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Revenue Committee  
February 16, 2012

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[LB855 LB956 LB986 LB1098]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 16, 2012, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB855, LB956, LB986, and LB1098. 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 Revenue. My name is Senator Abbie Cornett from Bellevue. To my left, Vice Chair Senator Loudon from Ellsworth will be joining us. To his left is Senator Deb Fischer from Valentine, Senator Greg Adams from York. On my far right is Senator Schumacher from Columbus, Senator Brasch from Bancroft, Senator Pirsch from Omaha will be joining us shortly. To my right is Senator Galen Hadley from Kearney. The research analyst today will be Steve Moore, who will be joining us on my right. Committee Clerk is Matt Rathje, on the far left. Committee pages are Michael Killingsworth and Matt McNally. Before we begin today, I would ask everyone to please turn their cell phones to either silent or vibrate. Sign-in sheets are by both back doors for testifiers and need to be completed prior to coming up to testify. Please print when you fill out the form. If you are testifying on more than one bill, a form needs to be completed for each bill you are planning on testifying on. When you come up, please hand that form to committee clerk. There are also clipboards by both back doors where you can sign in and indicate either your support or opposition to a bill. These will be included in the official record. We will follow the agenda posted on the door today. The introducer or representative will present the bill, followed by proponents, opponents, and neutral testimony. Only the presenter 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 for committee and staff. If you do not have copies, the pages will make copies for you. When you bring those copies up, please hand them to the pages. Senator Fulton, you are recognized to open on LB855. [LB855]

SENATOR FULTON: Thank you, Madam Chair. For the record, my name is Tony Fulton, T-o-n-y F-u-l-t-o-n. I represent District 29 in the Legislature. LB855. The responsibility of collecting the state sales tax, which comprises a quarter of state and local revenue, is largely concentrated on the relatively small segment of the business community that comprises Nebraska's retailers. For bearing this responsibility, state policy has properly afforded a collection fee. Since enactment of LB32 in the 2002 Special Session, the amount of withholding, or collection fee, to retailers for collecting the sales tax and use tax has been capped at 2.5 percent of the first \$3,000 remitted or a maximum of \$75 per month. Prior to 2002's budget crisis, those responsible for collection of sales and use tax were also entitled to an additional 0.5 percent of the remittance above the first \$3,000. LB855 restores the withholding rates on sales and use tax to pre-2002 status, as originally intended in LB32. Such restoration would occur

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beginning in the 2013 fiscal year. Lifting the sales and use tax withholding cap would help to alleviate financial pressures particularly experienced by Nebraska's small retailers. According to a recent national Price Waterhouse study of the compliance costs to retailers for sales tax collection and remittance--such as the costs of training personnel on sales tax, preparation of returns, and credit card fees on sales tax collections--are more than six times more onerous for small retailers, with a small retailer being defined as having annual retail sales of under \$1 million. There will be those to testify after me. If you have any questions, I'll try to answer them. [LB855]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. [LB855]

SENATOR FULTON: Thank you. [LB855]

SENATOR CORNETT: That will open hearing to proponents. [LB855]

JIM OTTO: Senator Cornett and members of the committee, my name is Jim Otto, J-i-m O-t-t-o. I am president and registered lobbyist for the Nebraska Retail Federation. I'm also a registered lobbyist for the Nebraska Restaurant Association. I am testifying in support of LB855 on behalf of both associations, and we thank Senator Fulton for introducing LB855. As I will explain, it is a well-documented but little-known fact that Nebraska merchants remit over \$8 million more in sales tax than they collect on a net basis. This is the result of a...the large amount of sales tax charged to credit cards. Allow me to explain this with a math story problem. On a \$100 credit card sale in Lincoln or Omaha, there is \$7 in sales tax, which goes on the credit card. The merchant pays a credit card swipe fee to the credit card company, and these fees vary from 1.4 percent to 3 percent of the charge amount. If we use a conservative fee of 2 percent, the merchant pays \$0.14 to the credit card company to process the charge of \$7 in sales tax, thus the merchant collects a net of \$6.86 in sales tax but still remits \$7. The \$0.14 on that single sale equates to at least \$8.4 million statewide. That figure was not determined by the industry but by the Fiscal Office of the state of Nebraska on LB186, which was introduced in 2009 by Senator Karpisek. It would have reimbursed the merchant for the credit card processing fee on the sales tax amount. LB186 had a fiscal note of \$8,403,000 in 2009. That fiscal note also projected the amount merchants were paying on credit card fees on sales tax to grow to \$9.22 million this fiscal year. This was not the case prior to 2002, as Senator Fulton explained. Prior to 2002, the state's sales tax collection allowance significantly reduced this inequity by allowing a very small percentage of the tax, one-half of 1 percent of all tax collected, to be retained by the merchant. In the tight budget times of 2002, the Legislature took this away by eliminating any allowance of any taxable sales in excess of \$655,000. Since the 2002 change, the collecting merchant receives zero compensation for collecting taxes on annual sales above \$655,000. Nearly every successful appliance store, jewelry store, furniture store, electronics store, or home improvement store has taxable sales well

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beyond this threshold. Many grocery stores have taxable sales well beyond that threshold even though they can only charge sales tax on their nongrocery items. LB855 addresses this injustice by returning the Nebraska sales tax collection allowance back to the way it was prior to 2002, and Senator Fulton explained that very well. The fiscal note on LB186 projected that credit card fees would grow to \$9,220,000 by 2012; the fiscal note on LB855 is \$6,114,000, so it falls over \$3 million short of rectifying the issue, but it is certainly a major step in addressing the glaring tax injustice. We urge you to move LB855 to General File, and I would be glad to answer any questions. [LB855]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. Next proponent? May I see a show of hands for the number of proponents for this bill? Why don't you please move forward and be on deck for...to testify. [LB855]

KATHY SIEFKEN: Senator Cornett and members of the committee, my name is Kathy Siefken, K-a-t-h-y S-i-e-f-k-e-n, here today representing the Nebraska Grocery Industry Association as their executive director and their lobbyist. We would like to thank Senator Fulton for introducing LB855 and would urge you to pass this out of committee. Everyone, between Senator Fulton and Jim Otto, they've pretty much said anything that I had to say. The increase in that...the increase to 3 percent would help us get a little bit closer to covering the money that we have to pay out, because the majority of our transactions are by a debit and credit card, and we do have to pay the transaction fees and we're paying taxes on those fees. So if you have any questions, I'd be happy to try to answer. [LB855]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. Next proponent? [LB855]

BOB HALLSTROM: I'll be coming in... [LB855]

SENATOR ADAMS: How old is he? [LB855]

BOB HALLSTROM: ...with only half a coat. Here, Matt. Chairman Cornett... [LB855]

SENATOR CORNETT: This is turning...starting well. [LB855]

BOB HALLSTROM: (Exhibit 1) After that entry, this can only get better. My name is Bob Hallstrom. Today, without any assistance from John Lindsay, that's spelled H-a-l-l-s-t-r-o-m. I'm here on behalf of the National Federation of Independent Business and the Nebraska Pharmacists Association to support LB855. I think there's only so many ways you can say you support a bill that is as straightforward in terms of its concept, so I'll leave it at that, answer any questions, and try to gracefully depart from the chair here today. [LB855]

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SENATOR CORNETT: I see...seeing no...or did you...question. [LB855]

SENATOR PIRSCH: I was...I thought you were being gracious in drawing attention away from Mr. Ozaki, so thank you. [LB855]

BOB HALLSTROM: Yeah. We've both had our moments here already this morning. [LB855]

SENATOR PIRSCH: Yes, well it's... [LB855]

BOB HALLSTROM: Thank you. [LB855]

SENATOR PIRSCH: ...the morning...the afternoon's not over yet. We'll see what else comes. [LB855]

BOB HALLSTROM: Yeah. [LB855]

SENATOR CORNETT: Next proponent? [LB855]

LARRY DIX: Good afternoon, Senator Cornett and members of the Revenue Committee. My name is Larry Dix. I'm executive director of the Nebraska Association of County Officials. And when you initially look at this bill, you think this really is a one that is targeted...or you look at small businesses and folks like that. But when you dig further down into it, counties are probably one of the largest collectors of sales tax across the state of Nebraska. When you look at...even when you dig into the fiscal note, you'll see that the, you know, the fiscal note has a \$6 million impact, but the counties actually would have a \$1 million component of that. And quite honestly, when the counties look at that, this one is one that cuts both ways for the counties. It...on one side, there is some additional fees that we will receive on the collection side. On the opposite side, where you get to the Highway Allocation Fund, it reduces the amount, and we as counties also participate in the Highway Allocation Fund. But when we look at what Senator Fulton is doing here with this bill, the net effect of it certainly is a positive to the counties, when we look at that. And unlike retail organizations, when the counties are processing sales tax, we are really agents of the state. I mean, we're really working to collect that sales tax on those vehicles. And it's unlike a simple calculation that goes through a cash register or something like that; there are forms to be filled out, there is assistance for the taxpayers in answering questions. Back in 2002 when this all changed, I know at that point in time...I was here at that point in time, and of course we were opposed to that change because there would be a reduction; and so therefore, logically, as we move forward to LB855, the counties are here in support. And so with that, I would be happy to answer any questions anybody may have. [LB855]

SENATOR CORNETT: Seeing no questions, thank you, Larry. [LB855]

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LARRY DIX: Thanks. [LB855]

SENATOR CORNETT: Next proponent? Are there any further proponents? We will move to opposition. Neutral? And is Senator Fulton...? It looks like Senator Fulton waived closing. With that, we will wait for Senator Ashford on LB956. Welcome, Senator Ashford. [LB855]

SENATOR ASHFORD: Good afternoon; excuse the delay while I walk in. [LB956]

SENATOR CORNETT: It's quite all right. I didn't realize Senator Fulton had waived, so... [LB956]

SENATOR ASHFORD: Okay, thank you. Hello? My name is Brad Ashford. I represent District 20 in Omaha, and I am here today to introduce LB956. LB357, which this committee put on the floor last year, is on Select File, and this bill is intended to add to it various terms and conditions regarding the sales tax initiative process. It is...the amendment really is the work of the Chair, Senator Cornett, and clearly Senator Schumacher. There's a major amendment in LB956...a major part of LB956 was added on by Senator Schumacher. I have an amendment. I don't know if the committee has my amendment, but it's...Stephen, I don't know, did you have a chance to get a...? [LB956]

