, yes, I mean, that's the issue. It's not just Wyoming, it's not just South Dakota, it's every state surrounding us, save Iowa, that can claim that they have a better climate to do business and create jobs and contribute to the free market. So that's the point that we want to drive home is that when every state surrounding us can make that claim, we need to do what we can if we can afford it. And based on what I've heard from Director Ewald and Governor Heineman and Senator Cornett and everyone else, we can, we have that opportunity. We have been blessed in the state of Nebraska that we have those funds. And it's a matter of how do we invest them and investing in our climate, investing in our citizens, giving people, the regular family, the regular small business that's been hurt very hard in the last few years, giving them more money in their pocket, giving them better opportunity to have new, better jobs. That's the right move for government. And that's what we're here to support. [LB970]

SENATOR LOUDEN: Okay, thank you. Senator Adams. [LB970]

SENATOR ADAMS: I wasn't going to say anything more but you opened up the door. So if we're going to... [LB970]

BRADLEY STEVENS: Can I take it all back? (Laugh) [LB970]

SENATOR ADAMS: Oh, no. So if we're going to invest in Nebraska, would you agree that we ought to be investing in higher ed as a driver of this state? [LB970]

BRADLEY STEVENS: As a proud graduate of the University of Nebraska, I believe in our public higher education system, but not just the university. I also believe in our community colleges and, you know, Chadron State and Peru State and all of those institutions. So I don't want to say something I'll regret later but I do believe the state of Nebraska does make substantial investments in higher education. You look at Innovation Campus and that this legislative institution was able to appropriate significant funds to Innovation Campus in a time that the budget was very tight. You know that better than I. So I believe that this state, this institution is taking its commitment to higher education seriously, and you've shown that through your actions. [LB970]

SENATOR ADAMS: And I agree, and you're right on the mark, but let me add one other caveat. We have done that and I think appropriately so, and it was difficult, and we are admired by our surrounding states in terms of our higher ed commitment. And I may be

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

Revenue Committee
January 26, 2012

wrong about this, but I believe that Colorado, that ranks 16th in the tax bracket, ranks about 49th in per-student spending on higher ed. [LB970]

BRADLEY STEVENS: I mean I will say this: Nebraska public schools statewide, we have one of the highest graduation rates in the country, but not only our public schools. Our private schools, our parochial schools, our homeschool communities also have some of the best educational environments in the nation. And again, as everything that's been presented, we can afford this without...this package that is going to provide tax relief for hardworking Nebraskans, make our business climate more competitive, bring jobs here. We can do that and it does not have...it's not an either/or. We do not have to do that and cut spending or cut spending to K through 12 or higher ed. I believe that's the case in what's been presented to this committee. And to me that's very encouraging. [LB970]

SENATOR ADAMS: It hasn't felt like it in the last couple of years. Thank you. [LB970]

BRADLEY STEVENS: Absolutely. Thank you, Senator. [LB970]

SENATOR LOUDEN: Other questions? Senator Fischer, one more follow-up. [LB970]

SENATOR FISCHER: Thank you, Senator Louden, short, short question. You talked about Nebraska needs to have a better climate to do business. [LB970]

BRADLEY STEVENS: Yes. [LB970]

SENATOR FISCHER: Did you have an opportunity to attend any of the State Chamber meetings that were held across the state during the fall months? [LB970]

BRADLEY STEVENS: Unfortunately, I did not. [LB970]

SENATOR FISCHER: And Mr. Kennedy will be upset with me because I was at a number of them but I don't remember all the rankings that he put up in his presentation. But if I remember correctly, in a number of those rankings Nebraska was in the top ten for states as having a good business climate. So you might want to talk with Barry Kennedy with the State Chamber and find those rankings too. I think that will help expand the conversation here a little bit. [LB970]

BRADLEY STEVENS: Absolutely. Thank you, Senator. [LB970]

SENATOR FISCHER: Thank you. [LB970]

SENATOR LOUDEN: Other questions? Seeing none, thank you for your lively testimony. [LB970]

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

Revenue Committee
January 26, 2012

BRADLEY STEVENS: Thank you. [LB970]

SENATOR LOUDEN: Next proponent, please. [LB970]

BOB HALLSTROM: (Exhibit 6) Vice Chairman Louden, members of the Revenue Committee, my name is Robert J. Hallstrom. I appear before you today as a registered lobbyist both for the Nebraska Bankers Association and the National Federation of Independent Business. I'm circulating some written comments on behalf of NFIB, primarily with regard to the small business owner members of NFIB's longstanding support for repeal of the inheritance tax. With respect to the Bankers' position, we certainly think that the Legislature has made some tough, prudent decisions over the years, both in terms of holding the line on spending and resisting any urge to increase taxes, and we think the time is ripe with Nebraska being well-positioned, having weathered the storm of the recession and well-positioned to accelerate out ahead of other states to make another prudent decision in supporting and advancing LB970. And I would be happy to address any questions that the committee may have. [LB970]

SENATOR LOUDEN: Any questions for Bob? Anybody got nerve enough to ask Bob some questions? (Laughter) [LB970]

SENATOR ADAMS: Don't dare us. [LB970]

SENATOR FISCHER: Yeah. [LB970]

SENATOR LOUDEN: I will, Bob. [LB970]

BOB HALLSTROM: Thank you, Senator. [LB970]

SENATOR LOUDEN: You and I have been around here for a long time and had many discussions. Where...what's your...how do you think we should come down on this inheritance tax for county funding? The Bankers I mean and those, where are they at on that? [LB970]

BOB HALLSTROM: Senator, the Bankers don't have a specific position on the inheritance tax. That was with respect to the NFIB small business owners. I think as I reported in my written testimony, and many of the comments, without repeating, go as well for small business owners in terms of their distaste for the inheritance tax as well as the federal estate tax and state estate tax, which we have supported the repeal of for many, many years. [LB970]

SENATOR LOUDEN: Okay. And I see you call their loss of revenue insignificant, you know, and I suppose in places. But we do have some counties it is a significant source

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

Revenue Committee
January 26, 2012

of revenue for them, and this has always been my...I haven't started laying awake nights yet thinking about it, but I probably will, how we're going to help those counties out that are maxed out on their revenue on their levy and then we take this away from them. Also we took away their city and county aid last year, and now we're taking this away, so I'm kind of wondering. As a property owner, it has me worried a little bit where my property tax is going to go. [LB970]

BOB HALLSTROM: Well, Senator, for those who didn't read as quickly as you did, and I commend you for that, the comments in my testimony suggest that the revenue is not significant compared to the other sources of revenue that the counties have to draw on. And certainly we are not insensitive to that issue. I know that's not a budget item; it is a rainy day fund. I think the Governor pointed out well in his opening comments that the state experienced the loss of the state estate tax which was a significant financial hit to the state when that particular aspect of the law was repealed, and the local political subdivisions and the counties will probably be able to do the same moving forward. [LB970]

SENATOR LOUDEN: Okay. Thank you. Senator Pirsch. [LB970]

SENATOR PIRSCH: And just briefly, thanks for your testimony here, Bob. With respect to the NFIB's position, is the proposal with respect to the inheritance tax elimination, is that based primarily upon the consideration of the business job climate or rather in issues of fairness or some other reason? [LB970]

BOB HALLSTROM: Well, I think traditionally it's been in respect to the tax policy and the fairness of the issue. But I think small business owners, as well, are supportive of the changes that are embodied in LB970 with respect to the income tax, individual income tax and the corporate income tax rate reductions. [LB970]

SENATOR LOUDEN: Other questions for Bob? Seeing none, thank you, Bob. [LB970]

BOB HALLSTROM: Thank you. [LB970]

SENATOR LOUDEN: And you're still on your fine-cutting edge in ten years that I've known you up here, so thank you. Next proponent. [LB970]

JORDAN CASH: Good afternoon, Senators. My name is Jordan Cash, J-o-r-d-a-n, last name C-a-s-h, and I am the policy analyst with the Platte Institute for Economic Research. I come before you to strongly urge you to support LB970 for the basic reasons that it will have many economic benefits for the average Nebraska citizen. It will allow taxpayers to keep their own money, allow businesses more capital with which to invest and hire, and, of course, allow farmers, small businesses, and ranchers to pass easier from one generation to the next. Now as has been said, Nebraska is one of only

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

Revenue Committee
January 26, 2012

eight states that still has an inheritance tax. Our only neighbor who has an inheritance tax is Iowa, and their rate is nominally lower than ours. As has also been said, the inheritance tax places a high burden on family farms and family businesses as they pass from one generation to the next. But what hasn't really been addressed yet is the fact that inheritance taxes are a driver of outstate migration, and as a state we can't afford to keep losing people. Senator Fischer, you asked how much Nebraska had grown in the past ten years. And according to the last census, we grew 6.7 percent--3 percentage points lower than the national average, and much lower than both South Dakota and Wyoming who grew much faster than any other state in our region probably because they have low taxes. So as I just said, inheritance taxes drive people out of the state. Now on corporate income taxes, Nebraska also has the highest corporate income tax rate of all the neighboring states except for Iowa again. Now businesses will not want to come to a state that is smothered by...where their profit is smothered by high taxes. They need the capital to grow their business to invest. And as has already been said, businesses won't want to come to a state where they can't do that, where they can't grow. And also something that hasn't been said is that corporate income taxes don't hurt the corporations as much as they hurt the workers. According to the Congressional Budget Office, 70 percent of the corporate income tax is paid through lower worker wages. For every...it's been estimated that for every \$1 the state gains in corporate income tax, the average worker loses \$2.50 in their wage, which means that for every \$155 million Nebraska gained from the corporate income tax in 2010, the average Nebraska worker lost about \$387,500,000 in potential wages. Now, of course, lower wages also encourage people to leave the state, something that we can't have. And it's also been shown that corporate income taxes have a higher effect on college-educated wages. So it's effectively contributing to a brain drain away from Nebraska. And, of course, as has also been said--I'm afraid my predecessor has said a lot of my points here--Nebraska has the highest individual income tax rate out of the other states except for Iowa. So that's something we can take solace in, that Iowa is doing a little bit worse than us. Again, lowering the income tax will help people save their money. They can invest it. They can give it to their kids. They can pay for medicine. They can pay for groceries and gas, which prices have been going up as we all know quite a bit lately. So we need to allow people to keep their money. Let businesses keep their money, and let farms and businesses pass easily from one generation to the next. Thank you, and I'll take any questions. [LB970]

SENATOR LOUDEN: Yes. Senator Adams. [LB970]

SENATOR ADAMS: Thank you, Senator Louden. Jordan, thank you for being here, and thank you for coming into my office a couple months ago. We had a lively discussion. [LB970]

JORDAN CASH: We did. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR ADAMS: This is my fourth year on this committee, and every year and maybe before this one is over we will hear from many of the same groups asking for income tax credits or sales tax exemptions in order to keep them from moving away. We will hear: Give us a break on Social Security benefits or we're going across the line, we're getting out of Nebraska; give us a break on military benefits or we're leaving and we're going across the line; give us a break on our teacher retirement or we're out of here. All of that may be very legitimate. I don't know if we've actually lost those people or not. What I've never heard from any of those groups is, if you don't get rid of the inheritance tax, I'm out of here. You can comment if you like. I mean it's more of a statement than a question. [LB970]

JORDAN CASH: Well, I admit I don't talk to that many...as many people as you do. [LB970]

SENATOR ADAMS: This is the first time in four years. The point that you're making may be very legitimate; I don't know. [LB970]

JORDAN CASH: Every study I've seen has shown that estate and inheritance taxes are the greatest drivers of outstate migration. Specifically, one study is the Ocean State Policy Research Institute, and I believe another study that...Palmer Schoening from AFBI, I believe they did a study on Tennessee that showed the same thing. So I can try and get you those links if you'd like so you can read those studies for yourself. [LB970]

SENATOR ADAMS: Yeah. That would be great. [LB970]

JORDAN CASH: Okay. [LB970]

SENATOR ADAMS: Do you...in your studies, do you hear from seniors saying, if property taxes go up any further I'm heading across the line? [LB970]

JORDAN CASH: Well, I would imagine that would be the case too. Yes. [LB970]

SENATOR ADAMS: Yeah. Thank you. [LB970]

SENATOR LOUDEN: Other questions? Senator Hadley. [LB970]

SENATOR HADLEY: Senator Louden, thank you. Thank you for coming today; I appreciate it. And this is kind of a halfway statement and question. I was going to follow up on what Senator Adams was talking about. In our committee, we hear a tremendous number of tax incentive bills. And I guess I wonder, do we take the macro or the micro approach to tax situations? Do we lower overall corporate taxes overall, personal income taxes, or do we take an approach...? For example, and I'll just quickly describe it, we have a tremendously bad tax policy on income tax for companies that sell

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

Revenue Committee
January 26, 2012

intangible products. In fact, it's been quoted as saying it puts a fence around Nebraska for trying to get new businesses into Nebraska. We're going to hear that bill tomorrow and it has a \$6 million fiscal impact. So it's probably going to go no place because we can't; the budget is balanced. So do we look at cutting individual people's income tax, corporate income tax for the companies we have here, and hope these companies that we've got disincentives will still come? [LB970]

JORDAN CASH: Could you tell me the name of that bill, please? I'd like to look it up. [LB970]

STEPHEN MOORE: LB872. [LB970]

SENATOR HADLEY: LB872. It's an interesting bill, but. [LB970]

JORDAN CASH: Well, if I had my druthers I'd do all of it. But obviously... [LB970]

SENATOR HADLEY: Well, I would too. [LB970]

JORDAN CASH: I know. And I understand the fact about putting a fence around Nebraska--and that should be addressed, certainly. But presently, you know, it seems like the...we should make the best effort to help individuals that we can, the individual citizens of Nebraska and the businesses of Nebraska that are already here. So that's why I would say you would take the approach of lowering the corporate income tax rate and individual income tax rate. [LB970]

SENATOR HADLEY: And not then...well, we'll probably have ten bills of working on our tax code to make it more favorable for companies to come here and stay here. [LB970]

JORDAN CASH: Um-hum. [LB970]

SENATOR HADLEY: So we shouldn't do that. We should basically look at lowering the overall corporate rate and the overall personal income tax rate rather than working on individual inequities in our tax system. [LB970]

JORDAN CASH: Well, you should look at the individual inequities, but I'd say... [LB970]

SENATOR HADLEY: Well, we can't do both. How do we do both? Because, you know, both of them have costs, and we've got a very finite amount of money to spend. [LB970]

JORDAN CASH: And so I'd say go for the overall ones first and then we can address the inequities once that overall burden is slightly lower. [LB970]

SENATOR HADLEY: Okay. And so one last question then: A potential company that

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

Revenue Committee
January 26, 2012

has a \$41 million impact that if we don't do something is going to leave the state; is that something we should worry about? [LB970]

JORDAN CASH: If the company is going to leave the state? Well, you can give them an incentive to stay in the state by lowering the corporate income tax rate. [LB970]

SENATOR HADLEY: That isn't what they're asking for. They never mentioned corporate income tax. And one last statement, and I shouldn't say this. In the four years I've been a senator I've never once had a person come up to me and talk to me about the individual income tax. I never have. But I'll tell you what. Not a day goes by that they don't come up and talk to me about property taxes in the state of Nebraska, because that's the one that the individual person in Nebraska really, really feels. And that's just...maybe people, other people have had different experiences, but it's the property tax that I just consistently hear about across my district. [LB970]

JORDAN CASH: And isn't that more of a county issue. Correct? Property taxes are collected on the county level? (Laughter) [LB970]

SENATOR HADLEY: Well, we're probably going to hear later that... [LB970]

JORDAN CASH: No, all I'm saying is then they... [LB970]

SENATOR HADLEY: I think there's people that will probably disagree. [LB970]

JORDAN CASH: Then they shouldn't talk to you. They should talk to these folks back here who are going to come up here and tell you that they're going to raise property taxes when they have other ways that they can do it. [LB970]

SENATOR HADLEY: But our ability... [LB970]

JORDAN CASH: Well, look at Douglas County; look at Douglas County and how they've raised wages... [LB970]

SENATOR HADLEY: Well, I think you need to talk to here. [LB970]

SENATOR LOUDEN: Here, here. Get back to the deal here. [LB970]

JORDAN CASH: I apologize. I'm sorry. [LB970]

SENATOR HADLEY: My point is, and I'll just give you an example. Senator Adams is head of the Education Committee, and the amount of money we put into the state aid formula is going to impact what school districts are going to have to do in their property tax levies. So our actions do directly impact property taxes. They just do. [LB970]

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

Revenue Committee
January 26, 2012

JORDAN CASH: I realize that. But my question is, why can't the counties find ways to be more efficient on their level? [LB970]

SENATOR HADLEY: I think we ask the questions here. [LB970]

JORDAN CASH: I apologize. [LB970]

SENATOR HADLEY: Okay. (Laughter) No, you know, I'm just making a statement that property taxes are what I hear about. Now maybe I live in an isolated area in Kearney, Nebraska, and Buffalo County, but that's what people talk to me about. Enough. [LB970]

SENATOR LOUDEN: Okay. Other questions? Senator Schumacher. [LB970]

SENATOR SCHUMACHER: Thank you. Thank you for being here, Jordan, and thank you for the discussion we had in our office a while ago. [LB970]

JORDAN CASH: Yes. It was fun. [LB970]

SENATOR SCHUMACHER: Did I understand you correctly when you indicated that you felt if we didn't do something about the inheritance tax, people would skedaddle from the state? [LB970]

JORDAN CASH: That's what all the studies show, yes. [LB970]

SENATOR SCHUMACHER: Okay. And let's...let me ask you, I'll get down to the little numbers here. Grandma dies, and this seems to be pretty typical except I think Grandma died with more money than a lot of Nebraskans died with here. But Grandma dies with \$418,000, and got some children. And each of the kids after they pay expenses gets \$84,000 allotted to them from Grandma's estate. The inheritance tax is \$440. Is anybody going to move? (Laughter) [LB970]

JORDAN CASH: Usually people move before they die to avoid the inheritance tax. [LB970]

SENATOR SCHUMACHER: Grandma is going to leave where she lived all her life because her four kids are going to have to pay \$400? [LB970]

JORDAN CASH: I don't think you can take one person's experience and expand it to everyone. [LB970]

SENATOR SCHUMACHER: Well, this is pretty...but, you know, we wanted information from the counties, and this is my experience in 30 years of practicing law, pretty typical.

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

Revenue Committee
January 26, 2012

And the attorney fee, darn attorneys, they took \$7,500--four times the inheritance tax. (Laughter) And the mortician, he took \$7,800. In proportion, that inheritance tax of \$1,760 is pretty tiny, isn't it? [LB970]

JORDAN CASH: Wait. So just to clarify your question, the lawyers took more from Grandma's estate than the state...than the counties did? [LB970]

SENATOR SCHUMACHER: And so did the mortician. [LB970]

JORDAN CASH: And so did the mortician? [LB970]

SENATOR SCHUMACHER: And it doesn't have the figures what the doctor took. I don't have any further questions. [LB970]

SENATOR LOUDEN: Okay, that...thank you for your testimony. [LB970]

JORDAN CASH: All right. Thank you. [LB970]

SENATOR LOUDEN: And how many more proponents do we have? Okay, come forward. Is there just the one? Okay, come on forward then. [LB970]

RICHARD LORENZEN: Good afternoon. My name is Richard M. Lorenzen, R-i-c-h-a-r-d, middle name is Melvin, M-e-l-v-i-n, L-o-r-e-n-z-e-n. With all due respect, at the base of this problem is government trying to provide a solution to every problem. Affording, being able to afford the tax, is not the solution. It's a matter of responsibility. Life involves natural disaster, roads that need to be plowed, children that need to be schooled, educated. I think it's just wrong to look...it's for special interest groups, for the individual to always look to government to provide an answer for everything is not right. When special interest groups, anybody comes to government and they want something from somebody else, government to take something from somebody else to pay them, the answer is: Is that the proper function for government? I don't think so. When the citizen learns that he can vote himself or herself largess from the public treasury, that's the death knell for democracy. I totally support this bill and I think it's...if people come to you and say, give us a break or we're leaving the state, maybe we don't need them if that's their attitude. That's all. [LB970]

SENATOR LOUDEN: Okay. Thank you for your testimony. Did you make one of those yellow sign-in sheets? [LB970]

RICHARD LORENZEN: I did not. [LB970]

SENATOR LOUDEN: Okay, if you would, please. And thank you for your testimony. [LB970]

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

Revenue Committee
January 26, 2012

RICHARD LORENZEN: Thank you. [LB970]

SENATOR LOUDEN: Now is that... [LB970]

RICHARD LORENZEN: Where do I do that? [LB970]

MATT RATHJE: He's got one for you. [LB970]

RICHARD LORENZEN: Thank you. [LB970]

SENATOR LOUDEN: Yeah, thank you. Is that all of the proponents now? Okay, come forward then here, because we're going to finish up proponents here pretty quick. [LB970]

KEN IVERSON: Good afternoon. My name is Ken Iverson, K-e-n I-v-e-r-s-o-n. I come today to speak in favor of this because personally I think it's an unfair tax that is invoked upon a few to benefit the many. You mentioned over here that your grandmother or maybe it's just a simulation, whatever, but on this tax if I decide that I'm just going to go through life and be a bum and maybe only make minimum wage or do nothing, I'm not penalized when I die. If I decide that I'm going to do what I want to do or if I want to create a business, work hard, make hundreds or thousands or millions of dollars, when I die then, if I decide to give it to my kids or an employee or whatever, then I'm penalized. And so, you know, if I'm in business here in Nebraska and I'm making money and I'm starting a business or growing a business, I pay taxes on my income...or my income, okay? And then as if I buy equipment, I pay taxes on that--sales tax. And if I buy property with the money that I made from the business or whatever, then I pay property tax. So I'm paying taxes on this money, time after time after time. And my question is, how many times do I got to pay taxes on that same dollar and then even into death? That's my comment. Thank you. [LB970]

SENATOR LOUDEN: Okay. Any questions? Seeing none, thank you for your testimony. [LB970]

KEN IVERSON: You're welcome. [LB970]

SENATOR LOUDEN: And is that the last proponent? Now we will start with opponents. Can I see a show of hands on how many opponents we have? (Laughter) Okay, pretty quick we're going to be down to about two minutes. And then I would ask some of you, that if you have the same testimony, to gather up some way or another and get two or three of you together, because it's 3:30 now, and if we go through 25 people, why, you better call in supper someplace. (Laughter) [LB970]

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

Revenue Committee
January 26, 2012

LARRY DIX: (Exhibit 7) Good afternoon, Senator Loudon, members of the Revenue Committee. For the record, my name is Larry Dix, spelled L-a-r-r-y D-i-x, and I'm the executive director of the Nebraska Association of County Officials appearing today in opposition to LB970. First of all, I want to thank you for the opportunity to appear here, and I also want to thank each of the members for the opportunity that you graciously have given me when I met with you individually to talk about this issue, because it is of the utmost importance to our counties. I want to make a few comments and then, as you notice, there are a number of county officials testifying on the impact of their counties and in that area. I've had numerous requests from county board members and county officials to testify. I have actually, although you may not believe it, I've actually had folks ask if they could testify and I asked them only to submit letters, just knowing that the numbers were there. And as county officials, we had met and discussed earlier and talked about everyone keeping their testimony to the point and very succinct, so I think we will be fine with the allocated time. Equivalent to the supporters, I think we'll be just fine. I want to clarify just some of the misconceptions and statements that we've been seeing in newspapers and in statements that have been made, false statements that I believe that have been going on. We've heard inheritance taxes is sort of just for pet projects for the counties, and certainly that is not the case. Inheritance tax is to the counties what the Cash Reserve is to the state. Counties need a cash reserve just like the state needs a Cash Reserve. It is only good business practice that both would have such a cash reserve. Counties must be proactive in having a cash reserve for unexpected expenditures that come up from time to time, and we'll talk about a number of those. The state, as you heard earlier, is concerned about replenishing their Cash Reserve, as they should be, and the counties need to consider replenishing their cash reserve or having an adequate cash reserve. All the while I believe the state is trying to keep taxes low, I would tell you counties have the same goal that the state does. We, too, do our best to keep property taxes low. I believe when you talk to county board members across the state, which I know many of you have, the goal is to control property tax. It's been stated by some folks that counties will be fine because the ag land is increasing and so that should take care of the problem. Well, I've got to tell you, there are some counties in the state of Nebraska where the valuation for the county is not increasing. We've got a couple of our more metropolitan areas that, while the ag land may increase, the other values are going down, and so the overall county valuation is very stagnant. And you'll hear from some of those today. It's not a given that ag land is going to continue to go up forever. All of us, at least when I looked around here, all of us have lived through the cycle when ag land has dropped. And it goes up, it goes down, it's cyclical. That happens. While many folks are stating that we just can't increase taxes any more, I've got to tell you that there are certain requirements and mandates that counties have that we have to provide certain services. Counties are a creature of the state. The only ability we have to do anything is what the Legislature gives us authority to do. And so if we're going to be partners in this process, then at some point in time maybe we have to look at some of the mandates that are coming down or some of the obligations that are placed on counties by the state. It's interesting

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

Revenue Committee
January 26, 2012

the comment about people are leaving the state so they don't have to pay inheritance tax. And I looked at Senator Schumacher's analysis, and when he gave the example that said, okay, when Grandma dies and then the kids are going to have to pay in a certain amount of tax, well, if those kids left the state years ago to avoid the inheritances tax, I've got news for you: The inheritance tax, I don't care if they live in Florida, when that estate is settled in whatever county in the state, they haven't avoided it. People are not leaving the state to avoid paying inheritance tax. I've visited with a number of folks. I've visited...I'm getting of the age where a number of my friends are starting to look at retirement, and in those conversations a number of folks are looking at other states to move to. I haven't heard anybody lead off with the fact of can't wait to get out of here because my parents have some money and I don't want to pay inheritance tax. They tend to talk about, gosh, could I go to a place where there's less income tax? Could I go to the place where maybe the weather is better? Probably not any better than we've ever had in the state of Nebraska this year. But inheritance tax is not the thing that they lead off with. I've had the opportunity over the years to work in a number of businesses and with a number of businesses and talk to a number of businesses that have come into the state, and I haven't heard any of those folks tell me, at least, that they're not coming to the state because of the inheritance tax. I don't hear that. When I've asked county board members, I said...and I've only asked this of county board members who have been on the board more than ten years. I said, how many times have you had people come into your courthouse and say I want to come here; I want to be on the agenda; I want to talk about inheritance tax? We can't find any. When I've talked to state senators numerous times when they're campaigning and running for office, I said when people talk to you about taxes in the state of Nebraska, when you're out there knocking on doors, what do they talk to you about? It's property tax, plain and simple. People are concerned about those taxes. So when I hear people say, you know, people are leaving because of inheritance taxes, they're heading out of the state, I just...I have a hard time with that. I know that many believe that they understand the process of budgeting, but simply by making a statement we just have to tighten our belt a little bit more, I've got to tell you the history of the ten years that I've been here, you can almost mark every year in which there has been a reduction in aid to county government. The belts have been tightened. Last year, we lost state aid to cities, counties, and NRDs, and that was a significant, significant impact on those counties. We are to the point where the belt tightening can go no further. We are to the point where a loss of revenue is going to equate to a property tax increase. We almost cannot see any other way. In some parts of the state, when I was talking about the ag land value increasing, Senator Brasch has an area of the state that in the last year was somewhat decimated by flood. When the valuation comes out in a number of those counties, that ag land, there's a number of folks that are going to have a significant loss of value on those properties. And in those counties, we're going to have to look at the cash reserve to make that up because there's actually more demands on some of those counties because they've got to get those roads back into the quality they should be. And granted, NEMA and FEMA will cover some of those costs, but historically they've never covered 100 percent of

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

Revenue Committee
January 26, 2012

those costs. So in Senator Brasch's area that's a real concern. The property value decrease is a very realistic concern. I don't want to think...I don't want anybody to think it's just about roads and just about bridges and just about agriculture. Counties use inheritance tax for a number of reasons. Many times counties are supporting senior centers. They provide funding for our rural fire departments. They provide funding in the mental health area. They provide a significant amount of money in economic development. And many counties look to their inheritance tax, their cash reserve fund to fund those types of functions, which are very important to all of us. I've got to tell you, if we go through this process and we do not find a replacement revenue, and property taxes do increase, that does nothing for our state standing on any magazine, on anybody's statistical analysis. If our property taxes go up, we really haven't gained anything. It doesn't help our seniors. It doesn't help our folks on fixed income. It doesn't help our business folks and it doesn't help our ag folks. And so tax policy is all about a balance of revenue, and counties are limited in their revenue. It is property tax. That is the primary function of where we get our revenue. Before I complete, I want to make sure what I handed out to you is an analysis of property tax collected over the last three years in all 93 counties, broken out by county. That information comes to us by way of a request to the county. We take it, log it, and you have those figures in front of you. I'd be happy to talk to you about that. I would tell you NACO stands ready to have any in-depth conversation anybody wants to have about tax policy and about revenue sources and about where we move the state, how we move the state forward and how we populate the rural areas of the state. We're there. We're always going to be ready. I look forward to working with all members of the Revenue Committee. I look forward to working with all senators. And so I would be happy to answer any questions anybody may have. [LB970]

SENATOR LOUDEN: Questions for Larry? Senator Adams. [LB970]

SENATOR ADAMS: Thank you, Senator Louden. Larry, thank you for being here; one would expect that you would be, on this issue. Larry, not only am I concerned about the increase in property tax but that in and of itself assumes that counties have room under the lid to raise property taxes. [LB970]

LARRY DIX: That is correct. [LB970]

SENATOR ADAMS: How many counties, do you know, are up against the lid? [LB970]

LARRY DIX: The lid is a unique thing for counties. Counties have a 50-cent. And different than other lids, the county's lid is a constitutional 50 cents. So it isn't that we can come back to the Legislature and say, oh, you know, we're all at 50 cents; you need to raise it to 55. That isn't going to happen. When we look at the analysis--and that information comes out from Department of Revenue each and every year, and I'll be happy to get that to you and sort it--but almost every year the 50-cent lid, it's broken

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

Revenue Committee
January 26, 2012

down into components. There's about 5 cents that are for interlocal agreements and so we always look at 45 cents, of which 15 cents we can give to a number of political subdivisions such as fire districts and ag societies and things like that. So many of those counties, while you may look and you may say, well, they're sitting at 40 so they're not at the limit, but they've given away the other 5 cents to the other political divisions and, of course, 5 cents to interlocals. So some of them that are on the list sitting at 35 probably are what they would say, we're at our levy limit. But the ones I classify that are truly, truly there, in any given year were usually around 15 that are just...they're just there. They're just isn't anywhere to go. They may not be sitting at 50, but keep in mind, some of those counties, some of the rural counties in Senator Fischer's area...let me use Boyd County for an example. And say they have a murder trial that goes on and they say, oh, well, that's great; well, we'll raise the levy a penny. That brings in Boyd County \$27,000. They're not going to fund that. So while they're not at it, some of these counties even if they were to raise it, they're not going to raise very much money. So to answer your question, probably about 15. [LB970]

SENATOR ADAMS: My next question is probably given the way that inheritance tax is used as part of the revenue stream of the 93 counties, it varies so much that it may be virtually impossible for you to answer the question. But as I remember last year when we cut county aid, one of the things that I kept looking at was the percent that that aid from the state was of the revenue stream of counties. And typically I was seeing 1.5 to 2 percent,... [LB970]

LARRY DIX: Right. [LB970]

SENATOR ADAMS: ...which didn't cause me as much concern. All right. That doesn't mean that there wasn't pain involved. I get all of that. Do you...could you speculate for me at all, given that there are 93 different examples, what percent of revenue stream are we talking about here in inheritance tax? [LB970]

LARRY DIX: You nailed it right on the head. There's 93...probably 93 different answers to that. Some...and I think probably there's going to be some folks from counties that will be able to tell you what it is in their county to give you an example of that. I would tell you, over the ten years I've been executive director, over those ten years, historically, as we move forward to where we're at today, more and more counties are directly moving inheritance tax into their general fund immediately to keep the tax rates as low as they are today or to keep themselves under that lid. Ten years ago maybe that was a little bit different, but we are seeing consistently more and more counties moving as much money as they can on an annual basis into their general fund. [LB970]

SENATOR ADAMS: All right. Thank you. [LB970]