STEPHEN MOORE: I've got two versions of it; I have one that's a white copy of the entire bill and one that just makes the changes. Which would you like me to go with? [LB956]

SENATOR ASHFORD: Okay. Well, we can go with the white copy that has all of the changes. [LB956]

STEPHEN MOORE: That would probably be easier to understand. [LB956]

SENATOR ASHFORD: My amendment deals specifically with cities of the metropolitan class, with Omaha. Let me just give you some background on what motivates me to bring this bill. And this is not the first time I've brought a bill on sales tax authority; this is, I think, the third sales tax authority bill I've brought since I've been in the Legislature, going back to the days when P.J. Morgan was mayor of Omaha. And so, to me, I can't really get a grip on the thought that this is...that this bill is a tax increase. It just doesn't, to me, doesn't...it is not one. A tax increase is an initiative that, in this body, when we vote from time to time--though we haven't done it since I've been back--to increase the sales tax or income tax. In a city, an increase in tax is an increase in property tax or a vote, in our city, a vote to increase the restaurant tax. That's...those are tax increases. What this is, in my view, is a much--I think--a much more fundamental proposition. It is

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granting to--in its most fundamental sense--it's granting to our fellow taxpayers and citizens in our cities an opportunity to actively engage in the process of governance by having an opportunity to vote on a revenue-raising initiative utilizing sales tax, potentially in lieu of other taxes or to fund some project. I was very interested in Mayor Beutler--I don't know if Mayor Beutler is here; there he is--Mayor Beutler's comments the other day regarding this initiative. And I read those comments, and what Mayor Beutler was saying is exactly in the spirit of what this bill is all about. And he was here in the Legislature when I introduced the other sales tax measures. He talked about reducing property taxes, and he talked about other initiatives for his city. The bill has...or LB956, which would really add on to LB357, or be an amendment, theoretically, to LB357, is really based on three principles. The first one is transparency. The...LB956 sets forth very clear language on what must be on a ballot measure that goes to the voters. So if...as Mayor Beutler has suggested that he would like to see a decrease in property tax in Lincoln, that part of the initiative dealing with the property tax would be specifically set forth in the ballot measure. It encourages, and I think this is...Senator Schumacher has really driven this point home, certainly to me and I think to others, about the opportunity to use this initiative to encourage collaboration and...do you not have the right amendment? Do you want me to...? I'm sorry, do you need...? Is it something else? I thought maybe you were fumbling for... [LB956]

SENATOR CORNETT: No, I'm trying to figure out what your amendment does. [LB956]

SENATOR ASHFORD: Okay, I'm going to tell you. [LB956]

SENATOR CORNETT: Yeah. [LB956]

SENATOR ASHFORD: It...the idea that the cities must enter into an interlocal agreement prior to putting a ballot measure is an extremely important idea. The Omaha or metropolitan-class city amendment, Senator Cornett, would limit the interlocal agreement to the county. So you would have...there would be...the city and the county would enter into an interlocal agreement that would cover areas that are referred...that are mentioned in the original bill...can relate to economic development or can relate to infrastructure or other type...other initiatives. This part of the bill is the most alluring to me, because I think all of us know that our cities and counties and schools or whomever have...can find efficiencies by working together and creating collaborative initiatives and creating benchmarks within those initiatives in areas like economic development and transportation, infrastructure, and those kinds of things. The...so that's really the collaboration piece, and with this collaboration does come, I believe, efficiencies. And in our city, in Omaha, Douglas County and the city are beginning, I think, from my conversations with them, very serious discussions about initiatives that would create efficiencies in government by working together in various areas, some of which are mentioned in this bill in a general sense. The...Senator Cornett has put a ten-year sunset in this bill for the initiative, so the voters would vote...if a sales tax is created,

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there would be a ten-year sunset on that particular tax and there would have to be a revote or a new initiative. In conclusion, I think with the Schumacher amendment somewhat altered for Douglas County, with the Cornett amendment, and with the language on clearly setting forth what it is that the city is doing and to set forth in the ballot initiative exactly what interlocal agreements are in place, what are the efficiencies that this sales tax authority has brought about? And whether a city votes to use all of this money to cut a tax or to provide for a more efficient use of resources is up to the city. It's not up to us to suggest to them that they must...it must be a tax increase or not be a tax increase; it's up to the city. But I think it is clear that if the voters don't see or the taxpayers don't see these efficiencies, they don't see the collaboration between various governmental entities within a city or around a city, they're not going to vote for it. They're not going to vote to do this sales tax initiative if a city has not gone, really the extra mile, the extra effort to enable collaboration to occur. With that, Madam Chair, I'm happy to answer any questions. [LB956]

SENATOR CORNETT: Questions from the committee? Senator Adams. [LB956]

SENATOR ADAMS: Thank you, Senator Cornett. Senator Ashford, then do I understand these interlocal agreements between schools, counties, and cities, is that where the additional sales tax has to be used, within that agreement, or are they simply allowed to have the extra if they have an agreement? So they may have an agreement between the county and city on a landfill. [LB956]

SENATOR ASHFORD: They may... [LB956]

SENATOR ADAMS: That, in and of itself, would allow them to ask the voters for the additional half-cent that could be used for something other than the landfill? [LB956]

SENATOR ASHFORD: It has to...the tax itself does not necessarily...this bill does not require that it be used for a specific interlocal agreement. [LB956]

SENATOR ADAMS: Okay. [LB956]

SENATOR ASHFORD: However, it does say that no initiative can go to the voters unless there is an interlocal agreement that deals with those general areas of governance. [LB956]

SENATOR ADAMS: And would interlocal agreements that have been previously entered into between city and county, say 20 years ago that are still in existence, would that meet the criteria? [LB956]

SENATOR ASHFORD: No. [LB956]

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SENATOR ADAMS: Okay. [LB956]

SENATOR ASHFORD: It would not. [LB956]

SENATOR ADAMS: It would have to be a new one? [LB956]

SENATOR ASHFORD: It has to be new. And it would seem to me that the voters are going to know if it's just some sort of formalistic kind of contrivance. It's got to be a real gut kind of deal, where they're getting down and doing something significant, for the voters to see any kind of efficiency arising from it. [LB956]

SENATOR ADAMS: Okay. [LB956]

SENATOR CORNETT: Senator Hadley. [LB956]

SENATOR HADLEY: Senator Cornett. Senator Ashford, just so I understand, are you going to use this bill to amend the bill that's already on the floor? So... [LB956]

SENATOR ASHFORD: This is a better bill. This is...with Chairman Cornett's, Senator Schumacher's amendment, this is a better--much better--bill. It's much...it's...I think it...yes. This would be...the idea would be to amend LB956 into LB357. [LB956]

SENATOR HADLEY: And so you would start at the Select...? [LB956]

SENATOR ASHFORD: We would be at Select File. [LB956]

SENATOR HADLEY: Select File. [LB956]

SENATOR CORNETT: Senator Ashford, maybe you might want to explain how the Speaker was concerned enough about some of Senator Schumacher's amendments that he wanted a public hearing before you attempted to amend them in, that that's what the new bill... [LB956]

SENATOR ASHFORD: I could explain that. [LB956]

SENATOR CORNETT: Yeah. [LB956]

SENATOR ASHFORD: You mean, why are we here? [LB956]

SENATOR CORNETT: Yes,... [LB956]

SENATOR HADLEY: Yeah, that's a good question. [LB956]

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SENATOR CORNETT: ...I think that's what we're wondering or they're wondering.  
[LB956]

SENATOR HADLEY: That's what I tried to ask. [LB956]

SENATOR ASHFORD: We're here because...yes. We're here because I just wanted to come back. I rarely...I don't get that much of an opportunity to be in front of your committee and I wanted to be able to say these things again. No. Clearly, Senator Schumacher has raised an issue that was not in the original bill. He talked about it on the floor, as we remember, when we debated LB357 on General File. His issue was we--and I'll speak for him. His issue was let's not lose this opportunity, and it may be a once-in-a-30-year, -25-year opportunity. Last time this sales tax authority was granted, I think, was 25-30 years ago, to 1.5 percent. Let's not lose this opportunity to promote efficiency in government, to promote collaboration. So it is a new concept, and that's why the hearing. I think you felt that a hearing would be appropriate. [LB956]

SENATOR CORNETT: Thank you, Senator Ashford. Further questions from the committee? Seeing none, thank you. May I see a show of hands for proponents? Okay, could you please come up to the front so we can move the hearing along. We're on a somewhat limited schedule today. [LB956]

CHRIS BEUTLER: (Exhibit 2) Senator Cornett, members of the Legislature, my name is Chris Beutler, and I'm here today to testify on behalf of LB956. I want to begin by thanking the sponsors of the bill. Senator Ashford has been working hard on this, your Chairperson has been working hard on this, and Senator Schumacher has been working hard on this for going on two years now, I think. As all of you know, these last two years--last few years, in fact--have been tough years for government at the national level, at the state level, and most certainly also at the local level. And we've all had to reexamine how we operate, we've all had to find greater efficiencies, and we've all had to make difficult cuts over the last few years. Here in Lincoln, for example, we've reduced the nonpublic-safety work force by 9 percent over the last five years, which equates to more than 130 jobs in a work force of about 2,000. We've cut police officers in schools and we've cut bus routes and we've reduced park maintenance and we've cut library hours; we've cut senior center services and we've cut the retirement match for employees. We've had to do a lot of difficult things. Do we need to continue to look at ways to reduce spending? Of course we do. We're just like you. We need to constantly, as stewards of public money, be looking for ways of reorganizing and restructuring and doing more with less. Over the last budget cycle, however, we were not able to simply cut and reorganize our way out of...to a balanced budget here in Lincoln. Our community didn't want us to do that. After four years of doing just that, combined with decreased revenues from the state and federal government, we were left with few options. It was either deep and drastic service cuts, a property tax increase, or a combination of those two things, and we chose the combination. At a press conference