SENATOR LOUDEN: Other questions? Senator Hadley. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR HADLEY: Senator Louden, thank you. Larry, thank you for coming. I guess looking just quickly at this, I am truly amazed at the swing in some of the counties--tremendous swings in dollars. I can only speak for myself, and I think I probably told you this, that I would love to do away with the inheritance tax and just have the state backfill all the counties for \$48,193,000. But that just isn't going to happen because we don't have \$48 million. But something you said and something that I have thought about, you know, is there a possibility that, like, over four years we could reduce this a quarter of a cent a year, working with the counties in looking at how this is impacting them, and rather than one fell swoop that just puts a tremendous burden on the county for the year it is enacted? [LB970]

LARRY DIX: In my mind, the one fell swoop is just...just crushing us. I mean it literally does crush counties. One of the things that county government, like state government, one of the things that you really have to do is you have to put a plan in place and you have to understand where your revenue stream comes from. As I mentioned before, I'm more than happy to work with the Revenue Committee. If the Revenue Committee says, you know, let's sit down and really have a discussion about, you know, is there a way that we can look at those rates over a period of time that is manageable, you know, I think we would look at that. At some point in time we have to realize though, if we get to an elimination, we still have a problem. We've got to have another revenue source. Counties only have property tax. And I don't think it's anybody's intent to eliminate the source simply because of over time we just gradually, gradually, gradually increase property tax. And so I'm happy to have that conversation. [LB970]

SENATOR HADLEY: Okay. Your comment about revenue stream, in another bill that we'll be hearing tomorrow I happened to look at Kansas as an example. And I believe their counties do have a local option sales tax. Is that correct? [LB970]

LARRY DIX: It is my belief they do. They have that option available to us. [LB970]

SENATOR HADLEY: So when we look at some of the surrounding states around us, we might look at what revenue streams the counties have around us. And I do know that...I know for sure that Kansas has a local option voted on by the citizens of the county to tax themselves. The problem is, when you get to a McPherson County or such as that, it's very difficult to do because you just don't have any sales. But I just throw that out that there are maybe ways that we need to explore avenues to look at helping counties that we haven't looked at. [LB970]

LARRY DIX: I agree. [LB970]

SENATOR LOUDEN: Senator Brasch. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR BRASCH: Thank you. And thank you, Larry, for all your work and the work of the counties and mentioning Burt County and Washington County, who did experience extreme devastation and finances that will probably continue. It's not over. However, the problem here, a couple problems, a dilemma, is some of my dearest friends are on county board, supervisors. I know their hard work. But I listen to all constituents, all constituents. And I've heard stories of...and it goes...it's basically like, you know, back to this: My mother, while living, had a philosophy, "I want to give while my hands are warm." She was a generous, thoughtful person. And I don't know how many others in the county give to their foundations and give while their hands are warm. In Bancroft, there's fund-raisers, pancake feeds and omelets to help the senior center there. And when I've talked to some people, it's the facts here that, goodness, we had to pay the mortician, we paid this, we paid that, we paid the florist, we paid the lunch, we...and at the end of the day they paid taxes on death. And that's where, aside for the county board, if it was a perfect world, Grandma would give it to a foundation or write a check, you know, every so often to the counties. You know, I...we need a fund. We need something through the emergency fund or...where immediate funds can be delivered. And I don't know if the counties, you know, have looked ahead that you can't rely on, you know, everyone, you know, especially in today's world where at the end of an estate you might have been paying \$5,000 a month for Grandma at an assisted-living center or a nursing home and the medical, where the last thing you have is \$4,000 of a property and it's the kids paying Grandma's end of the days. But that's the dilemma. It's not that they're contesting the good will or ability of the counties, but we do need to look at, you know, other ways, you know, that we can reduce taxes. There...and you're right, the property tax. It's property tax, then personal property tax, and then the sales tax, and you know, it's just a real struggle to survive. And, you know, back to the thing--it's giving while your hands are warm. That's the whole issue here I believe.
[LB970]

SENATOR LOUDEN: Senator Schumacher. [LB970]

SENATOR SCHUMACHER: Two quick questions: I asked earlier testifiers if they could give me a breakdown on how much revenue is from the class of kids, the tiny tax class, the nieces and nephews and the mistress class. Do you have those numbers? [LB970]

LARRY DIX: Let me explain that to you and sort of what we do as an association. About every probably four or five years we will go out to eight or nine counties, because...and we try to make that a representative sample of counties. So we'll take counties in the Panhandle and then I think we use Sarpy County and Buffalo and around the state, and we go out and actually analyze the inheritance tax. And to do that, you have to go into the court system, as you well know, and pull all these documents. And, of course, that will change from year to year on any given estate as to how much is into the Class I's, Class II's, and Class III's. So the fewer numbers, of course, the broader it becomes. And the more cases you could take, you can refine those to a more specific percent. But that

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

Revenue Committee
January 26, 2012

given the case, the sampling that we have looked at, the last time we sampled and the last time and the time before, the numbers were different, but at least you're going to get an idea. In the Class I's, it's probably about 44 or 45 percent; Class II's, 43, 44; and then the remaining 10 are out there in the Class III's. That's at least how it broke down the last time that we sampled that. And like I said, that's a sample of about seven counties. If we could ever have the time...and it takes our staff about 30 to 45 days to actually go out to those counties, go through the court system, analyze that. We just simply don't have the time to sit down and do 93 counties but we try to make that a representative sample. So that would be the best answer I could give you. [LB970]

SENATOR SCHUMACHER: And so...and then the second question: Any merit to thinking of making this county option whether they have an inheritance tax; that way if a county really believed this theory that people move because of a 1 percent tax or something, that it could get rid of its tax and have all the other people come move into it? (Laughter) [LB970]

LARRY DIX: That...you know...and, Senator, you and I, we sort of touched on that this morning at the top of the stairs, and you, quite honestly, you sort of caught me off guard and I didn't know quite how to respond to that at that point in time. But I gave it a little more thought, and I think what you would have is, you know, all of sudden, businesses probably more so--you're not going to move the farm ground--but businesses are probably going to start to...we're going to have a checkerboard across the state and businesses are going start to bounce around, I would assume. So I hear what you're saying but I don't know that I would go as far as to say I think it's a great idea. [LB970]

SENATOR SCHUMACHER: Darn. Thank you. [LB970]

LARRY DIX: You're welcome. [LB970]

SENATOR LOUDEN: Senator Fischer. [LB970]

SENATOR FISCHER: Thank you, Senator Louden. Thank you, Mr. Dix, for being here. I had a question proposed to me and I don't know the answer so I would like to ask you. Can you tell me, are there forms that are filled out for the inheritance tax? [LB970]

LARRY DIX: Yes. [LB970]

SENATOR FISCHER: Are those filed with the county? [LB970]

LARRY DIX: Those are filed at the county court. Yes. [LB970]

SENATOR FISCHER: Are those also filed anywhere else? [LB970]

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

Revenue Committee
January 26, 2012

LARRY DIX: Not to my knowledge. I think the filing takes place at the county courthouse. Tax attorneys will complete those forms. And when you see those forms, it's somewhat like an income tax form. It sort of has all the columns and lists all the kids and puts them in these three categories and then comes down and calculates out the tax. And then it's my belief that when that estate is settled then that information is filed at that county. [LB970]

SENATOR FISCHER: Is it sent to the Department of Revenue? There would be no reason, would there? [LB970]

LARRY DIX: There is no reason. That's right. [LB970]

SENATOR FISCHER: Are there ever any audits of those forms that are filed? [LB970]

LARRY DIX: Only if they audit as they are auditing the county you would audit those. But beyond that,... [LB970]

SENATOR FISCHER: But they are included in a county audit? [LB970]

LARRY DIX: Well, I wouldn't say they are... [LB970]

SENATOR FISCHER: I see people nodding. [LB970]

LARRY DIX: Yeah. I would say when you go from county to county, you know, we have a county audit, but how much they specifically...I would say they probably take a random sample like they do typically in audits, take a sampling of those and do the audit on those. [LB970]

SENATOR FISCHER: On another tack here, I appreciate your offer to work with the committee if the inheritance tax is eliminated, but do you truly believe that this legislative body will ever implement a new tax if we eliminate an inheritance tax,... [LB970]

LARRY DIX: Well, I... [LB970]

SENATOR FISCHER: ...such as a local option sales tax for counties? It goes beyond, I believe, the realm of possibilities that we would implement a new tax. I could not support implementation of a new tax. So while I appreciate your offer to work on that, if you're looking for another source of revenue I think you are misleading yourself and your members. [LB970]

LARRY DIX: And, Senator Fischer, you and I have had a number of conversations over the many years that you and I have both been here, and I would tell you we've sort of been down that road before but we've never succeeded. But as many of you know, who

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

Revenue Committee
January 26, 2012

see me every day, I'm the eternal optimist. [LB970]

SENATOR FISCHER: Yes, you are. [LB970]

LARRY DIX: I'm always positive. [LB970]

SENATOR FISCHER: Yes, you are. [LB970]

LARRY DIX: I always want to try to think positively. And so I just want to make it clear to the Revenue Committee that we're open to having that discussion. I would agree with you, I don't think there's any way that if we would eliminate inheritance tax, thinking that out of the goodness of their heart that the Legislature and the Governor would sign off on a tax increase, it's not going to happen. You are exactly right. [LB970]

SENATOR FISCHER: I believe there's a representative from Holt County in town today. I don't know if that representative is going to come forward, but I'm going to use them as an example. In Holt County, we see big fluctuations on the information that you've provided us: \$250,000 in the '08-09; \$1.3, almost, million in '09-10; and then \$750,000 in '10-11. Do you know what Holt County used that money for and what they are dependent upon that money for? [LB970]

LARRY DIX: I do not specifically know what Holt County used it for. And I think...I believe there was a letter that was sent to the Revenue Committee on Holt County and... [LB970]

SENATOR FISCHER: I know we have a packet of letters that were here and I haven't had a chance to go through them since I'm listening to testimony. [LB970]

LARRY DIX: Yeah, I got to get those in too. [LB970]

SENATOR FISCHER: But I can tell you, in Holt County there was a tremendous amount of flooding this year. They saw roads washed out. They saw bridges washed out. And if...I'm sure the \$1.3 million that year, if they hadn't spent it all, it helped. But the \$250,000 didn't do much with regards to road repairs, as you know. [LB970]

LARRY DIX: Right. Yeah. [LB970]

SENATOR FISCHER: What do you think Holt County would...I don't know where they are on the levy. Do you have that information handy? [LB970]

LARRY DIX: I can tell you. Holt County is sitting at .34, so that would be...and really, whenever we look at these tax rates, we really have to dig down in there and say, okay,... [LB970]

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

Revenue Committee
January 26, 2012

SENATOR FISCHER: Uh-huh. [LB970]

LARRY DIX: ...there's their .3, but have they, in essence,... [LB970]

SENATOR FISCHER: Right. [LB970]

LARRY DIX: ...which you typically will find in rural counties, that they have gone and they've given their 15 cents to sort of this list of political subdivisions. And that's typical in the rural area. So when I see Holt County at .34, I'm thinking they're pretty close to their max. [LB970]

SENATOR FISCHER: That's pretty high. And can you tell me where Rock County is on their levy? [LB970]

LARRY DIX: Well, Rock County...Rock County...actually Rock County is sitting at .53, and some people would ask, how did they get at .53 when there's... [LB970]

SENATOR FISCHER: Maybe I just got them into trouble. [LB970]

LARRY DIX: ...and when there's a constitutional limit? And some counties will have hospitals... [LB970]

SENATOR FISCHER: Right. [LB970]

LARRY DIX: ...so that they can actually go over that .5. But in Rock County...and I...unfortunately I handed out all my handouts, but whatever Rock County has in inheritance tax, and if they're sitting at .53, they're in trouble. [LB970]

SENATOR FISCHER: Right. They are in trouble. [LB970]

LARRY DIX: They're just...they're in a world of hurt. [LB970]

SENATOR FISCHER: And I can tell you a lot of rural counties in this state are right up against that limit and they're in trouble, and there's not much they can do. I can also agree with you that counties have cut a tremendous amount and it would be difficult for them to cut more. And it's easy to sit here and say you should cut, and I'm one of those people who tell you, you should cut. But I'm also... [LB970]

LARRY DIX: Yeah. [LB970]

SENATOR FISCHER: ...a rural senator and realize the problems with that. What do you expect these counties to do if the inheritance tax is removed? My guess is if they are up

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

Revenue Committee
January 26, 2012

against that lid, if they...a lot of services are going to be discontinued, where in many cases they already...they've already discontinued services. Would you agree with that? [LB970]

LARRY DIX: I would agree with that. And in visiting with a number of county board members, and you know, since this all came out a few weeks ago, it's...and my life has been pretty interesting because I'm getting calls at 7:00 and 8:30 at night from county board members genuinely just worried and saying, I don't know what we would do. A number of them have said they would look at a plan of closing roads. They probably are in a situation where they would close roads and bridges. And I've got to tell you that is not good for...in an agricultural state, when we get to the point we're closing roads, that is not good for an agricultural state, because it is so vital for the agricultural folks to get that product from farm to market. But when you look at some of those county budgets, that would be where they would have to make the cut. [LB970]

SENATOR FISCHER: And as you travel the state, and you do a lot, what tax do you hear about from people, the most complaints? What do people complain about? [LB970]

LARRY DIX: The most complaints that I have...I travel the state, I talk to a number of different groups. The loudest complaint I have is property tax. [LB970]

SENATOR FISCHER: I complain about all of them but (laughter) the property tax is what I hear about too. And to be honest with you, I don't know what I'm going to do on this. I don't know what the committee is going to do on it. But my concern is that in order to eliminate one tax, we're just...that hits people one time, we're going to transfer that to a tax, the property tax, that will be hitting people over and over and over again to provide services. So thank you. [LB970]

LARRY DIX: Thank you. [LB970]

SENATOR LOUDEN: One thing I would ask, Larry, that I think you can clarify for me. Sheridan County and some of them, they're like at 48, and you talk about that 15 cents in there that they can give to somebody else. They used that up themselves a long time ago. In order for your road districts or your fire districts or your hospital districts to get any levy, they have to go ahead and vote in an override. So when I say I'm talking about counties that are up to the max, I mean they're up to the max. The 15 cents was...hell, that went away 15, 20 years ago. [LB970]

LARRY DIX: Yeah. [LB970]

SENATOR LOUDEN: So I would like to have that clarified... [LB970]

LARRY DIX: Sure. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR LOUDEN: ...that when you say they're 35 cents and up to the maximum, that's if they got that 15 cents that they give to everybody else. But Sheridan County has used that a long time ago. [LB970]

LARRY DIX: Yeah. You have a number of counties that have used that, and then you have a situation where, say it's a fire department, they'll have a meeting and they'll vote to exceed that. So they have their local town hall meeting, and that tax goes...just continues to go up. [LB970]

SENATOR LOUDEN: Okay. Thank you. Senator Schumacher. [LB970]

SENATOR SCHUMACHER: One other quick question: For the truly wealthy that might leave their money to charity, philanthropy, or just want to give during life to their community with a warm hand, those charitable deductions are all deductible. There's no tax on those. Is that correct? [LB970]

LARRY DIX: That is correct. [LB970]

SENATOR SCHUMACHER: Thank you. [LB970]

SENATOR LOUDEN: Senator Hadley. [LB970]

SENATOR HADLEY: I feel like this is Groundhog Day. I leave and come back, and Larry is still here. (Laughter) [LB970]

SENATOR LOUDEN: It's kind of like watching soap operas. [LB970]

SENATOR HADLEY: Yeah. Larry...and I could ask this question of anybody that comes up, and I asked it of the proponents so I'm going to ask it of you. From a tax policy standpoint, economic development is important for counties. I mean, it brings businesses in and such as that. Where should we be targeting? Should we be targeting at overall income tax reductions, overall corporate income tax deductions, the inheritance tax deductions? Or should we be looking at selected tax incentives that we have traditionally looked at through things like the Advantage Act and those kinds of things? [LB970]

LARRY DIX: Yeah. And, Senator Hadley, I appreciate the question and, you know, I sort of live in the property tax world. Certainly I would say I am not an authority on the income tax or the sales tax, only of personal experience of having owned a business before and having lived in a state without income tax but with a significant amount of sales tax. And it seems like the sales tax, when you talk to folks, the sales tax is one that incrementally every day that I continue to pay. And many times I've asked people, I

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

Revenue Committee
January 26, 2012

said if you were to take sales tax and you were to add it up every day and really keep track of it, I think you would be shocked at the amount of tax that you pay on sales tax, but it's one that you probably have the least complaints on. And I think Nebraska positions itself very well from a sales tax point of view. So while that doesn't answer your question, it just goes back to the answer that I would give Senator Fischer: The one that I hear people complain about is the property. [LB970]

SENATOR HADLEY: The most. Okay. Thank you, Larry. [LB970]

SENATOR LOUDEN: Other questions? Seeing none, Larry, why, thank you for your testimony. [LB970]

LARRY DIX: (Exhibit 8) Thank you. And, Senator Louden, I failed to introduce this letter on behalf of Adams County and Boone County. And I know all of you received a number of letters, and I will coordinate to make sure we don't have any duplicates. And what you don't have, I'll get to you. [LB970]

SENATOR LOUDEN: Okay, thank you. Okay, first...next opponent. [LB970]

DON SCHNEIDER: Begin? [LB970]

SENATOR LOUDEN: Go ahead. [LB970]

DON SCHNEIDER: My name is Don Schneider. I do not represent any group. I reside in Ames, Nebraska--rural Dodge County. I'm a lawyer. I practice in Fremont, Nebraska. I am here to oppose the portion of LB970 that would eliminate the inheritance tax. I have several things I was going to say that I will not say because of the time, so I'm going to address two or three very highlight issues that have come up here today. One is amounts. Dodge County would lose \$750,000 to a \$1 million a year under this proposal with no realistic way to make it up. That inheritance tax money is used for all kinds of vital local services ranging--different things, different years--but they range from bridge repair, road repair, economic development. The county was able to offer to help out on an economic development plan a couple years ago by providing funding for a redundant fiberoptic cable, and that's just one example. These folks that say, well, we need to eliminate the inheritance tax because we need to have economic development and it's a killer--well, that's crazy. In many counties this is one of the things it's used for. Number two: cuts. The Governor spoke proudly of the fact that the state, his budget, is going to be at 3.5 percent increase. Counties have been under a 3.0 percent lid for going back to the 1980s. They have been an example and so has our city. Our city of Fremont, I would ask anybody to look at the tax rates for the city of Fremont or the county of Dodge and tell me that they are not being frugal to the bone. There's no way to make this loss of revenue up other than property tax increases. Now this business about the Tax Foundation, you know, the Tax Foundation, the Tax Foundation, as if that is the

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

Revenue Committee
January 26, 2012

end-all and the be-all of whether a business is going to do business in the state of Nebraska. Well, if that was true, would you please...oh, and then they always say, well, we're better than Iowa. If that's true, would you please tell me why Google just moved to Council Bluffs, Iowa, and why PayPal a couple years ago moved to the state of Nebraska? I mean that's like the Bill Callahan approach to recruiting: Oh, we've got to have four stars and if all we do is...and right there on the page, four stars or five stars, we'll win games. I would submit to you that Coach Pelini has the right approach. Let's find people that match our state, that match our values that we can develop a relationship with. And I submit that that's what has worked for the state in the past. I remember being down in Louisiana several years ago, and I was just stunned, and I happened to be reading something: There was one Fortune 500 company in the entire state in Louisiana. And I thought...and I was able to name five right off the top of my...just kind of went like that as I was reading the plaque in the state of Nebraska, and that's before they put Berkshire Hathaway on the list. There's nothing wrong with this state, in my opinion. I was born in this state, I was raised in this state, and I was educated in this state. So the idea that, well, we've got to be some number on this Tax Foundation, again I'll draw you an analogy between Coach Callahan's approach and Coach Pelini's and which one is more successful. That's the key to economic development. And once you have somebody there that you're talking about and they have a business that somehow relates to what we already have here in our economy, then you say, yeah, we have an inheritance tax; it's a whopping 1 percent--and it's not a factor. Okay, point number three, and I'm heartbroken Senator Schumacher left, but he asked everybody and only one witness gave him an answer. I'll give an answer from my experience. I've practiced for 30 years. I'm just a small-town lawyer in Fremont. My office is a block off of Main Street. In those 30 years, I have had one mistress estate and I think two niece-nephew estates. Okay? So when they're sitting there talking about, oh, this is a horrible 18 percent rate, that is at most affecting not even 1 percent, in my experience, but fine, I'll give it 1 percent. In fact, the vast...when it's passing to the spouse, there's zero tax. So put that on the side. And then, okay, there's no surviving spouse. With the way that we have created our exemptions, the majority of people who come into my office: What do we do, Mom died; you know, Dad died. The majority of times I look through the stuff and say, do you know what you have to do? Nothing, because you're not subject to estate. If there's four kids, that's right off the bat a \$120,000 exemption, and that's without even subtracting the...you know, the costs, the medical expenses, the funerals. And another correction: Funerals now tend to be running \$8,000 to \$10,000, just for your reference. And okay, the ones that are going to the kids of...you know, you take away the ones that owe no tax, maybe 30-40 percent of them might have to pay a Nebraska inheritance tax or county inheritance tax at 1 percent. Now I said I'm a small-town lawyer. My clients are farmers, businesspeople, and ordinary people who live in houses in Fremont and Scribner and Hooper. The...not one of them has ever complained to me about the inheritance tax--and this includes the ones that we've had to pay some small amount of inheritance tax to. They've never complained. Now back when we used to have an estate tax, yes, I will grant I would

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

Revenue Committee
January 26, 2012

hear complaints back then because once you went past the exemption, it started, as I recall, 45 or 48 percent. But the inheritance tax? I have never had a complaint that I...the farmers...the farmers are...the idea that their property tax is going up further...and, I'm sorry, but there is no other option. You talk to them. And the renters in Fremont, they (inaudible)...you know, every time the property tax goes up, it's not like the renters...doesn't affect them. They get their rent increased. So for those reasons, I urge you to strike the section of this bill that would eliminate the inheritance tax. It simply is not good policy from any point of view that I can possibly understand. And as in terms of wealth exodus, I have since seen some people leave this state for tax reasons, and the sole reason they left was property tax. I have never heard anyone say that they were going to leave this state for inheritance tax. I answered your question. My experience is 1 percent. [LB970]

SENATOR LOUDEN: Is there questions for Mr. Schneider? Senator Pirsch. [LB970]

SENATOR PIRSCH: Thanks for coming and testifying here today. And I wonder if you might testify a little bit more as to your background. [LB970]

DON SCHNEIDER: Oh, my, sure, background. [LB970]

SENATOR PIRSCH: I'll try to speak up. With respect to inheritance...so we're talking about in the three categories, those who are the closest who are paying the 1 percent, right? Of those, how many of those who are taking, as a result of the passing of a mother or father, those primary category, how many are leaving the state or not in the state anymore? [LB970]

DON SCHNEIDER: Oh. Well, that's something that in my personal practice...well, first of all, nobody leaves because of it. That's a fact. [LB970]

SENATOR PIRSCH: Right. [LB970]

DON SCHNEIDER: But in terms of the ones where Mom is...Mom and Dad are now gone and are the children out of the state,... [LB970]

SENATOR PIRSCH: Right. [LB970]

DON SCHNEIDER: ...oh, I'd say, you know, maybe 15-20 percent of the time there's...well, no, no. You've got to...okay, you have to break it between all of the children versus one or two of the children, okay? All of the children being out of state, not that common. And if I had to put a number on it, I'd say maybe 5, 6, 7 percent. Now the cases where there's one or two still in the state, one or two out of state, well, sure, that goes up maybe 40, 50 percent. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR PIRSCH: Okay. Thank you. [LB970]

SENATOR LOUDEN: Other questions for Mr. Schneider? Seeing none, thank you for your testimony. [LB970]

DON SCHNEIDER: Thank you very much. [LB970]

SENATOR LOUDEN: Go ahead. [LB970]

MARY ANN BORGESON: (Exhibit 9) Good afternoon, Senators. Thank you. My name is Mary Ann Borgeson, M-a-r-y A-n-n B-o-r-g-e-s-o-n. I'm the vice chair of the Douglas County Board of Commissioners. The Douglas County Board strongly opposes LB970 and the elimination of the inheritance tax. In recent years, Douglas County has collected an average of \$8.5 million in inheritance tax revenue, some of it from the people who live outside Nebraska, to pay for the state-mandated services. Douglas County uses the inheritance tax to offset the cost of caring for the poor, persons with mental illness, health and general assistance for the poor, veterans' services, long-term care for the indigent elderly, and services that protect the children from illness. Please note, these are Nebraska state-mandated functions, not feel-good work. Anything that is not mandated is done to reduce the cost of our mandated services. This past year, \$4 million was allocated to the Douglas County Health Center, which houses our long-term care, assisted-living, community mental health center, and primary care clinic; \$3 million was to the general assistance; and \$1 million to the Health Department; \$100,000 to veterans; and \$900,000 to the general fund. If the county loses this revenue and continues to provide the Nebraska state-mandated services to these vulnerable populations, Douglas County would have no choice but to approve an 8 to 11 percent property tax increase. Property tax is the only major taxing venue for the Nebraska counties. Already we were faced with the elimination of state aid, a decrease in the Medicaid reimbursement rate, the keno revenue. We have increased healthcare cost, flat property tax valuations. But despite those obstacles placed in our way, Douglas County has managed so far to keep our mill levy at 26.459 cents per \$100 of assessed value. To do that, we have cut the county work force by more than 100 employees, initiated a hiring freeze, increased deductibles for the employee health insurance, and we are constantly examining how we could do things more efficiently to reduce the costs so we can provide state-mandated services. Property taxpayers should not be subject to the additional burden because of this shortsighted proposal. The idea that the inheritance tax is a deterrent to business locating in Nebraska is a misconception. Omaha has been ranked as third best city in the U.S. in which to build wealth. Corporations do not pay the income (sic) tax, neither do surviving spouses or charities. Immediate relatives pay only 1 percent of the money under a generous exemption. Unless the lawmakers relieve county governments of the state-mandated services to these populations or find adequate funding elsewhere to make up the substantial revenue loss, LB970 in reality is nothing more than a shift, cost shift, and it will further

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

Revenue Committee
January 26, 2012

add to the burden of our taxpayers, your property taxpayers, my property taxpayers. So if nothing else, please remember these points: that LB970 is nothing but a tax shift; this money is used for the Nebraska state-mandated services upon counties; and that we are using it in Douglas County for our veterans and most vulnerable citizens. The Douglas County Board joins other Nebraska counties in urging you to oppose LB970. We thank you for your time. [LB970]

SENATOR LOUDEN: Okay. [LB970]

MARY ANN BORGESON: I have also included in there our mill levy over the last ten years and a pie chart of our budget and where our money goes. [LB970]

SENATOR LOUDEN: Questions for Ms. Borgeson? Senator Hadley. [LB970]

SENATOR HADLEY: Senator Louden, thank you. [LB970]

MARY ANN BORGESON: Hi, Senator Hadley. [LB970]

SENATOR HADLEY: Ms. Borgeson, thank you for coming down here. I appreciate it very much. The people we've heard so far as the opponents have basically talked about the inheritance tax. Does Douglas County have any viewpoints on the income tax cut and the corporate income tax cut? [LB970]

MARY ANN BORGESON: We don't have anything to do with either one of the other taxes you're talking about, so we didn't take a position on those. [LB970]

SENATOR HADLEY: Okay. Okay, thank you. [LB970]

MARY ANN BORGESON: Uh-huh. [LB970]

SENATOR LOUDEN: Other questions? Seeing none, thank you for your testimony. [LB970]

MARY ANN BORGESON: Thank you. [LB970]

ALVIN GUENTHER: (Example 10) Good afternoon, Senator Louden. My name is Al Guenther. I'm a retired economics instructor and I come before you today to strongly oppose LB970. My last name is spelled G-u-e-n-t-h-e-r. The last two pages of my testimony I will not state to you, but those...it is an essay of mine that appeared in the Nebraska City News-Press just this last Tuesday. Nebraska, along with other Midwestern states, is enjoying a strong economy. These states' economic strengths are the result of the production of commodities for which there is strong consumer demand. North Dakota, Oklahoma, Texas, Wyoming, and Alaska are experiencing strong

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

Revenue Committee
January 26, 2012

economies from the production of fossil fuels. Nebraska and Kansas are enjoying strong economies for their production of agricultural commodities. These states' successes are the result of the production of commodities that have strong consumer demand, not their place on the Tax Foundation ranking. Agricultural commodities have high demand both domestically and foreign. The foreign market is driven by the huge federal government budget deficit weakening the dollar, and the domestic demand is driven by the ethanol industry. LB970 is being promoted to propel the state of Nebraska to a higher ranking in the Tax Foundation's rankings. Proponents of LB970 support the legislation touting that corporate tax cuts are essential to promote investment in Nebraska. There is virtually no reputable economic evidence to support that claim. The Nebraska Advantage, internship program, Angel Tax Credit, of which proponents often tout as being innovative and bold, are simply an extension of President Ronald Reagan's trickle-down or voodoo economics, and they are three decades old. An unbiased study of these businesses and corporations that are investing in Nebraska should show that these investors are taking advantage of strong household and business demand generated by the thriving agricultural economy. The Union Pacific Railroad is investing billions of dollars in a 23-state area because of strong demand for their service. Railroad consumers are demanding service to move automobiles, chemicals, and agricultural products. The lost revenues to the state of Nebraska from passage of LB970 must be recouped somewhere. Nebraska households will once again be called upon, through increased local property taxes, to replace lost state aid to help support the local libraries, voluntary fire departments, police departments, sheriff departments, community colleges, sewer funds, local public schools, and local emergency medical responders. Proponents will say that the local entities must follow the lead of the state and cut their operating budgets. A great percentage of the costs of local entities are fixed, for example healthcare costs--not variable and cannot be cut. Furthermore, it would seem that if an heir to an estate that is sizeable enough to be subjected to the inheritance tax could likely afford a term life insurance policy to cover the incurred tax obligation. Stop being greedy and stop relying upon the average household to cover the cost of lost revenue. LB970 closely resembles the screen pass in the game of football. Sucker the average Nebraska income earning household in, then pass the football over their heads to score the termination of the inheritance tax and cut in corporate income taxes. The baiting of the average Nebraska household taxpaying citizen with a personal income tax reduction to accomplish a termination of the inheritance tax and corporate tax cut to pursue a personal and national agenda, in my opinion, is arrogant, deceitful, and despicable. Referring to the State of the State Address, Nebraska average income households earning from \$35,000 to \$36,500 would receive a tax cut from 3.57 to 3.4 percent--a 4.8 percent reduction; while a corporation earning \$100,000 or more would receive a tax cut from 7.81 to 6.7 percent--a 14 percent tax reduction. To conclude, it is not tax breaks that make a state or economy successful. It is consumer demand. This demand comes from households, businesses, and government. A state will experience a healthy economy when households have a strong discretionary disposable income, a government that responds to the demands of

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

Revenue Committee
January 26, 2012

its constituents, and a viable business community that contains entrepreneurs that are responding to the demands of the consumers, not corporate tax cuts. Morgan, Virgil, and Wyatt Earp did not go to Tombstone, Arizona, to operate the Occidental Casino because of tax breaks. They went to Tombstone because of the silver boom and consumers were spending money. The free enterprise system is built upon consumer demand. The main function of government is to protect the property rights of its citizens, not to pass legislation that shows favoritism for a select few to promote one's personal and national agenda. Thank you. [LB970]

SENATOR LOUDEN: Thank you. Questions for Mr. Guenther? Seeing none, thank you for your testimony. Appreciate it. [LB970]

ALVIN GUENTHER: All right. Thank you. [LB970]