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earlier this week, I talked a bit about this situation and about what seems to be a trend in terms of expecting cities to rely more heavily on property taxes to fund local government. And I spent some time talking about the history of the assault that you all have made over a half-century on the property tax and its scale compared to other taxes in the state of Nebraska as you look at both state and local taxes taken together. And this chart, which was taken from information at...from your Fiscal Office--who puts together what I think is one of the most telling charts with respect to Nebraska taxation as anybody in the state puts together--clearly indicates that after starting in the 1960s and eliminating property taxes at the state level and then the continuing attack on property taxes at the local level, by the time you got to the turn of the century, it was down to 3.6 percent of personal income. Now it's starting to come back up again, and the old problem is starting to recur. And that trend concerns me, because I think my community is much like yours; the property tax is the most disliked tax. It's the toughest one on our aging population and some other populations with static incomes. LB956 offers an alternative to property taxes. It allows a community greater flexibility in determining how to fund city government, and it gives your local voters the ability to relieve the pressure on property taxes while still preserving what they consider to be very important city services. LB956 is not a blank check to communities. Senator Ashford has talked about that a little bit. It incentivizes intergovernmental efficiencies, thanks to Senator Ashford and Senator Schumacher, who have insisted on that. It allows us to partner with a county or a school district on core issues: infrastructure, transportation, education, economic development. We're particularly interested in education, Senator. Our community learning centers are an objective of ours. We need to save them. Federal funding is ending. The community seems to want to continue that. We're looking to a partnership with the school district, for example. The bill also contains language requiring cities to specify on the ballot question how those revenues will be used and whether they will be accompanied by a reduction in fees or other taxes. Here in Lincoln, an additional half cent of local-option sales tax would generate about \$19 million. Earlier this week, I publicly committed that if the sales tax bill passes and is endorsed by the voters of Lincoln, assuming that we put the issue to them at some point in time, a significant chunk of that new revenue will go to property tax relief. I believe we could easily drop the levy by several cents and still have funds that would be made available to us, to thankfully match what Senator Fischer has provided for us in another bill, match the money we need to build the south beltway here in Lincoln, which is a great need of ours. But we have to come up with our own money to match state money, so this is a way we could do that. I have prepared testimony that is a little bit too long, I think, here; but let me just say altogether that we think the people of the city of Lincoln would be pleased to have the flexibility of deciding themselves what they would like to do with regard to this particular item. And we certainly believe that the city wants to continue to invest in itself; it feels good. We're trying to become far more than a government town so that folks out in your district know we're creating a strong economy here in Lincoln that's contributing to the state in every way, and this kind of flexibility in being able to invest this money and being able to relieve property taxes, I think, is a

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pathway to greater success altogether. [LB956]

SENATOR CORNETT: Thank you, Mayor Beutler. [LB956]

CHRIS BEUTLER: Yeah. [LB956]

SENATOR CORNETT: Questions from the committee? Senator Adams. [LB956]

SENATOR ADAMS: Thank you, Senator Cornett. Mayor, thank you for being here. Your chart is very revealing and it truly does tell a story, but it caused me to ask another question, and I'll ask it of you--and I don't know that there is a right or wrong answer and it's unique to every one of us in every community. But since '67-68, the obligation on property tax as a percent of personal income has significantly dropped, virtually been cut in half, and now it begins to creep back up. And nobody likes property tax; whether you live in town or you live on the ranch, nobody likes it. But we're dealing here primarily with municipalities. Is there, for lack of a better term, a sweet spot on property tax? In other words, should a person who lives in the city be prepared to pay some property tax because they live there, and not just rely solely on...let's say if you were in that position where you had enough sales tax that you could literally wipe out your property tax. Does that...have you ever thought about that? Does that take us away from a property tax philosophy where living in town does obligate you to pay something for the property that you have in town? [LB956]

CHRIS BEUTLER: Senator, I'm hoping I'm understanding the meaning of... [LB956]

SENATOR ADAMS: I wasn't very articulate in my question. I'm sorry, I'm thinking out loud. [LB956]

CHRIS BEUTLER: No, no, the meaning of your question. But the...I think there are different ways of looking at it and over time, the people in this body have looked at it in different ways. The sweet spot, at one point in time, used to be--how did it go--a third, a third, a third. A third property taxes, a third sales taxes, and a third, an array of other taxes. I don't know about that exact formula, but I think there is wisdom in a couple of the things. Certainly, there is wisdom in having a variety of taxes because the tax incidence--that is, the weight of the tax, the burden of the tax--changes quite a bit, as you well know, depending on what kind of tax you're talking about. Occupation taxes, for example, can be narrowly drafted to fit to a particular regulatory situation whereby the people who are taxed bear the burden more of that particular occupation tax. So from my perspective as a person responsible for running local government, I would like to have the most flexibility possible to let the community decide what is the fair combination and how we should apply all of these different possibilities. Property tax certainly relates to the protection of property, and so although it's very difficult to measure, there is some relationship there between having a home to be protected from

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fire, to be provided emergency services, things like police protection services. I think those have a relationship to property and it's right to think of property taxes as the source of payment, so that's another way of thinking about it, I guess. But those would be my thoughts; I'm not sure if I answered your question. [LB956]

SENATOR ADAMS: Thank you. I...it's hard to come up with an answer. [LB956]

CHRIS BEUTLER: Yeah. [LB956]

SENATOR CORNETT: Seeing no further questions, thank you. [LB956]

CHRIS BEUTLER: Thank you. [LB956]

SENATOR CORNETT: Next proponent? [LB956]

CHUCK HARRIS: My name is Chuck Harris, C-h-u-c-k H-a-r-r-i-s, and I'm from York. And, Senator Cornett and committee members, thank you for allowing me to testify here today in favor of this proposal. I kind of wanted to bring you a little bit of an insight on what a city the size of York would do if they had the opportunity for an extra half-cent sales tax. A little history might be important. In 1995, we did pass the 1.5 cent sales tax, and we did it on the third vote only because we promised to use those funds exclusively for the reduction of our real estate taxes; and we have done that and we are true to that this day and we think that serves the people very well. So when the prospect of this half cent came up, we thought well, how can we do the same kind of quality program that would benefit the most people in York? And again, a little history. About ten years ago, under the guidance of Mayor Adams, why, we needed to have a comprehensive water study because we were having nitrate problems. So we had the study done and it told us that we needed to combine our scattered site wells into a definite well site, and have the opportunity and the infrastructure to blend our water and possibly treat our water, which is probably going to happen someday. In order to fund that, we started raising our water rates in 2003, and we've raised them every year until this year and we have three more years to raise them and we've raised them 72 percent. And that gets people's attention, let me tell you, because they...water rates are like gasoline prices at the pump. Boy, they know they've gone up. So we thought if we could get--possibly get--the half-cent sales tax, we would like to help with the \$8 million that we have in water revenue bonds; we'd like to help retire those over a ten-year period. And what that would do...it would allow us to stabilize what we're charging for water now, possibly not have any more increases, and then it would also...there is a possibility that we could significantly decrease the fees that we charge for water services, and that affects every single household and every business in the city of York, and we just think that's a very equitable way to use the money. And we're glad to have the opportunity, we're glad that you've required the people to take it to a vote, and we hope it's successful. Thank you. [LB956]

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SENATOR CORNETT: Questions from the committee? Senator Hadley. [LB956]

SENATOR HADLEY: Senator Cornett, thank you. Mr. Harris, I don't know who to ask this question, so I'm going to ask you, and if somebody later wants to respond...do you have occupation taxes in York? [LB956]

CHUCK HARRIS: Yes, sir, we do. [LB956]

SENATOR HADLEY: Okay. We had a bill before our committee that would require a vote of the people on occupation taxes, and I seem to remember the cities came in pretty adamantly opposed to taking it to a vote of the people. How is that different than this bill that it seems like cities are supporting, taking a sales tax to a vote of the people but we're opposing taking an occupation tax to a vote of the people? [LB956]

CHUCK HARRIS: You said you wanted somebody after me to answer that question? (Laughter) [LB956]

SENATOR HADLEY: Or if you want to pass, you can. (Laughter) [LB956]

CHUCK HARRIS: I'm not sure I'm educated enough on that to answer that one. [LB956]

SENATOR HADLEY: Okay, okay. [LB956]

CHUCK HARRIS: Thank you. [LB956]

SENATOR CORNETT: Senator Louden. [LB956]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. You mentioned as York, and I've been to York. Do you have any idea of what percentage of your sales come from the people that live in York and what percentage of your sales come from people that live outside of York? [LB956]

CHUCK HARRIS: We sure don't, and we wish we did. But I think as you understand, the Department of Revenue does not give us any details, breakdowns with those. [LB956]

SENATOR LOUDEN: Okay. But I mean as businessmen there, you know whether or not you're selling to people that live in town--you see them all the time--or whether you're selling to people that live outside your town--your farmers, your people traveling through, and businesspeople and that, so I...like that. And would you hazard a guess? Does half of your sales come from people outside of the city limits of York? [LB956]

CHUCK HARRIS: I'm not sure it would be half, but with the...our interchange, I-80 and

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81 interchange being inside the city limits, we certainly think a significant amount of that does. [LB956]

SENATOR LOUDEN: Because what I'm wondering, whenever we talk about sales tax or occupation taxes, you were talking about getting this sales tax so that your folks in town didn't have to pay so much for their water. Well, they're the ones in town that are using the water, so why shouldn't those folks in town pay for the water if they're using the water, rather than trying to get money from somebody else to help them buy their water? [LB956]

CHUCK HARRIS: Well, they'll certainly be paying for water, that's for sure. But I understand your point, thank you. [LB956]

SENATOR LOUDEN: Okay, thank you. [LB956]

SENATOR CORNETT: When you mentioned the interchange, a large percentage of that is not even Nebraska residents, correct? It would be people passing through, using the I-80 corridor? [LB956]

CHUCK HARRIS: Most likely, um-hum. [LB956]

SENATOR CORNETT: Thank you. Further questions? Senator Schumacher. [LB956]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you for being here today. If cities have an option to take this half percent and do, that, in some respects, reduces the ability of the state to take a half percent at some future time to do "stateish" things. And in the context of interstate economy, that makes us look a little bit worse off than if we didn't have, in that case, a 1 percent additional tax. If, over the next 40 years, the state matures and we see the development of a metropolitan area extending from Lincoln to Omaha and several very active hub areas--and I would guess that probably York would be one of those hub areas--and we can't much increase sales taxes without becoming uncompetitive, what do you see a city the size of York--or perhaps Columbus, Kearney, any of our hub communities and their surrounding communities--being able to take over from the state as governmental functions, to administer in a regional type of government, meeting needs, considering at the same time that how you do something in the metro area may not be the most efficient way to do something in the York area? What functions are out there that ultimately the state may be able to unload on you because you get this extra tax? [LB956]

CHUCK HARRIS: I'm not sure I want to give you suggestions on what you could unload on us, Senator, but... [LB956]