RENEE FRY: (Exhibit 11) Good afternoon, Senator Louden, members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director for OpenSky Policy Institute, a newly formed, nonpartisan think tank focused on tax and budget policy in Nebraska. I'm here to testify in opposition to LB970. We have three primary concerns. (1) As you see in the charts before you, more than half of the proposed cuts are going to the wealthiest 20 percent, and only 20 percent of the tax cuts go to Nebraskans making less than \$57,000 a year, who make up well over half our state's residents. With the median household income in Nebraska \$48,000, LB970 does little to lower the taxes of Nebraska's middle class. (2) Only 11 percent of Nebraska's C corporations, those making over \$100,000, and who collectively make 92 percent of the C corporation net income, would benefit from LB970, providing little tax cutting for the majority of Nebraska's small businesses. (3) There is a \$636 million gap between the budget prepared by the Legislative Fiscal Office and the Governor's budget. LFO is projecting a \$343 million shortfall in the next biennium without the tax cuts. LB970 almost doubles this deficit, bringing it to \$636 million, and would require an 8 percent cut to the LFO budget--this after multiple years of cuts. You already have more difficult choices ahead to fill the \$343 million shortfall. LB970 will only make your choices harder and the cuts more painful. It's important to note--and I think Senator Schumacher may have brought this up earlier--that there are a host of unknown costs that have yet to be factored in: child welfare reform, healthcare reform, cuts that will flow to the state and localities from the federal sequester due to the deficit, just to name a few. We aren't voicing opposition to the tax cuts on the grounds that taxes are so good that no one should want to cut them. We're opposing the tax cuts because they undermine some of the most effective, time-tested ways to create jobs and build the economy. Every penny of these tax cuts will have to be made up by restraining our investments in the things that really create jobs and a strong middle class, like good schools, safe communities, and quality healthcare. It is our position that the long-term price of LB970 is not the right thing for Nebraska right now, but that it would be more prudent to wait until our economy has more fully recovered and when there are fewer

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

Revenue Committee
January 26, 2012

uncertainties facing our state. OpenSky Policy Institute is working on a budget and tax primer that we plan to release this spring, along with recommendations to modernize our tax code, which hasn't undergone major reform since the 1980s. Our tax code is no longer relevant to Nebraska's economy in many ways, and yet we continue to tinker with the system without regard to the long-term consequences. LB970 essentially replaces the run-down family car with a new mule. Our number one priority is to work with you to develop comprehensive solutions to provide opportunities for all Nebraskans. We exist to be part of the solution and are available to you as a resource. Thanks so much for your time and I'm happy to answer any questions. I also would...hadn't factored it into my time, but do have a couple of comments. There were questions about the Tax Foundation rankings in terms of property tax versus income tax, and I have those charts if you would like to know those. Also there was a question about economic growth which I'm happy to respond to as well. [LB970]

SENATOR LOUDEN: Okay. Questions for Ms. Fry? Senator Schumacher. [LB970]

SENATOR SCHUMACHER: One quick question: There's a book out called The New Capitalist Manifesto, and it talks in terms of three-dimensional accounting: when you account, and then you give tax incentives and things like that, you not only look at this year or short term, but you also look at the total social impact. Have you guys used any of that type of theory in your numbers? [LB970]

RENEE FRY: You know, we haven't. In terms of the data that you have before you? [LB970]

SENATOR SCHUMACHER: Yes. [LB970]

RENEE FRY: Yeah. In terms of the data that you have before you, that's the immediate impact for the next biennium. So what we are doing for our larger project is a primer which will include recommendations looking long term of what we need for our tax code so that we do have the appropriate revenues and expenditure balance. So we're working on that right now. We should have that out in a couple of months, and we'll be sharing that with you. [LB970]

SENATOR SCHUMACHER: Thank you. [LB970]

SENATOR LOUDEN: Other questions? Senator Fischer. [LB970]

SENATOR FISCHER: Thank you, Senator Louden. Would you answer those two questions, please? [LB970]

RENEE FRY: Sure. Thank you for the opportunity. So there were a number of questions about property tax versus income tax. And the Tax Foundation actually, if you want to

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

Revenue Committee
January 26, 2012

look at them as a resource, which I'm not necessarily condoning one way or the other, but if you look at the ranking of Nebraska regarding income tax, Nebraska ranks 29th, and in property tax burden ranks 37th. So if we're going to hold the Tax Foundation up, the Tax Foundation studies themselves would suggest that our tax burden is actually worse on the property tax front than it is on the income tax front. And in terms of economic growth, I think you asked a question, Senator Hadley, about economic growth. And we can't discount how important it is to grow the government sector is as well, and so part of the issue is that the last two years we've actually had negative growth. There was an article in the paper just a couple of days ago talking to three economists about the Nebraska economy. And the UNL economist actually talked about how most of the sectors in Nebraska are very strong, and one sector that's actually not growing is government. And we have to keep in mind that strong...you know, adequate investments in education are really an important economic development tool. And so our concern is that the budget that would be required to allow for LB970 would require drastic cuts in education and other services, so it would actually work against us rather than for us. [LB970]

SENATOR FISCHER: When you say that the government sector didn't grow, you're including of education jobs, teachers, in that? Are you including...is that correct? [LB970]

RENEE FRY: Yes. [LB970]

SENATOR FISCHER: Are you also including all employees in postsecondary education? [LB970]

RENEE FRY: That's my understanding. This was actually a comment... [LB970]

SENATOR FISCHER: But if you look at number of students, has there been a large increase or a large decrease that would influence those numbers? [LB970]

RENEE FRY: This is speaking to growth so...and this is a UNL economist that made the comment, not myself. But the comment referred to so if you look at the budget and if you look at the Nebraska budget, the appropriations, so the last two years have had negative growth in terms of the amount of appropriations that have been spent, have been... [LB970]

SENATOR FISCHER: That has been our objective has been to cut government spending, though. [LB970]

RENEE FRY: But it does have an impact on higher education, K-12, healthcare, you know, how... [LB970]

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

Revenue Committee
January 26, 2012

SENATOR FISCHER: I guess I'd like to visit with you more about that because I'd like to know what that impact is specifically on it with regards to economic growth. [LB970]

RENEE FRY: Sure. I think the point that I'm trying to make is that we talk a lot about growth in terms of the business sector. And sometimes we promote growth in the business sector at the expense of growth in the government sector, and we forget that government does a lot to assist businesses. And so, you know, somehow government has gotten sort of this four-letter word, but we have to... [LB970]

SENATOR FISCHER: I think it's a difference of philosophy on where growth should be. [LB970]

RENEE FRY: And all I'm saying is that I think we need to remember that when we're talking about government growth we are talking about the number of kids in a classroom and we're talking about how long people wait at the DMV and we're talking about, you know, services that are really important to small businesses, you know, needs that they have. And we're talking about long-term investments in education, which is really important and businesses want well-educated work force. And so I'm just... [LB970]

SENATOR FISCHER: Correct. [LB970]

RENEE FRY: ...I don't want us to choose one over the other. I'm just...my point is that I think it's important to keep in mind that they're both valuable and important for economic development. [LB970]

SENATOR FISCHER: Again, I think that's a philosophical question. Could you tell me... [LB970]

RENEE FRY: Sure. [LB970]

SENATOR FISCHER: ...on the OpenSky Policy Institute, that's a new group that has formed? [LB970]

RENEE FRY: It is, um-hum. [LB970]

SENATOR FISCHER: And who formed it? What's the background on it? [LB970]

RENEE FRY: Sure. [LB970]

SENATOR FISCHER: I'm always curious when groups come forward who they are. [LB970]

RENEE FRY: Sure. And I do have at the back there a list of our board of directors as

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

Revenue Committee
January 26, 2012

well as our technical advisory committee. So we incorporated at the end of September and we are a group that actually came about from a need that the community saw in terms of not having data when issues of this matter came up. And so since actually August we've been identifying people for the board of directors, people who have a common interest and really care about Nebraska and the community and really want to move Nebraska forward. And so you'll see...you'll probably recognize some of the names on our board of directors list. We're not... [LB970]

SENATOR FISCHER: Okay. [LB970]

RENEE FRY: Okay. [LB970]

SENATOR FISCHER: Oh, no, that's fine. I found it now... [LB970]

RENEE FRY: Oh, okay. [LB970]

SENATOR FISCHER: ...so thank you very much. [LB970]

RENEE FRY: You're welcome. [LB970]

SENATOR LOUDEN: Other questions? Senator Hadley. [LB970]

SENATOR HADLEY: Senator Louden, thank you. I'll ask you the same question I asked a couple others. Which...is there...should we be looking at the macro approach to grow our economy by tax cuts for corporate and personal citizens? Or should we use the micro approach where we look at areas in our tax code that are inappropriate and discourage investment in Nebraska but come at a cost? [LB970]

RENEE FRY: Yeah. I think we need to do both. Part of what we're doing, we're putting together this comprehensive budget primer where we're really going to take a look at the tax code and make recommendations about where we could find improvements. The fact is we haven't had major reform since the '80s, I mean a quarter of a decade (sic) ago. And if you think about life now in Nebraska today versus the '80s, I mean, you know, we have people who purchase on-line quite a bit. We lose a lot of revenue there. We don't tax a lot of services, even though our economy is completely different than it was in the '80s. And so we need to look at it as a whole, and we need to determine whether we are incenting the behavior that we want to with exemptions and credits and with the income tax and property tax and corporate tax, and try to determine from a policy perspective what is the right approach for Nebraska. What are the priorities for Nebraska? What do we value as a state? And what do we want to incent and are we doing that with our current tax code? And I think...I don't think we are. I think there are lots of places for improvement, and that's what we're looking at right now. And we'll have a series of recommendations about how we could really make our system more

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

Revenue Committee
January 26, 2012

transparent and more prone, you know, more...we could make it stronger so that we can really... [LB970]

SENATOR HADLEY: Stop around tomorrow afternoon. We're going to have an interesting discussion on that. Thank you. [LB970]

SENATOR LOUDEN: Other questions? Seeing none, thank you for your testimony. [LB970]

RENEE FRY: Thank you. [LB970]

DEB SCHORR: (Exhibits 12, 13) Good afternoon, Senators. My name is Deb Schorr and I'm appearing before the committee in my capacity as chair of the Lancaster County Board of Commissioners to express our strong opposition to the elimination of the inheritance tax under LB970. [LB970]

SENATOR LOUDEN: Would you spell your name, please? [LB970]

DEB SCHORR: S-c-h-o-r-r is the last name, first name Deb. In addition to our letter that's being distributed at this time, please consider these following important points: Lancaster County has struggled, as have many other counties, with the loss of state aid, decreasing road revenue, and a decline in interest income while faced with increasing state mandatory obligations. Our property values have risen an average of only .43 percent, yet we've managed to hold our property tax rate consistent for the last three years, emphasizing budget cuts, increasing efficiencies. A \$6 million reduction to the county as proposed under LB970 is the equivalent to a reduction of 120 jobs. Personnel costs are 88 percent of our county budget. LB970 would not result in job creation for Lancaster County. In fact, it would result in a loss of 14 percent of our work force. We ask you not to take away one of the few revenue sources available to counties which has not been negatively impacted by the slow economy. This is not a rainy day fund for Lancaster County. We use it for direct property tax relief. If the inheritance tax is eliminated, there's no guarantee that the additional money received by the beneficiaries, who may reside in other states, will stay in our community or in the state of Nebraska. On the other hand, inheritance tax collected will be invested in our community. Eliminating the inheritance tax will result in a tax shift to the average property taxpayer. On an average residential home of \$146,000, an owner would pay an additional \$52 per year in property tax. In comparison, this same property taxpayer would pay little or no inheritance tax. Replacing inheritance tax revenues with a property tax increase will impact every single property owner in Lancaster County. Finally, a \$6 million funding reduction will severely undermine the county's ability to provide public safety services. Whether it's through the dismantling of our community safety net or through cuts to the agencies that provide direct service to our public, at the end of the day the safety of the community will be negatively impacted. There is a misconception that the inheritance

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

Revenue Committee
January 26, 2012

tax discourages businesses from locating in Nebraska or in Lancaster County, and there is little support for this assertion. The inheritance tax is paid by individuals and not companies. To the contrary, it is more important to businesses to locate in a stable community with adequate infrastructure, a low crime rate, and quality of life, all of which are jeopardized by the elimination of the inheritance tax. Replacement funding can only come from one place--the pockets of hardworking Nebraska taxpayers. I'd be happy to answer any questions you might have. [LB970]

SENATOR LOUDEN: Questions for Ms. Schorr? Seeing none, thank you for your testimony. Go ahead. [LB970]

NANCY FULTON: Members of the Revenue Committee, I am Nancy Fulton, N-a-n-c-y F-u-l-t-o-n, and I am serving as president of the Nebraska State Education Association, and we have 28,000 members across the state. And I am also a 34-year veteran educator in Nebraska. LB970 is not really about helping hardworking, middle-class families. It's about the emotional allure and the politics of tax cuts. Dig beyond the rhetoric of special interests and one quickly finds that the Governor's tax proposal is neither fiscally conservative or fiscally responsible. The Governor's proposal takes money away from children attending our public schools to pay for a tax plan that gives even more advantage to folks who already live further up the social economic ladder. The plan gives even more advantage to the already well-advantaged special interest of the multinational corporations that make billion-dollar profits and are able to reduce their state corporate income tax liability to zero or nearly zero. By the Governor's own tax analysis, LB970 would allow a family of four with a federal adjusted gross income of \$30,000 to pay \$42 less a year in state income tax. That's 82 cents a week. That's not even a tank of gas to fill my economy car. That same family with a federal adjusted gross income of \$1 million would receive a \$1,180 tax cut, less than \$23 a week. If I was earning \$1 million a year, an \$1,100 tax cut isn't going to make or break my budget. The Governor's proposal would exasperate the income disparity between the rich, middle class, and poor Nebraskans. It would do this by cutting federal funding to public schools. Quality public education is the key to prosperity. Quality public education is the ticket out of poverty. Quality public schools keep America's neighborhoods, communities, and middle class strong. The fact is, according to the Census Bureau, Nebraska ranks 47th among the states in terms of state aid to public schools. And although the state continues to struggle to invest adequately in public education, the Governor offers in LB970, which would preclude the state from providing essential and appropriate services to Nebraska families. I believe it would shortchange our children. Hardworking Nebraskans of all socioeconomic ranges should pay their fair share of taxes--state income, sales, property. A strong investment in public schools will build strong communities and a strong economy. Children deserve to attend a quality public school that is located close to their home. They deserve a twenty-first century education that is essential to their prosperity, the prosperity of their family and that of their community and this state. And for these reasons, NSEA does oppose LB970. Thank

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

Revenue Committee
January 26, 2012

you for your time this afternoon. [LB970]

SENATOR LOUDEN: Any questions for Ms. Fulton? Seeing none, thank you for your testimony. [LB970]

NANCY FULTON: Thank you. [LB970]

LEE KLEIN: Good afternoon, distinguished members of the committee. My name is Lee Klein, L-e-e K-l-e-i-n. I'm chairman of the Madison County Board of Commissioners. Let me open by saying in my years of serving the citizens of Madison County I've not heard one complaint about how the board has allocated the funds the county has received from the inheritance tax. I say that if you really want to cut taxes I would strongly urge you to first look at the regulatory side of the question. All counties could be helped immensely by the reduction or elimination of unnecessary regulations imposed on us by the state of Nebraska and the federal government. Many regulations add significant cost to projects in our duty and provide little or no benefit to the counties or their taxpayers. Of the almost \$6.2 million in inheritance tax funds received by Madison County in the last ten years, \$4.4 million was used for property tax reduction, funding county libraries, economic development, and community betterment projects. In 2008, Madison County and 13 other counties in northeast Nebraska pledged \$1.6 million to the Nebraska Medical Center Northeast Community College of Nursing. With pledges from the counties, the city of Norfolk, and private citizens, \$12 million was raised and the facility was built and began operation the fall of 2010. This unprecedented joint venture is a model of interlocal cooperation, as encouraged by the Legislature, with one of the primary goals to be keeping young people from leaving northeast Nebraska and was made possible only by the use of inheritance tax. I'm going to skip a lot of the things I have here because it's redundant. Another project that we're doing there is called the Northeast Industrial Highway. It's a 4.3-mile road that connects U.S. Highway 81 with Nebraska State Highway 35 north of Norfolk to serve industries located in the area, enhance public safety, and to keep truck traffic off county roads that are well beyond their useful life and off of city streets. The project has been under consideration for more than 20 years, and 2 years ago everything came together to implement it. Construction on the first phase was began in the fall of 2011. Four local governmental entities have, by interlocal agreement, combined to commit funding for \$9 million of the estimated \$12 million for construction costs for this highway. Nucor Steel has committed \$1 million. The project has the complete support of Nucor Steel, Norfolk Iron and Metal, and Elkhorn Valley Ethanol. With commitments, it was thought that we had funding in place for all but the last mile. We've had preliminary discussions about bonding that last mile. As a matter of fact, the mayor of Norfolk and I talked the first Friday in January and talked about getting together to do it and then my friend delivered his message this next week and we decided maybe we better wait. I hate to think that we're going to hold that up because Nucor Steel just announced they're going to spend \$290 (sic) on expansions, and by not doing that last mile we're actually shooting ourselves in the foot.

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

Revenue Committee
January 26, 2012

Receiving inheritance tax proceeds has allowed Madison County to fund services to better the community and to help those in need, such as the historical society, extension services, court-appointed special advocacy program, county medical clinic, and economic development. Many of these are paid out of other funds to take advantage of lid exceptions. However, without inheritance tax proceeds, reduction or elimination of these nonessential services would need to be considered. By eliminating these nonessential services, we enter the race to the bottom. Our counties...last year the Legislature took away state aid and jail reimbursement resulting in a levy increase of about a half cent in Madison County. Elimination of the inheritance tax would result in further property tax increases or loss of services. We estimate a 4- to 5-cent levy increase would be necessary to offset the inheritance tax proceeds. I did look when I first came in here this morning or this afternoon and saw all the people and saw Governor Heineman was brave enough to sit in the front. I do remember 16 years ago being on the Transportation Committee when we tried to take the license prefix 4 away from the folks in Broken Bow and give them 59 and that was still, I think, the biggest hearing that's ever been in this place so (laughter) and it was scary. Anyway, with that, I'd be happy to answer or try to answer any questions you folks might have. [LB970]

SENATOR LOUDEN: Any questions for Mr. Klein? Senator Brasch. [LB970]

SENATOR BRASCH: Thank you. I'm just curious what percent of revenues is your inheritance tax of all the taxes you collect? Is it under 10 percent, over 10 percent? What kind of... [LB970]

LEE KLEIN: Oh, I think it would be under 10... [LB970]

SENATOR BRASCH: Okay. [LB970]

LEE KLEIN: ...because you have to remember that there are certain things that are pass through. You have things like your convention and visitors bureau, things that show in your budget, but they're really nothing except the money comes in there and goes out of there. It's not a tax thing. So I'm sorry that I can't answer you for sure, but I would think it's considerably less than that. Well, our total budget is around \$33 million and so last year the inheritance tax was a little bit over \$1 million. [LB970]

SENATOR BRASCH: Thank you. [LB970]

LEE KLEIN: Thank you. [LB970]

SENATOR LOUDEN: Okay. Thank you. Next testifier. [LB970]

TERRY WAGNER: (Exhibit 14) Good afternoon, Senator Louden, members of the Revenue Committee. My name is Terry Wagner. It's W-a-g-n-e-r. I'm the sheriff of

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

Revenue Committee
January 26, 2012

Lancaster County. Today I appear before you on behalf of Lancaster County and the Nebraska Sheriffs' Association in urging you to remove the inheritance tax elimination from LB970. As written, LB970 would reduce revenue budget in Lancaster County by \$6.6 million, which is 11 percent of our general revenue budget. That would be the equivalent of reducing the state of Nebraska's revenue budget by \$400 million if you applied that same 11 percent. Imagine that same impact on the state if \$400 million were removed in less than one year. The Governor has stated counties just need to tighten their belts as the state of Nebraska has had to do to balance the budget. The facts are, the state of Nebraska simply legislates responsibilities away so it doesn't have to pay for those services. A good example of that is the sex offender registration law. When that law was first passed in 1996, our office saw between 750 and 1,000 sex offenders annually to modify their sex offender registration. Their initial registration was at our office. Their updates and their verifications were done through the Nebraska State Patrol at their offices. Those verifications were done via U.S. mail. In 2009, the Sex Offender Registration Notification Act, SORNA, was passed by this body partly because if Nebraska didn't pass and comply with the Adam Walsh Act, the state would lose 10 percent of Byrne grant dollars. SORNA shifted the initial registration from sheriffs to the State Patrol, but the verification shifted from the State Patrol back to sheriffs. The process changed as well, requiring DNA swabs to be taken from all sex offenders; verification must be in person now, much more frequently than was in the past. Last year my office processed 2,776 sex offender change or verification forms in person by all those people. I'm actually in the process of requesting another FTE to process the sex offenders in a process that was mandated by the Legislature. The state also doesn't take the position...also takes the position it just won't do certain things required by law because funding is not available. Jail reimbursement was a classic example of that. Another is Nebraska Revised Statute 29-752 which requires state of Nebraska to pay the costs of extradition of certain prisoners back to the state. I have billed the Department of Administrative Services in the past for extraditions that meet those criteria, only to be told they hadn't budgeted for these extraditions. Even the legislative mandates that include user fees become dependent upon property tax support. As an example, in 1991 handgun purchase permits was passed with a \$5 processing fee. Several attempts have been made to increase that fee with no success. Any cost of issuance falls back on property tax because a 20-year-old fee is inadequate to pay for the costs of processing and issuing handgun license permits. Likewise, motor vehicle title inspections were mandated by the Legislature in 1984 with a set fee of \$10. That fee has not been changed after several attempts to do so. So when the costs of inspection exceed the user fees, general county tax dollars must support the service. We simply don't have the option of telling the public or the Legislature we're not going to inspect vehicles because user fees don't cover our costs of services. The bottom line is eliminating the inheritance tax will cause counties to raise or certainly Lancaster County to raise our property taxes to make up for the 11 percent reduction in revenue. I would urge you to amend LB970 to restore the inheritance tax. And thank you and I'd answer any questions you might have. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR LOUDEN: Questions for Sheriff Wagner? Seeing none, thank you for your testimony. [LB970]

TERRY WAGNER: Thank you. [LB970]

DOUG TEAFORD: (Exhibit 15) Good afternoon. My name is Doug Teaford. I'm one of the county commissioners in Keith County. I appreciate the opportunity to appear before your committee today, and I think the written points that I have are being handed out. Just a few observations: You know, I think I have had the opportunity to hear Governor Heineman speak several times. Any time he mentions that there's a request for funding from counties or from any worthy cause, his point is always, well, so where shall we get this money from? And I think that's a good question. But, you know, that's sort of where I guess Keith County and most of the others in opposition to terminating the inheritance tax, you know, that's where we sort of come down. If that source of revenue is taken away, I think, Senator Fischer, you indicated, well, so where are we going to look to the Legislature to increase taxes? Well, in this case, if that revenue goes away, then it will be up to the counties and certainly, as has been stated before, it will be out of property tax. Keith County is proud to host Lake McConaughy. You know, our board of equalization, we do not have a referee so our county board hears those protests. And we have had as high as 1,200 protests. And it's all about property taxes. And we have had, you know, some people who have retired, moved to McConaughy and they feel that that's too much of a burden and they have threatened to move to Wyoming. But, you know, then they would have to live in Wyoming so I guess probably (laughter) so far we're standing all right there. I guess, you know, when the state repealed the estate tax, you know, where did they make that money up from? Well, I think some of it, and I don't know what the state's budget looks like, but, you know, I think some of it came from reduction of funding to cities and counties and possibly school funding. And Keith County over the last 20 years, we have had a 5.7 percent decrease in our population. And one of the things that we are struggling is to try to stabilize our population. And one of the best tools that we have is economic development. And that's where Keith County is more and more trying to use our funding. We have recently contributed \$200,000 to the Mid-Plains Community College to expand their presence in Ogallala, which will be serving probably Perkins County, Arthur County, Garden County, Deuel County, Keith County to help individuals in those counties increase their skills and probably increase their earning capacity and should be attractive for some smaller industries to come to that area to hopefully stabilize our population. Arthur County, probably other than...is the only county that probably has not had a population decrease in the last ten years. And one of their commissioners told me, well, you know, whenever there's a birth in Arthur County, somebody leaves town. So I guess otherwise (laughter) that actually I don't think there's anyone here from Arthur County. You know, so it is, it's a valuable tool. And it is...you know, if it goes away, you know, we use \$25,000 a year, which isn't a big deal, but that's to help fund our public health district, which serves five counties in the

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

Revenue Committee
January 26, 2012

neighborhood. So does that go away or does it terminate? There are services that can be cut, but I think, you know, that can more or less seal the fate of much of rural Nebraska. And that's...I think we need to be able to do what we can, and this is one of the most valuable tools that we have. And I think the rest of my testimony you have. I guess on the income tax, you know, I don't really have a position there. When Mr. Kennedy with the State Chamber has come out at different times, I usually sit in on those and, you know, the biggest hole in the sock that the state has and that cities have is by not having the ability to tax sales tax on e-commerce. You know, we all subsidize Amazon.com and all of that transactions that go on. And I think, you know, that's untouchable because their lobbying groups are much stronger than anything else. But I think that's really the biggest loss of revenue that we have. [LB970]

SENATOR LOUDEN: Questions for Mr. Teaford? Seeing none, thank you for your testimony. [LB970]

DOUG TEAFORD: Thank you. [LB970]

SENATOR LOUDEN: Thank you for coming up from Ogallala. [LB970]

DOUG TEAFORD: Yes. [LB970]

MARK INTERMILL: (Exhibit 15A) Good afternoon, Senator Louden and members of the committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today representing AARP. You've heard a lot about the inheritance tax. We also have concerns about the inheritance tax. Property taxes is what we hear the complaint about in terms of taxation, but we also hear complaints about some other things. We hear complaints about ACCESSNebraska. We hear complaints about some of the proposed cuts in Medicaid that will affect people who are disabled and trying to live at home. And that leads me to some questions about setting priorities. We have cut state spending significantly. In the area of Medicaid, we had 2.5 percent provider rate cuts, which have challenged a number of people, particularly those in-home service providers who are not well paid to begin with and going into the homes of individuals to help them stay independent. We have concerns about some of the proposed cuts because these are optional services and rightly they are optional, but they have an impact on mandatory services. If we're not able to provide those services to individuals in their homes, their option may be to go to a nursing facility at a much higher cost. And nursing facility is a mandatory service under Medicaid. I think the question is about timing, and I think we need to take a look at what can we do right now in terms of tax relief? AARP is generally supportive of tax relief, and I had a member ask me today, has AARP ever opposed a tax relief measure, and I couldn't think of it. There was a time when we were neutral I think on a Social Security tax relief issue. But we do think that government needs to operate efficiently. We shouldn't be collecting any more taxes than we have to. I can't say right now that we can afford a tax cut because we have taken some serious

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

Revenue Committee
January 26, 2012

cuts in the programs that a lot of people that we serve depend upon. So I would...in addition to the inheritance tax issue, which you've heard about a lot, I think we need to be careful about the income tax. We oppose changes at this time because I think there's a certain degree of uncertainty in our economy. I think there's some services that we need to go back and take a look at if we need to strengthen them. So we're encouraging you to not adopt this piece of legislation. And I'd be happy to try to answer questions. [LB970]

SENATOR LOUDEN: Any questions for Mr. Intermill? Senator Schumacher. [LB970]

SENATOR SCHUMACHER: Are you familiar...thank you, Mr. Chair. I'll keep this quick. Are you familiar at all with how the stepped-up basis works in reference to calculation of the capital gains tax? [LB970]

MARK INTERMILL: No, I'm not. [LB970]

SENATOR SCHUMACHER: I'll ask somebody else then. [LB970]

MARK INTERMILL: Okay. [LB970]

SENATOR SCHUMACHER: Thank you. [LB970]

SENATOR LOUDEN: Any other questions? Seeing none, thank you for your testimony. [LB970]

MARK INTERMILL: Thank you. [LB970]

PAUL MARSH: (Exhibit 16) Paul Marsh, P-a-u-l M-a-r-s-h. I'm here representing the Dodge County Board of Supervisors. You're going to be receiving a resolution that was passed unanimously by our board yesterday. I'm going to deviate from my previous notes to try to be redundant on some of the issues that you've already heard here numerous times. One of the things, you know, we all find that life is a learning issue and this afternoon is also one of those. Mr. Dix, when he represents a whole consortium of counties, has to gather together what the norm is. We in Dodge County are a little unique because we don't use our inheritance tax monies as a means of a reserve fund. We take whatever we got in the previous year and that is plugged into our revenues for the next year's budget. Likewise then we in Dodge County are very fortunate we have the fourth lowest levy in the state of Nebraska. We are under 23-cent levy. We don't have a problem with some of the other issues with where we go. Obviously, though, what that does is, it says that our only alternative is to go to property taxes. When we look at property taxes and doing kind of the worst-case scenario, and I find it interesting listening to Lancaster County and Douglas County and so forth, because our levies are maybe a little bit higher or whatever, but our increase in property tax, if we had to make

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

Revenue Committee
January 26, 2012

up this entirely in property taxes, is about 15 percent of worst-case scenario. I did some quick analysis to say, okay, what does that do for the typical piece of farm ground in Dodge County? That's about \$1.20 an acre for a typical piece of property in Dodge County. Interestingly enough, I was listening to Douglas or to Lancaster County and I think she used \$143,000 or something like that on a home that it would be a \$52 increase. When I run it hypothetically in our case, it was \$52, I rounded it off to \$50, on a \$150,000 house. Those, obviously, are real numbers. It's not just happening here in Dodge County. It's happening all over. So we all heard this numerous times, I'll say it one more time, we all know that everybody is concerned in this state about property taxes. I, for one, this is my 24th year and last year on the Dodge County Board so whatever you do will not affect me because you won't get it in place in time to affect me as a board member. You will affect me, I guess, as a citizen. But anyway, the point is that we need to be cognizant of what our constituents want. In 24 years, I've never had anybody come to me and say that county inheritance tax was a problem. Many of you also expressed that same thing. So your point is do you increase property taxes that are an annual, every year we send out those tax statements every year, or do you give people a one-time tax decrease in their inheritance tax? I'm going to conclude there. I always find it most interesting to interreact with questions that you may have for me with my years of experience. I'd be happy to answer anything I can. [LB970]

SENATOR LOUDEN: Questions? Senator Hadley. [LB970]

SENATOR HADLEY: Senator Louden. Dodge County, right, \$850,000; \$933,000; \$909,000? When you're setting the budget, do you ask people if they're going to die next year because you do a real good job of keeping that level? [LB970]

PAUL MARSH: Well, (laughter) we are...you know, it is. In fact, some of the earlier years we had bigger swings in that inheritance fund. That's why we take the preceding year and plug that in. Okay? That's a little bit dangerous. Now we do carry some other reserves that, you know, you can...but we basically do that to say let's keep our property taxes down, which is witnessed by the fourth lowest levy in the state. Now there's some downside when you do that because then when you do a percentage increase when your lower number is, that kind of gets you on the back side too. I've been down that road, too, you know. But we...frankly this year, looking at the projections so far where we're at with six months into this fiscal year in inheritance taxes, we're on...our norm runs about \$900,000. And when we, looking at this year with where we're at right now, we're probably going to surpass that. Senator Schumacher, I might address the issue that you had. I can't speak to exactly what impact it has in Dodge County, how much of that is the peripheral, you know, you won the lottery sort of an inheritance. But I know that I think it was, what, about five years ago that the method of calculating inheritance taxes was changed. We used to look at about a \$600,000, plus or minus, number and maybe \$700,000 in a really good year, and now we're up in that \$900,000 typically, \$850,000, \$900,000. So the change in numbers, because I think, if I'm not mistaken,

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

Revenue Committee
January 26, 2012

when that was changed it used to be 2 percent in the lineal or whatever and it dropped to the 1 percent so we were obviously concerned at that time what was going to happen to revenues too. [LB970]

SENATOR LOUDEN: Any other questions? Seeing none, thank you for your testimony. [LB970]

PAUL MARSH: Thank you. [LB970]