SENATOR SCHUMACHER: Well, that's what this is about. [LB956]

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CHUCK HARRIS: I'd have to think on that, but thank you. I'm not sure. [LB956]

SENATOR SCHUMACHER: Maybe some of the future testifiers can answer that little gem. Thank you. [LB956]

CHUCK HARRIS: Yes. [LB956]

SENATOR CORNETT: Seeing no further questions, thank you. [LB956]

CHUCK HARRIS: Thank you very much. [LB956]

SENATOR CORNETT: Next proponent? [LB956]

MARLENE JOHNSON: Good afternoon. Thank you, Senator Cornett and members of the Revenue Committee. I'm Marlene Johnson, actually mayor, I'm mayor of the city of West Point and I'm also vice president of the League of Nebraska Municipalities. I'm here to testify in favor of the 2 percent sales tax. I come to it from a different prospect because of the fact that I'm mayor of a very small community. We have a population of about 3,600 people and so we probably look at things a little differently than the cities do. We all have the same problems; ours are probably on a smaller scale than the cities' but we do have the same problems. We, however, are at the lid and levy limit and so we cannot increase property taxes without a vote of the people, which would be the same thing as taking the sales tax to the vote of the people. As has been stated, property taxes are unpopular and so probably an increase in property taxes would not happen. We just currently, about three years ago, passed a 1 percent sales tax in West Point--it's the first time we've had sales tax--and we used that for things that we...the general fund could not afford. Our property tax amounts to about \$750,000 a year and so even a 1 or 2 percent increase in property taxes doesn't add a lot. Our health insurance goes up usually 4 to 6 to 8 percent every year. Our liability insurance continually goes up every year. We have no recourse in lowering those because we have facilities, we have to insure them, and there's no way that we can lower those costs in any way, shape, or form. We have cut back on employees. We have not replaced some that have retired. We work on a very skeleton crew and everyone in the city of West Point that works for the city is cross-trained in another department. So we don't have anyone that's just in this department. Everybody helps out everybody else. When we have to remove snow, everybody is out there removing snow in one form or another. I don't know at this point in time if the city of West Point would even go after an extra .5 percent sales tax, but the thought is that if it is there and if we get into a situation where we actually are in desperate need of additional funds, it would be nice to have the opportunity to present this to our voters. It is their decision to make. If they choose not to vote for it and don't want to pay the additional .5 percent, that is their prerogative. We will then have to go away for two years. And as I said, at this point in

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time I don't know that we have anything...we have used our sales tax to buy a new fire truck. We have used our sales tax to improve a road and sidewalk to our new elementary school. We have used it to keep our wastewater treatment plant rates low to our citizens, and we've just used it in a lot of different ways that we would not have been able to get money from our general fund to supplement. And so it's kind of something that allows us to do some of the things, and a lot of things that are required by the federal government, too, as far as wastewater and water and all of these types of things. They continue to send down regs to us that we have to adapt to and it gives us the opportunity to move forward on those and still not raise the rates to our ratepayers sky-high. So there's a lot of things that it helps us to do and it's just a tool that is out there. Granted, everyone is helping to pay for it but the rural people that live in our area, they use our swimming pool, they use our library, we do not charge them extra for these things, you know, and we appreciate their shopping in town and we all work together to make things happen in the community. And so I don't think anyone really feels that it's a burden just because they don't live in the city, because they do use the city facilities in a small community. We have a community center. You know, it's at their disposal. They can rent it just like everyone else and they're not charged any more than the residents that live in the city of West Point. So it's just an equal type thing that we do there. And like I said, we are at the lid and levy limit and the .5 percent, if and when something arose that we feel we would have to do something, it would be nice to have the option to be able to do that. Thank you. [LB956]

SENATOR CORNETT: Questions from the committee? Senator Adams. [LB956]

SENATOR ADAMS: Marlene, how much...you said you generate \$750,000 in property tax. [LB956]

MARLENE JOHNSON: Uh-huh. [LB956]

SENATOR ADAMS: How much does your 1 cent of sales tax generate now? [LB956]

MARLENE JOHNSON: Our 1-cent sales tax generates about \$500,000. [LB956]

SENATOR ADAMS: May I ask you, when you took the 1 cent to the vote,... [LB956]

MARLENE JOHNSON: Uh-huh. Uh-huh. [LB956]

SENATOR ADAMS: ...why did you choose not to go for the full 1.5? [LB956]

MARLENE JOHNSON: Well, we thought that that, you know, at that point in time this was what we were...thought we could use and we'd need because we had the priorities, as I said, of the fire truck, the road to the school, the sewer bonds that we were retiring to keep the rates low, and this pumping station. These were the items that we had and

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we felt that that would give us enough money to cover those plus maybe a cushion in case some other emergency arose that we would be able to cover that also. And so I guess it was kind of like maybe if we just ask for 1 percent it will go, rather than 1.5. You know, you sometimes don't like to push the envelope... [LB956]

SENATOR ADAMS: Right. [LB956]

MARLENE JOHNSON: ...and be greedy. [LB956]

SENATOR ADAMS: All right. Thank you. [LB956]

MARLENE JOHNSON: So... [LB956]

SENATOR CORNETT: Senator Brasch. [LB956]

SENATOR BRASCH: Mayor Johnson,... [LB956]

MARLENE JOHNSON: Hi. [LB956]

SENATOR BRASCH: ...it's wonderful to see you here... [LB956]

MARLENE JOHNSON: Good to see you. [LB956]

SENATOR BRASCH: ...and it's an honor to represent West Point and the area. [LB956]

MARLENE JOHNSON: Thank you. [LB956]

SENATOR BRASCH: And I do understand the dilemma you're in. I often boast of West Point's ability to have a wonderful theater, that generosity, philanthropy, also a community building, and so I believe I've seen the city of West Point, and we have others, that the citizens do kick in, pitch in,... [LB956]

MARLENE JOHNSON: Uh-huh. [LB956]

SENATOR BRASCH: ...whether they live in the rural community. A lot of the rural people do pay a lot of... [LB956]

MARLENE JOHNSON: Yes. [LB956]

SENATOR BRASCH: ...sales tax. [LB956]

MARLENE JOHNSON: Yes, definitely. [LB956]

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SENATOR BRASCH: And so, as a rural person, I appreciate the services in the city of West Point and the job that you are doing. [LB956]

MARLENE JOHNSON: Well, thank you. [LB956]

SENATOR BRASCH: And the fact that you are running on streamlined services, so are many businesses. [LB956]

MARLENE JOHNSON: Exactly. [LB956]

SENATOR BRASCH: Businesses are experiencing challenges in keeping their doors running. When there's a recession, everyone suffers. [LB956]

MARLENE JOHNSON: Right. [LB956]

SENATOR BRASCH: Some of the comments that I do hear are, okay, sales tax is increasing a burden on people who do not have money,... [LB956]

MARLENE JOHNSON: Uh-huh. [LB956]

SENATOR BRASCH: ...that it's taxing the true middle-class person because then we are expecting them to pay more. But your representation and your presentation here of the need is a very good one and... [LB956]

MARLENE JOHNSON: Thank you. [LB956]

SENATOR BRASCH: ...thank you for your service. [LB956]

MARLENE JOHNSON: Thank you. Thank you. [LB956]

SENATOR CORNETT: Seeing no further questions, thank you. [LB956]

MARLENE JOHNSON: Okay. [LB956]

SENATOR CORNETT: Next proponent. [LB956]

MARLENE JOHNSON: Thank you. [LB956]

RODNEY STORM: (Exhibit 3) Chairperson Cornett, Senators, my name is Rod Storm. I'm the city administrator for the city of Blair. I'm here today, of course, to support LB956. I'm handing out a letter there that will be the "thru" of my testimony. With that, I'm...and with the day that you've got scheduled, I'm not going to read it entirely; I think you can do that. I think you'll see from there that we feel that the ability to have the

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local-option tax is important for every community, big or small, whether they want to use it or do not want to use it. It's a local choice and I think that's what the local-option sales tax represents is local choice. So we support that. I can sit here and tell you that I could not answer a question today as whether or not that would be a tax that the city of Blair would look at now or in the future. I can tell you there is a number of projects that, quite honestly, the only way that they will potentially be funded in the future is through some type of additional funding of this mechanism. I can tell you when you talk about the interlocal projects, there are a number of those types of things that potentially could benefit the city of Blair and the school district, the county, and other entities. A good example of that would be, as many of you know, Dana College has been closed for about 18 months. You have a tremendous infrastructure setting there that can serve the educational and the community needs for the Blair area and for the state. I could potentially see a project here that could not only collaborate with the local school district, the county. I could see it collaborating with Metro Community College and possibly even the college system such as Peru and so forth. There's a lot of infrastructure up there. Yes, we have a potential buyer there today, but they're a long way from being...having the money to close and to be under operation. But that is the type of a project that you could put together with this ability and be able to take it to the voters and say: Is this something you want for the community of Blair? I think if you look through here, you'll also see in the letter that Blair did not adopt the local-option sales tax until 1993, and the "thru" of that sales tax in 1993 was a half-cent, three-year sales tax, which essentially necessary at that time to help persuade Cargill to build their proposed biorefinery campus in Nebraska and particularly in Blair. And today, that investment has turned into over \$1.5 billion investment and over 1,000 jobs for the Blair, the metro area. Granted, those jobs are not shared just in the community of Blair--they're shared throughout the eastern and northeast Nebraska area as well as western Iowa--but it's been a tremendous boon for the state of Nebraska and continues to develop. If you look...when you talk about transparency, I can sit here today and tell you that the mayor and councils of the city of Blair has taken sales tax very seriously. I can sit here and tell you every dime that's been spent in the city of Blair for different projects throughout the city since 1993. We track that, we keep track of it so that when a citizen wants to know where did my sales tax dollars go, we can tell them. We can tell them it went for economic development, we can tell them it went for improvement of streets, water, sewer, sidewalks, parking, you name it. We can have that outlined so that we can provide our citizens with that information. That's something that our council has demanded. Will the next...other city or somebody do that? I can't tell you, but I can tell you the city of Blair takes that responsibility very serious. So with that, I will quit rambling and I would be happy to try to answer any questions you might have. [LB956]

SENATOR CORNETT: Senator Brasch. [LB956]

SENATOR BRASCH: Rod, it is also very good to see you here today with one, two of my cities now here speaking very strongly. Your message is loud and clear, and are you

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concerned if this does not pass? Do you see hardship? Do you see no options? I...Blair has a lot of job growth, am I correct? Businesses, I... [LB956]