JUDY HALSTEAD: (Exhibits 17, 18) Good evening, Senator Louden and members of the Revenue Committee. My name is Judy Halstead. That's H-a-l-s-t-e-a-d. I'm the health director for the city of Lincoln and Lancaster County, and I'm testifying today on behalf of the health department and the city of Lincoln in opposition to LB970. What's also being passed out to you is a letter from Tom Casady, who is our public safety director for the city of Lincoln. And as you requested, we're consolidating our testimony for the city into my testimony today. As Commissioner Schorr testified, services within my department provided to the residents of Lincoln and Lancaster County are at risk because of this proposal. Not only that, but your health and the health of your constituents are at risk because of this proposal as well. When you're in Lincoln serving your constituents, I and my staff are serving you. When you and your family come to Lincoln for Husker football games and eat in our fine food establishments, which I encourage you to do often, you can be assured that my staff inspected and permitted that establishment and nearly 1,200 other food establishments in Lincoln, in addition to the 13,000 food handlers we've also trained and permitted in Lincoln to make sure that we're not spreading food-borne illnesses to you and your families. When your students come to Lincoln for FFA and for state basketball games, they are crossing streets in downtown Lincoln that our injury prevention staff have looked out for, for them. We sponsored some of the city's first pedestrian countdown lights, which I'm sure you have seen walking between the Capitol and Cornhusker and various other locations in Lincoln. And when your students have used the pool in the hotel, we made sure that there were trained and certified pool operators to make sure that the pool water quality was where it was supposed to be so that those students didn't get sick from being in those pools. We monitor communicable diseases in Lincoln on a daily basis. We receive and review lab reports every day for instances of contagious diseases that might make you and every person sitting in this room sick. We will know quickly if there was an outbreak of measles or pertussis or mumps. And my department, to help prevent that, has provided 18,000 immunizations annually to make sure that the children attending the same family activities as your families at the Children's Zoo and at the Children's Museum, as they're playing with your children, don't share those diseases. Without funding from our county, we can't continue the daily surveillance and the vigilance that we maintain. And without funding, we can't continue to protect the community with immunizations for diseases that we know can be prevented. My department receives over \$3 million a year from Lancaster County. We take care of those who don't have the

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

Revenue Committee
January 26, 2012

resources to meet medical needs or dental needs. Through nurse home visitation, we prevent high-risk pregnant women from poor pregnancy outcomes due to a lack of care, and we have tremendous outcomes in preventing child abuse and child neglect. We prevent the spread of disease in childcares in Lincoln through health consultation. And for the five years we've had a fully funded, fully operational health consultation program, we have not had a single communicable outbreak in one of our childcares. That's 500 home providers and 150 centers. This program helps children stay in care. It keeps their parents at work because then they don't have to take off time because their children are sick. Also we help assure that your child or grandchild doesn't get a tattoo in a hotel room in Lincoln or at a tattoo party in an apartment of a friend of a friend because we shut down those practitioners who aren't licensed in Lincoln. All of these programs are provided by my staff and funded in whole or in part through the funding from Lancaster County. These are services that touch the poorest of the poor in my community, the wealthiest in the city, and they touch you and your constituents who travel to Lincoln. We provide you with the knowledge that public health is protecting the residents of Lincoln and Lancaster County, and your local health departments are also protecting you at home. And many will tell you stories of why funding is important to them today, but I hope you will leave here today knowing how eliminating the inheritance tax funding will impact each of you, your families, and your constituents when you come to travel to Lincoln. I'll be happy to answer any questions that you might have. [LB970]

SENATOR LOUDEN: Any questions for Ms. Halstead? Seeing none, thank you for your testimony. [LB970]

AUBREY MANCUSO: (Exhibit 19) Thank you, Senators. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm here on behalf of Voices for Children in Nebraska. We're in opposition to LB970 and the day has gotten long so I'll keep this short. Basically, we're concerned not only about the future revenue adequacy for the state, but also that this isn't meaningful tax relief for low- and middle-income families. And I'll draw your attention to a chart on page 2 attached to our testimony. And what we tried to look at is what does this tax cut really mean for low- to middle-income families? How much are they going to get back in their monthly paycheck and what sort of purchasing power will that afford them to provide for the basic needs of their families? And as you can see, a family making less than \$20,000 would be about 58 cents a month, which would buy a pound of potatoes. A family making about \$20,000 to almost \$36,000, a month would get about \$2.92 back, and that would buy about a pound of grapes. A family making \$36,000 to about \$57,000 would get about \$6.08 back a month, and that would buy a gallon and a half of milk. And I'll let you read the rest of it on your own, but basically we just urge you not to advance this bill. We believe that a more meaningful form of tax relief for low- to middle-income families who, as it has been mentioned, pay a higher income...a higher portion of their income not only in property taxes but also in sales and excise taxes, would be through increasing the earned income tax credit. And with that, I'd be happy to take any questions. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR LOUDEN: Any questions for Ms. Mancuso? Seeing none, thank you for your testimony. [LB970]

AUBREY MANCUSO: Thank you. [LB970]

KIT BOESCH: (Exhibit 20) At this point I should say good evening. [LB970]

SENATOR LOUDEN: Good evening. [LB970]

KIT BOESCH: My name is Kit Boesch. I am human services administrator for Lincoln/Lancaster County and I'm here to strongly oppose LB970, which eliminates the inheritance tax. I'll start out by saying I am not a tax expert but I am a human service expert and I've been in my job a long time, over 20 years. [LB970]

SENATOR LOUDEN: Would you spell your name for the record, please? [LB970]

KIT BOESCH: You bet. Kit, K-i-t, last name Boesch, B-o-e-s-c-h. Sorry. You know, one of the things that sometimes happens is you get unexpected things happening when you pass a law. Should you happen to pass LB970, what you are going to see are some unexpected consequences, kind of like dominos, happening. First of all, Lancaster County loses \$6 million. That's the first domino. Now this is the same county that, as you've heard, lost \$3 million over the last two years from this loss of state aid and jail reimbursements. Now when that happened, I will tell you that every department in county government was cut to the core. The budget for contractual human services went from a traditional \$2.2 million to \$1.3 million, and five agencies were totally cut. We had no more money. If the county loses another \$6 million, they will still need to cover the required responsibilities. They have to cover law enforcement. They have to cover the courts. They have to cover emergency services. At the end of the day, what you do is you do what Commissioner Schorr said. Beyond that the dominos begin to fall. And Commissioner Schorr said that in Lancaster County we could eliminate public health, community mental health, and the social safety net. Now the social safety net is something I know a little bit about. The social safety net is about people who need assistance to be productive citizens in this state. It is this net that needs to be strong enough to assist, for example, 600 adults who are waiting for substance abuse treatment services in Lancaster County, because all the services are full. It's the safety net that needs to be able to help the 11,000 residents that are in Lancaster County using mental health services. It's the safety net that needs to help the 7,500 men, women, and children who are provided shelter every single night during a year's span of time. Without that safety net, without that money, those people will not get those services. While LB970 may indirectly cause the elimination of services, it doesn't eliminate the need. The need is still there and the people who need those services don't go away. They're still there. And what happens is they end up in much higher service

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

Revenue Committee
January 26, 2012

placements like jail or the hospitals that are very, very expensive and, in my view, usually totally unnecessary. If you don't think the child welfare system is full now, wait until you do something like this, because the dominos will continue to fall and affect families. Another misconception that I've heard all day is that the inheritance tax discourages businesses from locating in Nebraska. I'll tell you what discourages the businesses from locating in Nebraska, because I've worked with the chambers of commerce and I've talked to businesses. Businesses come in and if they see neighborhoods with high crime rates, if they see downtowns with visible homeless populations, if they see overgrown and unsafe parks, if there are no services there for their families, they're going to think twice about being in that community. Human services is an essential component of the infrastructure of a strong, vibrant community. I know my time is up. I think the counties have an economy that is based on that safety net, and when the safety net exists they depend on it. If you lose it, you lose a lot of trust from the people who live in that county. Thank you. [LB970]

SENATOR LOUDEN: Okay. Are there questions for Ms. Boesch? Seeing none, thank you. And how many of you from Lancaster County have come to testify today, do you know off hand? [LB970]

KIT BOESCH: I don't know. [LB970]

SENATOR LOUDEN: Okay. [LB970]

KIT BOESCH: About four. [LB970]

SENATOR LOUDEN: Okay. Thank you. [LB970]

KIT BOESCH: You bet. [LB970]

SENATOR LOUDEN: The next testifier. [LB970]

JEROME KRAMER: (Exhibit 21) Good afternoon, Senators. Thank you for your endurance in what you do for our state. I'm actually here on behalf of...actually I'll start over there. I'm Jerome Kramer, sheriff of Lincoln County, K-r-a-m-e-r. I'm here on behalf of the Lincoln County Board of Commissioners, which may seem kind of strange, but I'm also here as the...on behalf of the Lincoln County Sheriff and the Nebraska Sheriffs' Association. I've given you a letter from Commissioner Hewgley; he couldn't be here today. But considering the fact that Commissioner Hewgley has been a commissioner for 27 years, sat on the board of directors of NACO for 13 years, was president of NACO for 2 years, I see great value in that letter. Basically, I'm here in a little different capacity. I speak from a...I wear two hats on this. I come from a 15,000-acre ranch, and I can speak of my dislike for any taxes but they are a necessary evil. And I can tell you that when we talk about property tax versus inheritance tax, I've never heard that in a

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

Revenue Committee
January 26, 2012

family conversation. Inheritance tax has never been a concern. On behalf of property taxes is a hot topic and the high blood pressure at every Thanksgiving dinner. I'm sheriff of a fairly large county. I work under two budgets. One budget is for the sheriff's office and one budget is for a detention center. I work with three very conservative commissioners that are very understanding of budgetary needs. I've received a huge budget cut for the past two years. I've done the best I can to stay within the budget and still provide the protection and services to Lincoln County that is expected of me. I cannot continue to provide these services without an increase in my budget. I am short two deputies now and cannot replace them. My jail population has increased 125 percent in the past seven months. Along with that increase is expenses that are beyond my control. Further cuts in my budget will result in less emergency services. As I said, our jail population has increased 125 percent, so this is no time for less law enforcement. Crime is on the rise. Perhaps inheritance tax is an unfair tax, but if we are going to eliminate it, then we need to have a plan. How are our bills going to get paid? How are our citizens going to be protected? Where is the money going to come from? There must be a plan, not just a cut. I've heard today that we have to go...we need to go back home and we need to be creative. Trust me, I was elected sheriff five years ago because I am creative. I run a very tight budget. I have no more rabbits to pull out of the hat. I've done everything I can do to cut my budget. There is nowhere else to go, and I ask you to take that into consideration when you're considering the future of this bill. Thank you. [LB970]

SENATOR LOUDEN: Thank you, Sheriff. Questions? Seeing none, thank you for your testimony. Thanks for coming up from North Platte. [LB970]

CASEY SHERLOCK: (Exhibits 22, 23, and 24) Good evening, Senators. This is my first time here. My name is Casey Sherlock. I am the public works director, county surveyor, and county highway superintendent for Hall County, Nebraska. I am currently the...sorry, that's C-a-s-e-y S-h-e-r-l-o-c-k. I am currently the president of the Nebraska Association of County Surveyors, Highway Superintendents, and Engineers. I've submitted three written documents to you today: one as president of the Nebraska Association of County Highway Superintendents, Surveyors, and Engineers; one on behalf of the Hall County Board of Supervisors; and one on behalf of the Buffalo County Highway Department. We face great challenges in road funding these days, and you've heard a lot of statistics and figures, and I can follow a lot of that. I have a bachelor's degree in mathematics from Chadron State College. I'm a rural Nebraska kid. I grew up in Alliance, got my education through my athletic ability at Chadron State, and have been elected county surveyor of Hall County. And I've faced those challenges every year. I've been at Hall County six years, and there has not been a year yet where the county board didn't consider every option of cutting funds from the entire county budget. And when they get done and there is still a gap, they come to the roads department and cut funds. If this inheritance tax is cut from the county, I can't...I'm not going to go through everything that everybody else has covered, but I'll give you an example of

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

Revenue Committee
January 26, 2012

what I predict on a worst-case scenario in Hall County alone. We are one county and we're the fourth largest county in Nebraska by population. We're one of the smaller counties by size. But if we cut this inheritance tax, I would foresee, worst-case scenario, \$750,000 to \$800,000 cut from the highway department alone. I would estimate cutting every bridge project we have and plus an additional five to seven employees. I have nowhere else to cut. I have installed used oil heaters in my buildings to use the oil we generate. I'm buying equipment from the state and federal surplus yards. Equipment that's no good to the state is a diamond to Hall County. And I just...I urge you to consider not accepting Section 1 of LB970. If you have any questions. [LB970]

SENATOR LOUDEN: Any questions for Mr. Sherlock? I can pronounce that name because I know plenty of Sherlocks. [LB970]

CASEY SHERLOCK: Sherlock Holmes. (Laugh) [LB970]

SENATOR LOUDEN: Yeah. Thank you for coming and for your testimony. [LB970]

CASEY SHERLOCK: Thank you, Senator Louden. [LB970]

SENATOR LOUDEN: Next testifier. [LB970]

BECKY GOULD: (Exhibit 25) Good afternoon, Senators, Chairman Louden, members of the committee. My name is Becky Gould, B-e-c-k-y G-o-u-l-d. I'm the executive director of the Nebraska Appleseed Center for Law in the Public Interest. We're a nonpartisan nonprofit organization that works for equal justice and full opportunity for all Nebraskans. And I'm here today to bring the perspective of low-income families and kids in the foster care system and what LB970 may mean for those populations. Our primary concern and reason for opposing LB970 is that we're concerned that we really can't afford this as a state. Our concern is that LB970 will be paid for on the backs of some of our most vulnerable citizens and by ignoring pressing problems and failing to make investments that are critical to our future as a state. I think one of the things that's been absent from the conversation so far is, how do we pay for this? What are the controls in spending that are going to happen...are going to have to happen to allow us to pay for this tax cut? And I think that's a really important conversation to have and I hope that the specifics of how that's going to happen come out as this committee deliberates further. And maybe those will be addressed in closing by Senator Cornett, or I'm not sure if the Governor is going to address the committee again as well, but I think that's a really important question to ask. What we know is that over the last couple of years there have been dramatic cuts that have been made to programs like Medicaid, to critical work support programs like childcare that help low-income families stay in the work force, take care of their kids, pay their bills. Those are really tough decisions to make, and when those decisions were made they weren't made in the context of we have government programs that are inefficient or wasteful or aren't supporting families.