RODNEY STORM: Yeah. [LB956]

SENATOR BRASCH: ...opportunities that... [LB956]

RODNEY STORM: I think an earlier question was asked, somebody, you know, here... [LB956]

SENATOR BRASCH: Um-hum. [LB956]

RODNEY STORM: ..it was: Well, what percentage of the sales tax is paid by the community and versus the people doing business? Blair has very little retail business. We have very few retail businesses as you well know. So the majority of our sales tax is borne by the local community through their, lack of a better term, utilities and the services and so things that they buy within our community. Yes, we get a tremendous impact, I think, from the people that hold those jobs out on the biocampus. Those jobs are not in the city of Blair. We're providing the infrastructure, the roads. We have...you know, we're in the process of trying to build a \$25 million bypass at today's dollars, and we know there's not going to be funds for, for probably another 20 years, and you calculate what the cost of that will be at that point in time, before we can be able to finish that. So being able to develop dollars and additional dollars will be critical in the future, and this bill gives the taxpayers of the city of Blair the ability to do that, to help make that choice of how they want to spend their dollars. [LB956]

SENATOR BRASCH: Thank you for all your work, Rod, appreciate it. I have no other questions. [LB956]

SENATOR CORNETT: Senator Fischer, then Senator Loudon. [LB956]

SENATOR FISCHER: Thank you, Senator Cornett. Thank you, Mr. Storm, for being here. Since the college has closed, have you seen a decrease in your sales tax revenue in Blair? [LB956]

RODNEY STORM: Senator, we're lucky. And since the 18 months that the college has closed, our sales tax has increased. We attribute that to the tremendous amount of construction that we have going on out at the biocampus, as well as bringing in the additional revenues. Of course, that brings in the additional traffic, the additional damage to our infrastructure and so forth, but our sales tax continues to be up. What we have not gotten with the college closed is we have not been able to realize that increase in dollars. We did not get to see what we would have had, what that new building and new construction would have meant had the students been there helping pay sales tax

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and so forth for the services that they got in the college, so... [LB956]

SENATOR FISCHER: I would assume your sales tax revenue would be even higher if the college hadn't closed. [LB956]

RODNEY STORM: Yes, that's... [LB956]

SENATOR FISCHER: What about property taxes? What are they doing in your area? [LB956]

RODNEY STORM: Our property taxes, our levy has stayed constant for probably...you know, I'm just guessing. But going back to look at it, say probably in the last ten years, when the state reevaluated here a number of years ago, we dropped from the 45 cents at that time down to about 35, and we've been holding between 35 and 36 since then. [LB956]

SENATOR FISCHER: Your levy has stayed the same, but what about the total revenue? [LB956]

RODNEY STORM: The value goes up 2-3 percent generally in a year, so you've seen a little bit of increase. [LB956]

SENATOR FISCHER: So you're seeing an increase in revenue, too. Some people feel that sales tax disproportionately affects lower middle-class and poor people in this state. How would you respond to that? [LB956]

RODNEY STORM: My answer to that is those poor, those people, they're paying property tax today. If they're living in apartments or living in rental units where they can't afford to own their own properties, they're paying property tax through their rents and so forth. If the property taxes are held steady, aren't increased, then they're not increased there, and so they're pay...any increase that they would pay in additional sales tax would be no different than what anybody else was paying. So those people are taxpayers when it comes to paying property tax. They just pay it to somebody else that writes the check. [LB956]

SENATOR FISCHER: Right, but my question was about sales tax being disproportionately a burden on poor people; a larger percentage of their income would go to sales tax for necessities. How would you respond to that? [LB956]

RODNEY STORM: They're...when you said disproportionate, I think that's... [LB956]

SENATOR FISCHER: With the percentage of their income. [LB956]

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RODNEY STORM: I think you have to be careful on that because a high percentage of their incomes go to providing food and those food products are not taxed. [LB956]

SENATOR FISCHER: Okay, thanks. [LB956]

SENATOR CORNETT: Senator Louden. [LB956]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. I noticed that you've got Cargill. Is Cargill in the city limits, outside the city limits? [LB956]

RODNEY STORM: No. The whole biocampus...and when I say the biocampus, when Cargill located there, they located on about 640 acres and they have leasing agreements with five other companies, the newest being Novozymes, which is in the process of completing their \$200 million construction project that will provide 100 new jobs to the area. [LB956]

SENATOR LOUDEN: Now, do they...how much property tax do they pay then? [LB956]

RODNEY STORM: To be honest with you, I've never looked. I can tell you it's a bundle. [LB956]

SENATOR LOUDEN: Okay, and that's what I was wondering. If, when you have these big corporations come in there as the amount of money you say, that's a huge valuation there. But what is your property tax then? You're in Washington County? [LB956]

RODNEY STORM: Yes. [LB956]

SENATOR LOUDEN: And what is the property tax levy in Washington County? [LB956]

RODNEY STORM: Well, in the Blair school district, I believe it's about \$2.10 for the levy, somewhere in that neighborhood. [LB956]

SENATOR LOUDEN: Yeah, that's the school district, right? [LB956]

RODNEY STORM: Right, that's combined levy for schools, city, county, and everybody. [LB956]

SENATOR LOUDEN: Okay, the entire, okay. But you don't know just what the county levy is? [LB956]

RODNEY STORM: The county, the last time where I'd seen, was probably in the same neighborhood of where the city's is, about 35, 36 cents. [LB956]

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SENATOR LOUDEN: Okay, thank you. [LB956]

SENATOR CORNETT: Seeing no further questions, thank you. Next proponent?  
[LB956]

JIM BRENNEMAN: My name is Jim Brenneman, that's J-i-m B-r-e-n-n-e-m-a-n. I'm currently president of the Norfolk City Council, having served on the council...this is my 12th year. Prior to that, I was police chief in the city of Norfolk for 18 years, and I've had the privilege of seeing what sales tax can do for the cities and how it can help you in financing some of your amenities that we have enjoyed. As recently as eight years ago, we passed an additional half-cent sales tax in the city of Norfolk, and with little or no opposition to that referendum. And what we were able to accomplish by that is to increase the amenities that we have as far as our health delivery services is concerned, such as the nursing college that's located on our junior college campus, Northeast Community College campus. We have been able to improve our infrastructure as far as the city is concerned. We were able to provide the city with a second fire station, equip and man that thing, as well as providing some additional public safety employees. So we see that that extra half-cent sales tax was really beneficial to the city of Norfolk. And also incorporated into that referendum was that we were allowed...able to reduce property taxes to the tune of \$1 million for the fiscal year. Although Norfolk does not currently have any initiatives on the agenda at this point in time, we're certainly here to support LB956 because we feel as though that as we progress down through the political system, that the city of Norfolk may need some amenities that would have to be included, such as further infrastructure that may provide natural gas, further infrastructure that may be required as far as extending water and sewer propositions to some of our industrial areas. So although we do not have an initiative on the table at this point in time, we feel as though it's very, very advantageous for us to have the option to go to the voters and ask for an additional half-cent sales tax to finance these things. We do continually feel that the sales tax has been real advantageous to us because it's allowed us to keep our property tax at a workable level. As you all may know that we are currently the fourth-lowest-rated first-class city as far as property tax is concerned, and we'd certainly like to maintain that perspective. So I'd like to take this opportunity to thank Senator Cornett, Senator Schumacher, and...(laughter)...Senator Ashford for bringing this bill before us and certainly ask for your consideration or approval. [LB956]

SENATOR CORNETT: Questions? Senator Schumacher. [LB956]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Mayor, I'll ask you the question, the same that I asked the mayor of York. There's only so many bites we can take at the sales tax apple before we give ourself a stomachache in competitive models with other states. If we try to peer into the future 40 years and we see a dynamic Lincoln/Omaha/Council Bluffs/Sarpy County metro area as one part of the state's

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paradigm, and probably 10 to 12 urban hubs--one of which is likely to be Norfolk--and we, you know, we run out of bites at that sales tax apple, what functions in that rural paradigm, kind of a hub model, do you see now performed by the state that the cities may be able to take over? [LB956]

JIM BRENNEMAN: I guess I find that very difficult to answer, Senator. However, I would say that the...what we have been able to provide is the amenities that those folks outside the corporate limits of the city come into the city, they enjoy our parks, they enjoy our amenities, they enjoy our recreational facilities. And so really, they're paying for what they're actually using, and so I...and what they would be taking away as far as what the state affords us, I can't really answer that. [LB956]

SENATOR SCHUMACHER: Thank you, Mayor. [LB956]

SENATOR CORNETT: Seeing no further questions, thank you. [LB956]

JIM BRENNEMAN: Thank you very much. [LB956]

SENATOR CORNETT: Next proponent? [LB956]

STEVE OLTMANS: Good afternoon, Senator Cornett, fellow members of the Revenue Committee. I'm Steve Oltmans, O-l-t-m-a-n-s. I'm the chief of staff for Mayor Suttle--Jim Suttle--in Omaha, Nebraska, and we're here to support LB956, granting taxpayers and cities throughout Nebraska the opportunity to decide how they should be taxed. Voters should have the choice in determining whether another half-cent sales tax is the best interest of the community they live in. A half-cent increase in the city's sales tax rate would automatically repeal the Omaha restaurant tax. Any plan for how to use the additional revenue would have to be crafted to meet the approval of the voters. Omaha, like most cities, has pressing infrastructure needs and while we would not rule out property tax releases as a component of the overall package, we would need to make sure that it makes sense in both the short- and long-term basis. What works for Omaha may not work for other cities. Placing specific requirements or restrictions on how the money is used beyond those included in LB956 could result in a bill that only works for some cities and not all cities. The Legislature should strive to be as uniform as possible in crafting this legislation. And I'd like to add in a couple of closing comments. We like the language in the bill in terms of working with county government. We've had great experience already in Douglas County. We used to have two jails; we have one jail now. We used to have multi 911 systems--we used to have six or seven--and we're also pretty far down the line, as Senator Cornett knows with Sarpy County, having a multicounty 911 system for all the cities in Sarpy County as well, saving the taxpayers in both counties a lot of money. Parks were merged; the county is out of the park business. City of Omaha operates all the parks in the county. We have one purchasing agent for all things in the city and county. For an example, on fuel cost, tremendous

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saving in bidding larger packages, and we've been doing that for about ten years. And we currently have placed a number of fire stations, for example, on school land, saving the cost of buying additional lands in an urban area where it's quite expensive. We currently have further discussions going on with the county regarding landfill issues, where we could serve more than just Douglas and Sarpy County on a revenue basis. And we currently also have an emergency management that's operated, and I happen to chair that committee on behalf of the mayor, and it operates within all three counties in the area and the cities thereof as well. So with that, I just...I think Senator Ashford has put a good amendment together here for this legislation, and we would ask that the Revenue Committee move the bill to the floor. [LB956]

SENATOR LOUDEN: Questions for Mr. Oltmans? Senator Hadley. [LB956]

SENATOR HADLEY: Senator Louden, thank you. I'll ask the question I asked earlier. I believe Omaha came in, in opposition to the occupation tax and putting that to a vote. Is it inconsistent that you're willing to put a sales tax to the vote of the people but you don't want to put an occupation tax--which is literally a sales tax on a specific area--to a vote of the people? [LB956]

STEVE OLTMANS: Yeah. And Senator, it's a great question and a fair question. I don't know if I agree that it's a...meets the same definition as a sales tax, but cities need some flexibility. Let me give you a couple of examples. We had a flood this summer. Right now, as...and it's still growing. It's cost the city taxpayers in Omaha \$22 million, and yet we still were able to keep the city dry. If that levee would have failed, we'd have had 4,600 people out of their homes, we'd have had an airport that would have probably been closed for at least a half a year, and that would impact the economy not only of Omaha, but the whole state, obviously. So I think there's some places where there's...and I grew up outstate on a farm and I've lived in a number of places in Nebraska, but most of my adult life in Omaha. You need...all level of cities...I don't know another entity of government that provides more direct services for the citizens than city government, starting with public safety, of course. So I think you need some flexibility so you can pay those bills. That flood, by the way, our insurance got cancelled. We just got it reassured by four companies not one, for four times the cost of what our original insurance policy was, so now it's \$2.5 million. So we need some flexibility in order to meet those kind of demands, particularly, I think, in a city that's...provides services not only for our citizens, but in the medical world, to citizens throughout the state, and frankly, many other states, so. [LB956]

SENATOR HADLEY: Okay, thank you. [LB956]

STEVE OLTMANS: Um-hum. [LB956]

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

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Next testifier, please. [LB956]

SEAN KELLEY: Good afternoon, Vice Chairman Louden, members of the Revenue Committee. My name is Sean Kelley, S-e-a-n K-e-l-l-e-y, appearing today on behalf of the Douglas County Board of Commissioners, in particular on AM2066, which would require the Douglas County Board and the city of Omaha to enter an interlocal agreement to use funds of the local sales tax. To echo some of the statements made by Mr. Oltmans, we do exercise a lot of interlocal agreements for citizens today in Douglas County and the city of Omaha, and we'd be anxious to work on more efficiencies in government that would be provided by LB956. With that, I'd be happy to answer any questions. [LB956]

SENATOR LOUDEN: Questions for Mr. Kelley? Seeing none, thank you for your testimony. [LB956]

SEAN KELLEY: Thank you. [LB956]

LYNN REX: (Exhibits 4-5) Senator Louden, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. First of all, I'd like to thank Senators Ashford, Schumacher, and Cornett for introducing this measure. We do think it's really important, it's extremely important; in fact, this is our highest priority. And in the cities with whom we have consulted, which have been many, many of them--all the first-class cities, Lincoln and Omaha, as well as over 40-some second-class cities and villages--we know of no city that's got a higher priority than this bill. This is a very important measure for us. What I've handed out for you for your review is just basically an outline--and I'm just going to focus on a couple of things and have you look at this--an outline of the number of cuts and everything that we've experienced over the last years. And I'm just going to make this very quick because the main focus I want to talk about are the efficiencies and the collaboration that this bill facilitates. In 2002-2003, our aid programs were cut by 25 percent; 2003-2004, 34 percent; 2004-2005, 32.5 percent. Throughout 2005 and 2006 and all the way through 2008 and '09, our municipal infrastructure redevelopment fund was totally eliminated. Last year, with passage of LB383, 100 percent of our state aid to municipalities have been totally eliminated. When one couples those types of cuts and the implications of what that has done on the local level and you combine that with the property tax reductions and exemptions that have been granted, along with sales tax exemptions that have been granted over a period of years, it's no surprise that we're facing a situation here where we have several cities that are very concerned about how they're going to fund fundamental projects for those cities. The reason why I think the state really has skin in this game is because municipalities are an economic driver, not just for their own locality but for the state, for the state's budget, and for your economy. And if our cities can't compete, I would submit to you that if they can't compete with the surrounding states, the state of Nebraska can't compete. And the reason for that is quite

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simple because when industries and businesses locate in a city, they're locating in a city or around a city because that's where the work force is, that's where the infrastructure is that they need to operate their business. And we have several mayors that serve on this committee, several past mayors that serve on this committee and with exception of ethanol plants, I would submit to you that 99 percent of most of the economic development is occurring in and around cities. They really need to have the capacity in order to grow and in order to do the kinds of things and create the kinds of amenities where people want to come and stay. You know, we talk all the time about how we want to make sure that we don't lose the college graduates and the other talented young people that we have in this state. Once we educate them and they go through--or they educate themselves--and they graduate from college, we want them to stay in Nebraska, so we have to have jobs for them, for them to stay in Nebraska. And what's fundamentally important is to make sure that communities have the revenue sources and their voters are able to vote on the kinds of things that will help their communities in terms of quality of life. I think that we have transformational projects in this state like the arena in Lincoln, what was the Qwest Center--CenturyLink Center, now--in Omaha, the civic center out in Gering, civic centers that are happening across the state of Nebraska. These are all things that help this community and help us as a state and build this. I'd like to share with you that 86 of the 194 municipalities that now have local option sales tax already are at their maximum limit of 1.5 percent as a rate. So you have 194 out of 530 cities right now that have local option sales tax. Eighty-six of them are at their maximum rate; 58 of the 59 municipalities in the state of Nebraska that have local economic development plans that have been voter approved, those plans--58 of 59--are funded exclusively from local option sales tax dollars. Recently, Amendment 1 passed that will allow us--and allow cities--to use other sources of revenue for those funding, too, but I think it's so important to underscore that this is something that allows the voters to vote. You're not really putting in a tax increase. You're simply saying: Do you as a Legislature trust the voters on the local level to make a determination as to whether or not they want to shape their city in a certain way or their village? I think that's pretty fundamental. And in answer to some the questions that have been raised, I think, Senator Hadley, you raised a very important one. What's the difference between the voters' right to vote on a issue like this versus one on an occupation tax? I think there is a difference. I think that difference is that historically, for over 100 years, municipalities have had the right to impose occupation taxes. And until passage of LB165 last year on the telecom tax, they never had to go to a vote of the people for that. I don't think it was abused in any way, shape, or form. In addition, I would submit to you that there are city after city that has communicated to us that the cost of going to a vote of the people on many, many of their occupation taxes would exceed the cost of the revenue generated from the occupation tax itself. So what does that do? Fundamentally, you end up in a situation where those rates are frozen. The occupation tax rates are frozen because I can't imagine--Senator Adams, when you were mayor of York and certainly now, Mayor Harris in York--is not going to submit an occupation tax to voters to increase a rate or do something of that nature when it's going to cost more to have the election than the

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revenue that would be generated. I think that's fundamentally a difference. But I think this is different. This is looking at half-cent sales tax having been required to have a vote of the people. Initially, they weren't. Omaha, Lincoln, Bellevue, and North Platte initially did not have to have a vote of the people for it, but it was amended into a bill along the way. And I also just want to underscore, in closing, that it's been since 1984...1978 was when Omaha was last given authority to have this enhanced half-cent sales tax to get to 1.5 percent maximum rate; 1978 for them, 1985 for the city of Lincoln, and 1986 for all the first-class cities, second-class cities, and villages. That's over a quarter of a century that cities have had something significant in terms of allowing voters to have the right to shape their communities. With that, I'd be happy to answer any questions you might have. [LB956]

SENATOR CORNETT: Well, I'm going to ask the question that I keep hearing battered back and forth because there is...there seems to be, at least in the minds of some people, a connection between the occupation tax and the half-cent sales tax. When you talk about the fundamental difference between the occupation tax and the cost of doing an election for a small tax... [LB956]

LYNN REX: Um-hum. [LB956]

SENATOR CORNETT: ...and Senator Fischer's bill, which freezes the occupation tax where they are and any new occupation tax would have to go to a vote of the people, do you see incorporating these two bills together, where if a city or a municipality enacts a half-cent sales tax, then the occupation tax is frozen? [LB956]

LYNN REX: Well, I would think that there are a number of things that we would want the committee to look at. I know, Senator Hadley, you talked to me about this issue before. For example, are...if you're...what you're asking me, if in fact a city was successful in getting the extra half-cent sales tax, then would... [LB956]

SENATOR CORNETT: Would they be as reliant, or need to be as reliant, on occupation tax? [LB956]

LYNN REX: I would think no. Obviously, no. [LB956]

SENATOR CORNETT: Senator Adams. [LB956]

SENATOR ADAMS: Thank you, Senator Cornett. And, Lynn, I realize that in your spot you represent all sizes of cities, from the smallest villages right up to Omaha. But I'd like you to respond to something because this is something that's...I have thought about since a similar bill was on the floor last year. I look at the situation in York and what benefit had been derived from sales tax and it's undeniable. What I'm worried about is the cities that don't have the sales tax base that this is going to do any good for. I think

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the number you said was 194 that have some kind of sales tax in effect out of 500--and--was it--50, something like that? [LB956]

LYNN REX: 530. Yes. [LB956]

SENATOR ADAMS: So what about the cities that are off the beaten path, that are not going to generate the kinds of sales necessary to even cause them maybe to go to a vote for sales tax? Are we just driving a greater division between the haves and the have-nots with this? [LB956]

LYNN REX: No, I don't think so, and here's why. For example, there are many, many of our smaller cities and villages that are located around cities of the first class, and some around Lincoln and Omaha. But one of the things that becomes very clear is that as bedroom communities, they also get the amenities. And they get the benefit of those when you have a city, for example, whether it's Minden by a Kearney, Nebraska, or a Hickman by a Lincoln, Nebraska, or a Waverly by a Lincoln, Nebraska--Waverly does have sales tax. But notwithstanding, you end up in a situation where those smaller communities do get the benefit of having that city have a sales tax. Because of the arena, for example, that Lincoln's going to be having and what this will do to the entire area--not just Lincoln, but the entire area--those cities are...they provide a very important work force. I know that--I don't have the numbers with me--but I know that many of our cities of the first class have done extensive work in terms of the number of folks from the smaller areas and from farms that come to the city to work. So now we're back to job creation, job retention. Where does it happen? It happens in and around cities. [LB956]