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

Revenue Committee
January 26, 2012

They were made in the sense that we as a state were in a tough economic time and that we all had to step up to the plate and share the sacrifice. We're now in a moment where we have some resources, and I think the question that needs to be raised is, what investments are necessary to go back to those hardworking families who were placed in really difficult situations when those services were eliminated? LB970 will not address any of the priority issues that have been left unaddressed, and my concern is that they're going to erode the prosperity and successes that we are so proud of in this moment. Most Nebraskans, those making less than \$88,000 a year, are going to see, at most, \$12 a month in savings as a result of LB970. What we all lose in return is the state's ability to pay for some of the most basic responsibilities of government on which we all rely: education and a quality child welfare system. Our state's budget should reflect our priorities. Nebraska has responsibilities it must fulfill now, and passing LB970 would leave our state without the ability to meet those responsibilities. It's time to address the significant problems facing our child welfare system and to reinvest in programs and government functions that have borne the brunt of past cuts, and make smart investments in education and training that really will help adults in our state reenter the work force and move up in our work force and enjoy the prosperity and success that we want all Nebraskans to have. Nebraska's children are not a special interest group. Nebraska's working families are not a special interest group. They are our children, our siblings, our parents, our nieces and nephews, neighbors, friends, grandparents. They are Nebraska. And they are counting on the Legislature to use the limited resources that we have in this moment in a way that will bring the biggest benefits to our state. LB970 is not the answer, and we respectfully request that this committee not advance LB970. I'm happy to answer to any questions. [LB970]

SENATOR LOUDEN: Questions for Ms. Gould? Seeing none, thank you for your testimony. [LB970]

BECKY GOULD: Thank you. [LB970]

SENATOR LOUDEN: How many more people are here to testify in opposition? Okay. Can anybody put it together but...okay, we'll keep it going if you can... [LB970]

JACK ANDERSEN: Senator Louden, you look like you're about as tired as I feel, and I'm going to try to be real short. My name is Jack Andersen, J-a-c-k A-n-d-e-r-s-e-n. I am currently beginning my tenth year as Sheridan County Commissioner. I'm an elected representative for the Panhandle District of the NACO board. I feel that I am here representing at least a majority of those counties. I didn't have a chance to visit with all of them. Without exception, the elimination of inheritance tax is going to affect the 11 Panhandle counties. Each county is a different entity. Counties use inheritance funds in different manners. It's kind of like having a joint checking account though. If you put the money in the bank out of both paychecks, and the wife draws out of her checkbook and you draw out of your checkbook, it still comes out of the same account, so to me it's not

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

Revenue Committee
January 26, 2012

as important as to what you actually spend it for. It's all part of that same pie. So I'm not going to go into that in much detail. I will say though, and I'm going to use Sheridan County as an example, in the past 15-20 years, we've been riding against that 50-cent limit pretty close. We've cut our road department by about a third. We're about a third of the manpower down and we're about a third the equipment down. We purchased two used motor graders two years ago. The year before that we had purchased none. We didn't purchase any last year. Our equipment is starting to show it. So we have been cutting. And while we're cutting, at the same time with that 3.5 percent maximum raise that we can raise our budget, we have accumulated a \$504,000 unused levy authority. That's money that we could have spent. We could have levied \$504,000 more than we did, but we felt like that with the drought situation, our ag people, which are bearing the biggest brunt of the storm, we didn't want to put them out of business. We needed their money and we're trying to work with them. We had managed to get our levy down where we had a little bit of wiggle room. Last year, the loss by LB383 cost Sheridan County, I believe it was \$140,000. One cent of levy equals \$60,000. We did have to raise our levy back up. We're still not back where we were maybe five years ago when I came on, but we're still up there. I'm going to give a little bit of an example of another county, and I'm going to try to talk fast. My wife and I own a house in Brown County, the beautiful little town of Ainsworth, three-bedroom home, attached one-car garage, full unfinished basement. We bought that when she was working there, and when she left we put it up for sale. Didn't have anybody interested. We've been renting it out, a great deal. I'd still like to sell it. But the taxes on that home, which actually the tenant about a year ago said, I would be interested in buying it, told the real estate people that are handling it he would be interested in buying it. Real estate agent said, well, it's levied at...or appraised at \$32,500 at the assessor's office and I think that's a fair value. We priced it at \$32,500. He didn't make a counteroffer so evidently he thought that was too much. Now I'm hearing the people here talking about what it's going to cost on an average \$150,000 home. I think that's a pretty nice little home in Ainsworth, Nebraska, and we couldn't get an offer for \$32,500. The value of our little community towns, like Lakeside, Ellsworth, Gordon, Ainsworth, the value of property there is down to the point that every time there's a little bit of a wiggle, it shifts to agriculture, because it is going up. And with that, I see I'm out of time. And if you'd have any questions, I know you are liking to get out of here. [LB970]

SENATOR LOUDEN: Questions for Commissioner Andersen? Seeing none, thanks, Jack. Thanks for making the trip. [LB970]

JACK ANDERSEN: Um-hum. Sorry for stuttering around like I did. I had a whole written prepared statement and I thought, boy, there just isn't enough time to do that, so. [LB970]

RICHARD PIERCE: Good evening. My name is Richard Pierce, R-i-c-h-a-r-d P-i-e-r-c-e. I'm chairman of the Buffalo County Board of Supervisors, have been on that board

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

Revenue Committee
January 26, 2012

going into my sixteenth year. Been on all the committees and subcommittees of that board, up to and including budget and finance. In my real job I'm also a farmer/rancher. We farm over 1,200 acres in northwest Buffalo County; have a 400-head cow/calf operation; belong to the National Cattlemen; Nebraska Cattlemen; am chairman of the local Fort Kearny Cattlemen; and also a member of Farm Bureau. I say that because I know that their position has been in favor of this. I sit here in opposition for several reasons, and I had two or three pages here written out, but a lot of those points have already been brought out. But I would like to just touch on three or four points very briefly. Personal experiences with this: We right now are in the middle of working on my in-law's estate which is a multimillion-dollar estate there in Buffalo County. If you knew my father-in-law, you would know that he is very opposed to any taxes. The subject of inheritance tax has never been brought up, which I think is very odd for that man, because he has opposed every other tax that he's ever had to pay. Another personal experience: My son works at Abengoa. He's the logistics manager up there, has been two or three years. Abengoa is in line to get the new cellulosic plant, biomass plant. They are planning to construct it right there on that same site. He is also part of my business and he is able to take his mechanized systems management degree that he got down here at UNL and put it to good use locally so that he can stay in the area and, you know, be a Nebraskan. Who knows where he would end up if that opportunity wasn't there for him? Abengoa is a huge international company that is very strong in our county. Other economic development things that you can look at is we're in line working on a huge data center project that is in the county, not in the city, it's in the county; Cherry Avenue project, about everybody across the state has heard and seen that. Those things were made possible in part by inheritance tax that the county has been able to take and put towards those projects. We in Buffalo County have got a very strong economy. We are looking at a 2.3 percent unemployment rate. That is even with UNK sitting in the middle of our county. We are looking with the data center project, with things like Abengoa, other things that are economic development in our county, we are looking to retain a lot of those students in our county. There's also a lot of out-of-state people that will be coming in. So if you want to talk about job creation, if we can't continue projects like this, job creation is something that we probably won't be looking at in Buffalo County quite so much. The new Abengoa project is looking at 75 new employees, and a lot of those are high-end employees. I see my time is up. But the data center will be 30-50 permanent employees, which will be pretty good. We're also looking at around a billion dollars' economic development structure built into Buffalo County and, you know, probably 300 to 400 construction jobs with all the ancillary benefits that go along with new projects that come to a county. So with those brief remarks, I'd just like to leave you with the thoughts that I have brought forward and also urge you to be in opposition to repealing the inheritance tax. It's a great tool as other people have said, and you know, counties will not be able to get along without it. Any questions? [LB970]

SENATOR LOUDEN: Questions for Mr. Pierce? Senator Schumacher. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR SCHUMACHER: One brief question: In closing your relative's estate, have you become familiar with the stepped-up basis and its impact on capital gains tax? [LB970]

RICHARD PIERCE: A little bit. I'm not...being as how I'm an in-law, I don't get into a lot of the stuff that my wife and her two siblings are involved with, but. [LB970]

SENATOR SCHUMACHER: Well, I won't pursue it with you then. [LB970]

RICHARD PIERCE: Yeah. [LB970]

SENATOR SCHUMACHER: I'll talk to somebody else and let you off the hook. [LB970]

SENATOR LOUDEN: Senator Brasch. [LB970]

SENATOR BRASCH: I'm very impressed with everything that inheritance tax has been able to do. What percent of revenue is that in your taxes collected, total taxes? [LB970]

RICHARD PIERCE: I can answer that a different direction. Inheritance tax for Buffalo County is effectively 10 percent of our budget. [LB970]

SENATOR BRASCH: It's 10 percent. So 10 percent of that money did not pay for all those magnificent economic development...? [LB970]

RICHARD PIERCE: No. But it's a place that we can go to when economic development comes to us and wants to look at doing more things, and especially with these two large projects that we're looking at right now. There's been a lot of times that they have done that. The city of Kearney has given all they can and they're not going to give to a project in Ravenna, Nebraska. Ravenna is a smaller city in the county but they don't have any money to throw at it. You know, they just don't have that large a tax base, but...and, you know, and the city has done a lot for the data center that is being proposed and also for the Cherry Avenue project. But, you know, we can... [LB970]

SENATOR BRASCH: And are they grants that are paid back? Or are they... [LB970]

RICHARD PIERCE: Excuse me? [LB970]

SENATOR BRASCH: Are they grants...is it gifted money that you give them to start up? Is it start-up cash or is it something that you're putting some estate's name on the building, you know? I don't know. [LB970]

RICHARD PIERCE: It's a lot of gifted cash. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR BRASCH: Gifted cash. [LB970]

RICHARD PIERCE: Yes. [LB970]

SENATOR BRASCH: Okay. I have no other questions. Thank you. [LB970]

SENATOR LOUDEN: Are there any other questions? Seeing none, thank you for your testimony. [LB970]

RICHARD PIERCE: You bet. Thank you. [LB970]

RON NOLTE: Good afternoon, Senator Louden and Senators of the committee. My name is Ron Nolte, R-o-n N-o-l-t-e, Cass County Commissioner. I'm also speaking on behalf, as I'm a sixth-generation homestead family. We've farmed all of our lives. This inheritance tax, we need it as county elected officials. We've used our inheritance wisely over the years. It is our cash reserves. We've used it to just recently remodel our 120-year-old courthouse. We have roads projects, at times waiting on FEMA and NEMA money, that we'll go ahead and complete these projects because funding is not available. We have bridges that are washed out from the flood of '10 and now the flood of '11. The snowstorm of Christmas '09, we've just collected that money. It's hard to budget without having a cash reserve. To your credit and to the Governor's credit, we are a solvent state. That is because of agriculture. This infrastructure that we're trying to rebuild because of snowstorms and floods is because of our cash reserves. A number of years ago to connect some state highways in Cass County that was federally funded and funded by the state of Nebraska, to complete that we loaned the state of Nebraska nearly \$900,000. The agreement was they would pay it back when funds were available. It took us eight years to collect that money from the state of Nebraska--interest free, may I add. But I'm glad we did it. So all these items have covered today, as far as estate planning, on a personal note, we've grown a farm operation from a few hundred acres to 6,000, and we've passed this from generation to generation, and we're going through estate planning every year. But, believe me, with a major lending institution as good CPAs and a good estate planning attorney--I'll say this to Senator Schumacher, everybody should own an attorney (laughter)... [LB970]

SENATOR SCHUMACHER: (Laugh) Three of them. [LB970]

RON NOLTE: ...that there is very little money goes out of our estates. But I am all for this. Thank you, gentlemen. [LB970]

SENATOR LOUDEN: Thank you. Any questions for Mr. Olty (sic)? [LB970]

RON NOLTE: It's Nolte, N-o-l-t-e. [LB970]

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

Revenue Committee
January 26, 2012

SENATOR LOUDEN: Nolte. Okay, sorry about that. [LB970]

RON NOLTE: That's quite all right. [LB970]

SENATOR LOUDEN: Thank you for your testimony. [LB970]

RON NOLTE: Thank you. [LB970]

SENATOR LOUDEN: Next testifier. Do we have any more testifiers in opposition? Are you the last testifier in opposition? It looks like it. Okay, come up to the front then. We want you to jump in quick. [LB970]

JONATHAN KOLEY: Hello. My name is Jonathan Koley, J-o-n-a-t-h-a-n K-o-l-e-y. I don't have a huge amount to say. Frankly, I'm just...I'm not here representing anyone other than myself. I'm a college student, two part-time jobs, struggling to get my bills paid. And I just wanted to do what little bit I can to dispel the idea that these proposed income tax cuts are going to be a huge benefit to me as part of the middle class. I make about around \$20,000 a year. And my under... [LB970]

SENATOR LOUDEN: Are you testifying for or against this bill? [LB970]

JONATHAN KOLEY: Against. [LB970]

SENATOR LOUDEN: Okay. [LB970]

JONATHAN KOLEY: My understanding is that...and I'm certainly not the most educated or informed person who's been sitting in this room all day, but my understanding is that this income tax cut will net me, what, less than \$50 a year? That doesn't really mean much to me. I mean that's not a huge relief or anything. That's about a tank and a half of gas, at best. What I am concerned about, though and what's already been mentioned is how this is going to get paid for. Like I said, I'm only here representing myself, but I do, as my main form of income, work for a publicly funded community mental health program. And I worry that my job is still going to be around if these cuts go the way I've always had the impression they tend to, which is cutting into social services. And I worry about the people I serve as part of my job, because I know the vast majority of them make less than \$50,000 a year and certainly need the services they receive, that are funded by the state through our program, more than they're going to need \$50 at the end of the year. That's all I have. [LB970]

SENATOR LOUDEN: Okay. Thank you. Do...questions? Well, thank you for your testimony. [LB970]

KELVIN WURDEMAN: My name is Kelvin Wurdeman, Wayne County Commissioner,

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

Revenue Committee
January 26, 2012

K-e-l-v-i-n W-u-r-d-e-m-a-n. And I'm opposed to the inheritance tax part of the bill because Wayne County relies on about \$300,000, \$350,000 a year of inheritance comes in. So for us it's about 3 cents on our mill levy, and that 3 cents is almost all on mandates, that we use it to pay our retirement and other...and then bridges that we try to do when NDOR decided to cut their program and went into the buyout program. So we're losing money there. But one of the points that nobody brought up tonight was if...and Larry Dix could probably answer this more than...a lot better than me. But nobody I heard say anything about the ag communities. I think most of the ag counties are pretty well maxed out on their mill levy, but as we all know, we all lived through the '80s, and what goes up must come down. And we are at record high prices right now. So what are these counties going to do if all of sudden they wake up next year, and instead of this \$10,000 an acre, we're only getting \$7,000 or \$5,000 an acre, and we lose our inheritance tax? There's no way we can make that up in one year with the 3 percent lid limit. And that was the main point. Everybody else pretty well brought up all the other points. But I also come from a family of eight. Unfortunately, both my parents passed away. When we inherited it, not a single one of my siblings complained about the inheritance tax. And that's all I have say. Any other questions? [LB970]

SENATOR LOUDEN: Okay. Any questions? You're from Blaine County? [LB970]

KELVIN WURDEMAN: Wayne. Wayne County. [LB970]

SENATOR LOUDEN: Wayne, okay, up north of here. Any questions? Seeing none, thank you for your testimony. [LB970]

KELVIN WURDEMAN: Thank you. [LB970]

SENATOR LOUDEN: Okay, now we will take testimony, anybody in the neutral? Seeing none in the neutral, Senator Cornett, do you wish to close or does Governor Heineman wish to close? Thank you. [LB970]

SENATOR CORNETT: I think I will take the opportunity to prolong your pain a little bit longer. I have to say Mr. Nolte made me smile when he said that everyone ought to own an attorney. It brought me back to a comment that Senator Raikes made my first year in Revenue. And some poor person got up and was testifying that they were in agriculture and they were a farmer and they were paying taxes. And he literally stopped the hearing and he's like, did you say you were paying taxes? And the gentleman said yes. And he goes: You need a good CPA. (Laugh) So obviously this hearing has centered around primarily one section of the bill and that is the inheritance tax. And I have told pretty much all of you individually that I am more than willing to work with you and this committee for what is the best package for the state. I believe that Larry Dix said that he's more than willing to work with us also on this issue. But I urge the body or this committee to keep an open mind. We are not obviously forcing anything at this point. It's

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

Revenue Committee
January 26, 2012

a matter of discussion. But I think these are very, very important topics that we need to look at and there's a lot of points that were touched on today that I think need further clarification, some of them in regards to what the Tax Foundation ratings actually do for us and the perspective from businesses looking at the state of Nebraska and how that does affect our ranking and what that does mean to us as a state. We touched quite a bit from some people on the amount of dollars that people would get with the income tax brackets. What I am asking you to look at is look at what that means overall to what they're already getting back. In some cases, it's more than...more than 25 percent of what they are already getting back in their taxes. And for the very low income, like we were talking, a number of people mentioned they don't pay taxes. If you make under \$20,000 a year, you do not really have an income tax liability in this state already. I know Appleseed got up and testified in regards to the EITC. I was fortunate enough to sit on this committee in 2005 when we first placed the EITC into our budget, and then I was here in 2007 when we--2007 or 2008, I can't remember--when we increased the EITC. And I was on this committee when we worked on that as part of Governor Heineman's tax package. So that is an area we have looked at in the past and I believe we are funding at a reasonable rate at this time. With that, I'll be happy to answer any questions. [LB970]

SENATOR LOUDEN: Any questions for Senator Cornett? Senator Schumacher. [LB970]

SENATOR SCHUMACHER: Instead of owning an attorney, wouldn't it be cheaper just to own a congressman? [LB970]

SENATOR CORNETT: Ooh, I'm not going there. (Laughter) I'll let you handle that one. [LB970]

SENATOR SCHUMACHER: All right. [LB970]

SENATOR LOUDEN: (Exhibits 27-40) Any other questions? Thank you for your testimony, Senator Cornett. And with that, we've had some...we have letters as proponents and opponents, and they will be entered into the record as they were handed in. [LB970]

SENATOR CORNETT: (Exhibit 26) One quick thing: We did have an attorney bring to us an issue that needed an amendment. My staff was kind enough to draw that up and it is on the inheritance tax, and I will be offering that to the committee. [LB970]

SENATOR LOUDEN: Okay. Thank you. Any other business? With that, we'll close the hearings on LB970 and we wish you all a very nice evening. [LB970]