SENATOR ADAMS: But if I'm a town, a village, and I'm a village of 300 people and I'm ten miles down the road from a first-class city, granted, I'm probably going there to shop; granted, I'm probably going to go there and work. [LB956]

LYNN REX: Yes. [LB956]

SENATOR ADAMS: Conceivably, maybe the kids even go into school there, but I still see myself as an individual community. And I may not have much for streets but we want to maintain them, and we've got water issues... [LB956]

LYNN REX: Right. [LB956]

SENATOR ADAMS: ...and we've got wastewater issues and we kind of like having our own ambulance--whether we need it or not, it's still got our city name on the side of it--and we're up against the lid. [LB956]

LYNN REX: Um-hum. [LB956]

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SENATOR ADAMS: We really haven't done much for them with this extra half-cent, do we? [LB956]

LYNN REX: I will tell you that there's no question that LB956--and certainly LB357, which we hope this would be amended into LB357--this is not going to solve every problem for every municipality in the state. The issue you're raising also gets back to the lid and levy limits, which have been in effect since 1998 on the levy side and the lid side since 1996. The last numbers I've seen, we have over 240 municipalities up against the maximum lid and levy limit--pardon me--up against the maximum levy limit. So you're right, Senator Adams. I mean, this bill is not going to solve every problem for every community in the state of Nebraska, but what it does do is it really assists those municipalities that are in a position to be real economic drivers in this state. And I will tell you that many of them do not get the municipal equalization funds that are given to the smaller communities, and that's based on how...it's a number...it's a formula that also includes how close they are to the maximum levy limit of 45 cents per \$100 of valuation. So again, I agree with you, this bill is not going to solve everything for everybody. But I also want to just underscore the fact that this gives voters in these municipalities the right to determine how they want their city to look, the kinds of services they want, and really to help shape their destiny, and we're just saying please give them the right to vote. [LB956]

SENATOR CORNETT: Senator Hadley. [LB956]

SENATOR HADLEY: Senator Cornett. Ms. Rex, thank you for coming. I guess a couple statements. First is that being from Kearney, I've been on both sides of this because we passed a half-cent additional--and it passed 75/25--and an occupation tax the last few months ago that went down 70/30 also, so it works both ways. What I do like about it is the fact that it does go to a vote of the people and I think that's what democracy can be about. I guess I just still struggle with using it for sales tax but not the same thing for an occupation tax, and maybe that's a time for another discussion later. But, you know, what's good for the goose, is it good for the gander? So that's something we might have to talk about at a later time. [LB956]

LYNN REX: I think that's very legitimate, and Senator Cornett raised the issue. I could see that if we're in a position where if a city has the...is given the authority...if the bill passes--which we hope it does--and municipalities have this additional authority and if it passes--not just submitting it to the voters, but if it passes--then there would be a consequence on the backside in terms of occupation taxes. But I think you also need to look at the sunset because you don't want to be in a situation where the sunset kicks in and then you basically don't have additional revenues. So I think these are all issues we're prepared to sit down and discuss. I just think it's so important that it's been over a quarter century since the Legislature has given any significant dollars--let me rephrase

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that. You're not even giving them dollars, you're simply allowing citizens to vote on whether or not they will impose this tax on themselves for the types of projects, programs, and efficiencies that would be outlined in the ballot question. And this bill is all about transparency, it is all about making sure that there are efficiencies and collaborations. And I really commend Senator Schumacher, Senator Ashford, and Senator Cornett for the work that they've put in on this because in order to even access this, you have to have a plan for unified governance, it has to be a separate legal entity, you have to address issues either with a county or a school district--and in the case of Omaha, it would have to be a county--on issues such as public safety, information technology, infrastructure, economic development, tourism, and things of that nature, so I think that the voters will know how the money will be used. And just like in the case with Kearney, Senator Hadley, it's only if the city or village does a good job in explaining how they are going to use this and the citizens understand the efficiencies and the collaboration that would be involved in this. Only if they do a good job are they going to get a yes because they could also vote no. [LB956]

SENATOR HADLEY: Ms. Rex, I think that's a very important point. I think at times, we have the assumption that the voters are just going to blindly approve these kinds of potential tax increases through the vote, that it behooves the city to sell this to the voters to make that decision. [LB956]

LYNN REX: And in fact, I can share with you that of the 194 cities that have a local option sales tax today, there are not many of those that got it the first time. They were usually denied the first time and they had to go back to square one and say, you know, we really need to engage the public. We need to do what Kearney did on your half cent, which is go back, do focus groups, talk to folks, find out what they want, make sure that we are providing the types of amenities, the types of programs that they need. Maybe it is public safety; as you heard from Norfolk, it's more public safety officers, it was another fire station. And in another city, it might be the need for some type of a civic center. In other cities, it's property tax reduction. So I'm just sharing with you that the voters obviously are going to be the ones that will make the ultimate decision. We're just asking you and imploring you for the first time in 25 years, please give municipalities and voters of this state an opportunity to make a determination on how their cities can grow and be transformational for the state of Nebraska. [LB956]

SENATOR CORNETT: Senator Schumacher. [LB956]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you, Lynn, for your testimony today. Before the city can get to the position of even asking the voters for this tax, they have to come to an agreement with a school district or a county government, and in that county government are the small towns that Senator Adams expressed his concern about. How do you see that interplay, the role of the county in the negotiations on that interlocal agreement that then triggers the ability to do this tax? [LB956]

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LYNN REX: Well, for example, I could foresee that in some of our municipalities, they would put together with the county--a countywide, obviously involving that municipality--but put together a plan for how they're going to look at transportation in the long run. What are they going to do within the county on that issue? It may be something involving tourism, so there are any number of things. And certainly economic development, because I'll tell you that in city after...especially these small cities. Gosh, you look at the number of people that commute to Lincoln, Nebraska, from Waverly, the number of people that come to Lincoln from Hickman--and I'm sure that's true from Minden to Kearney and all across the state--folks that are coming from small towns and farms into the cities to work. And so the roads matter, economic development matters, job creation/job retention matters; but in order to basically have jobs and maintain jobs, you need to have businesses. And in order to have businesses, you need to have infrastructure, and you can't do infrastructure without significant dollars and that's why this bill is so critically important. But I think that's one of many ways, Senator. [LB956]

SENATOR SCHUMACHER: Thank you. [LB956]

LYNN REX: Public safety would be another one, obviously. [LB956]

SENATOR CORNETT: Seeing no further questions, thank you, Ms. Rex. [LB956]

LYNN REX: Thank you so much for your time. [LB956]

SENATOR CORNETT: Next proponent? Are there any further proponents? We'll move to opposition testimony. Neutral? Senator Ashford. [LB956]

SENATOR ASHFORD: I'll just comment on a few things. I think Senator Schumacher's question about the next 25 years--or 30 or 40 years--is key. And this bill is different from any other sales tax percentage increase bill that I've been involved in, in the Legislature because it promotes, because of Senator Schumacher's ideas--seriously, and I'm not pandering to him--his ideas on this... [LB956]

SENATOR HADLEY: You are too. [LB956]

SENATOR ASHFORD: ...but I can do that if you wish. But basically, because of his...we are moving in the direction of collaboration within a county, within a city, that will help us over the next 25 to 40; doesn't solve all the problems, but it starts the process in a meaningful way. No voter in my city is going to vote for any kind of increase in sales tax unless there's collaboration that's meaningful. And his question about what roles do the cities play? I was thinking of Kearney and I was thinking of YRTC. The city of Kearney is maintaining the Youth Rehabilitation and Treatment Center for the state of Nebraska. It may be a state facility, but the citizens of Kearney are there. They're impacted by

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Kearney--by YRTC--and they're impacted, quite frankly at this point, in kind of a negative way. But Kearney is coming together to make...has made that go. Healthcare is another area where I think the cities will be sort of the area where healthcare at least will be centered; also, you know, to some degree, education. But there are opportunities for collaboration that are much deeper and much greater than what we've engaged in so far. This bill, in a way, has somewhat of a carrot that says, you know, you can go out...to the voters but you've got to have something in place, and I think that's very real. Senator Cornett's idea of the ten-year sunset is critical because it means there's going to be a revote in ten years. That was her idea and it's very, very important. I also...Senator Fischer's bill on roads that I supported, I supported it because I think infrastructure statewide is key to cities. If we don't keep up the infrastructure, the cities aren't going to be able to interface or interact with each other in the future if we don't have first-class roads and first-class infrastructure. And that bill did use sales tax as a way of lessening reliance on gas tax. I think that sales tax for those kinds of obligations are good public policy and allowing the cities to have a piece of that sales tax revenue as...to do whatever it deems appropriate with is very consistent with that policy. With that, I really appreciate very much all the questions and the time this committee has given. This is...by the way, this I have designated this my priority bill. It was my priority bill last year, and so hopefully it will be voted out and be part of LB357. Thank you very much. [LB956]

SENATOR CORNETT: Senator Ashford, I know that I'm going to regret asking this because we've worked so many times on different amendments, but something triggered this in the testimony earlier. And I know it's an ongoing process right now, but there are a number of items that Douglas and Sarpy County are looking at together... [LB956]

SENATOR ASHFORD: Right. [LB956]

SENATOR CORNETT: ...as joint projects. [LB956]

SENATOR ASHFORD: Right. [LB956]

SENATOR CORNETT: Should the language include intercounty or projects that would affect both counties? And I'm just... [LB956]

SENATOR ASHFORD: I think so. I mean, I think it most definitely should. [LB956]

SENATOR CORNETT: I know, because they've been talking about a 911 communication center and other...for the countywide, for countywide. [LB956]

SENATOR ASHFORD: I think that's exactly correct. I think it should be and it would...it will help bring us all together on issues and...no question. [LB956]

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SENATOR CORNETT: Okay, thank you. [LB956]

SENATOR ASHFORD: Thank you very much. [LB956]

SENATOR CORNETT: That closes the hearing on LB956. I would like a show of hands for the people that are here to testify on LB986, the next bill. Okay. I'm limiting testimony with the light system. I would appreciate no redundant testimony. Getting up and saying me too is great. With that, we will open the hearing. Senator Dubas. [LB986]

SENATOR DUBAS: Good afternoon, Senator Cornett, members of the Revenue Committee. My name is Annette Dubas, A-n-n-e-t-t-e D-u-b-a-s, and I represent Legislative District 34. There's not too much to have to understand when you read LB986; it's fairly straightforward and pretty easy to understand. It simply creates a sales tax exemption on the gross receipts from the sale, lease, or rental of repair or replacement parts for agricultural machinery or equipment. I've been before the committee with this bill before. I know this is an issue that's been around awhile, and I think, not wanting to disrespect your time, but I really do think it's something that needs to be on the table as you're looking at the bigger picture. On the surface, the bill may appear to be a benefit for ag producers, but I think any financial benefit they receive is far outweighed by the economic benefits for key agricultural businesses in our state and ultimately, our state as a whole. Currently, Nebraska is one of eight states that still charges sales tax on ag repairs. All of our neighboring states except for Wyoming are tax exempt, so that puts all of our equipment dealers--and especially those who are on the borders--at a very distinct competitive disadvantage. We are always looking for ways to give our state and the businesses in our state a competitive advantage when we have discussions on the floor. We have the Nebraska Advantage Act that has worked very well for our state and has helped in multiple ways. I think this bill has the same potential to have that kind of a positive economic benefit. I believe most of you have received the report by Goss and Associates and it goes into a great deal of detail about the economic benefits of exempting farm repairs and replacement parts. I believe the data that's presented in the 2011 report provides some very compelling reasons why we should advance LB986 to the floor for full debate. I think some of those reasons are more obvious than others. For me, what really jumped out at me was the pace of job loss in the farm equipment supply industry. It is three times more than that of our bordering states. Our border counties have lost 16.3 percent of their jobs in the farm equipment suppliers business versus the interior counties, which show a much lower loss of a little over 5 percent. Our neighboring states, on the other hand, are showing an increase in employment in these areas that range from as low as 27 percent all the way up to as high as 268 percent. We have now lost all of the equipment dealers in Brown, Dixon, Furnas, and Johnson Counties; and by having them closed, we have realized a loss in annual payroll of \$900,000. We speak passionately through the course of our debates about the importance of job creation, how to support our rural communities,

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and how to find opportunities to keep our young people at home. I believe this bill can help us reach all of these goals. We have community colleges who are training their students in the farm repair equipment business or to work in parts departments. We have equipment companies who are providing scholarships for these students and more often than not, they will graduate and walk right into a great-paying job with a very promising future. If we had maintained our 1998 share of the region's equipment dealers employment, we would have employed over 3,900 workers by 2009. Instead, we show a loss of 283 employees, which computes to over \$5 million in lost wages. Agriculture and the ag-related business field is highly competitive. The profit margins are slim even when the prices are good because while our prices go up, so do everybody else's, and our inputs are climbing at just as rapid of a rate. So shopping around to save a few dollars is a critical component to running a profitable farm and ranch. It is not out of line for a producer who is especially close to the borders to travel additional miles to avoid the higher prices as a result of our sales tax. And it is not just the loss of that initial sale that is felt. The sales of new and used equipment--which are big-ticket items amounting to hundreds of thousands of dollars--are often outsourced also because we tend to build relationships with the people we do business with. So if we're already traveling out of state for our repairs, our more costly equipment purchases will likely follow. There's also the multiplier effect. Dollars spent with implement dealers ripple out across the local and state economy. When I am home--and my family will tell you that's not very often--my job is gopher. I'm the one that runs for the parts, that runs for the different things that are needed on our farm. And I usually try to make those trips count because I'm going to have to travel to other communities to find those parts regularly, so I will pick up my groceries, I'll run other errands. So while I may not be spending money in my local town, I am spending money in our state's economy. That's good. But if you have these same types of gophers who are running across the border, they're probably not just picking up repairs and parts, either. They're probably spending their money on other things also. So of course our focus is on the obvious and that's how much money would we lose by implementing this tax policy. You as a committee and we as the Legislature are going to have to look past the obvious this session as we try to decide what tax bills deserve our consideration. I truly believe this particular bill will provide a positive net result to our budget and much-needed jobs. And I know you saw the show of hands; these are testifiers who will help put a real face to this issue, and I...would probably be able to answer questions in a better fashion than I, but I will certainly attempt to answer any questions you may have. Thank you. [LB986]

SENATOR CORNETT: Questions? Seeing none, thank you. First proponent? Dr. Goss, the group spoke to me ahead of time and requested a couple extra minutes for your opening, so you'll be allotted five minutes versus three. [LB986]

ERNEST GOSS: (Exhibits 6-7) Thank you, Senator Cornett and members of the committee. My name is Ernest Goss, that's G-o-s-s. I live in Omaha, Nebraska. I'm here to speak on behalf of LB986. I'm here also as a consultant. I was commissioned to do

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this study last summer. I am a faculty member at Creighton University, but Creighton University bears no responsibility for anything I may or may not say today so that said. So thank you for allowing me to present the findings of my study. In 2007, Goss and Associates, and the University of Nebraska Bureau of Business Research, Eric Thompson and I did a similar study looking at this same issue. In this earlier study, we concluded that the losses, the yearly loss was about \$1.7 million, so that was in 2007. And as you may know, in 2006 South Dakota joined the other border states, except for Wyoming, in exempting farm repair and replacement equipment. So I was asked by the Iowa-Nebraska Equipment Dealers Association to reexamine this issue so I did that last summer, and I came forth with my findings in November of this year. And across the U.S., as you probably know, it's somewhat uncommon to tax what we call, what we economists call, factors of production. And if you do tax factors of production, as the sales tax on repair and replacement parts, you end up with pyramiding, that is, placing taxes on taxes. So normally it's avoided. And as was indicated earlier, all but Wyoming now of Nebraska's border states, exempt it and there are only now eight states across the U.S. that do not exempt the sale of repair and replacement parts for farm equipment. And as all of you also know, we in Nebraska, those of us who live in Nebraska, and I do of course live in Nebraska, we're benefiting mightily from agriculture. And unfortunately...I came to Nebraska 20 years ago and it's somewhat unusual to find, in my judgment...we sort of get used to an industry and not...we don't always understand its importance because it's been here for a long, long time. And I think we always understand the BMWs and the other manufacturing companies, but we don't always appreciate what agriculture does for us and, of course, now it's doing it in spades because Nebraska is right now growing at a pace significantly above other states in the U.S. So this, as I indicate in the study, the current methodology of taxing repair and replacement parts results in farmers going across, particularly in border counties, going across the state line to shop and to buy replacement and repair parts for their farm equipment. But at the same time, it's not just that. They often, of course, then buy new equipment because they establish relationships with these parts...the wholesale sales companies. And they also do other shopping. And of course as you also know, there's 75 of Nebraska's 93 counties currently have fewer people in them today than they had in the 1930s. Many of these 75 counties depend very heavily on agriculture and anything connected to agriculture. So again, taxing the repair and replacement parts has some negative consequences, and I'll talk about the negative consequences. And again, my goal in this study was to update the 2007 study that University of Nebraska-Lincoln, the Bureau of Business Research, and I did in 2007. Now this over...I looked at it over a 20-year period. Now of course, obviously it's very difficult to know what is going to happen or not happen in 20 years, but this is all discounted to present values, so these are in current dollars. If you exempt the repair and replacement parts, you would...the increase would be about \$3.2 billion to the state of Nebraska over 20 years; boost wages and salaries by \$1.0 billion; enlarge self-employment income by \$147 million; support an upturn in yearly employment of about 1,521 employees, that's yearly of course; and furthermore, the exemption, the

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exemption would pay for itself in the seventh year of the exemption. And all of you, of course, know the fiscal...you've read the fiscal note, which indicates a loss of \$10 million. Of course, that loss would, in my estimation, would, after seven years, you would not only pay back the \$10 million; you would then go on the positive side of gaining state and local taxes. So with that, I'll close and invite any questions from any of you. [LB986]

SENATOR CORNETT: Senator Adams. [LB986]

SENATOR ADAMS: Do we know, in the course of your research, how far in from the border demand becomes somewhat insulated from that competitive advantage that a border state has? [LB986]

ERNEST GOSS: Yes. In the earlier study, Senator Adams, we examined that very issue and, as you would expect, it's the border counties where the loss is the greatest and then the next rung of counties within. And when you get to the center of the state, for example, if you move to the very center of Nebraska, your losses are not going to be much at all. So they are quite significant on the border counties and, of course, particularly now with South Dakota. Again, South Dakota began their exemption in 2006 so the losses that we've documented already are going to increase over the years. Now, of course, we still have Wyoming bordering Nebraska that does not exempt these sales, but also the losses...there aren't that many wholesale dealers in the state of Wyoming so we're not losing that many to Wyoming right now. But to...you're correct, the losses within the center of the state are minimal. [LB986]

SENATOR CORNETT: Senator Pirsch, then Senator Hadley. [LB986]

SENATOR PIRSCH: Thank you, very much, Dr. Goss, for your testimony here today and analysis. I tell you, when it comes to you...so you've updated a little bit older study that came to certain conclusions and this is the results. Could you speak as to...and the premise is that on the borders, especially in Nebraska, that there's little deterrence to crossing over into the neighboring states that sell, well, these repair parts and whatnot without that sales tax on it. Is it fair to say then because they don't have the disadvantage of the sales tax, did you look at the purchasing price, the effect of the extra sales tax in Nebraska upon the, you know, competitive price of Nebraska versus the others? Did you find them to be uniformly lower as a result of our extra disadvantage of having the sales tax? [LB986]

ERNEST GOSS: Senator Pirsch, yes, although I did not go examine those particular products. I did not do that. I looked at overall sales and also the spillover sales. Of course, as you know, it's not just the agricultural parts. It's also the losses as individuals buy their clothing... [LB986]

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SENATOR PIRSCH: Yeah. [LB986]

ERNEST GOSS: ...when they go in and so on. And we did look at...but to answer your question, no, I did not examine it in detail. [LB986]

SENATOR PIRSCH: Well, and just to get to the methodology then, but you were able to isolate then the overall purchases of resident or, I would assume, farmers here in the state of Nebraska on our borders in terms of what they're purchasing abroad. How do you obtain that information? What was the methodology? [LB986]

ERNEST GOSS: Okay. The methodology that I used, Senator Pirsch, was to we...I use multipliers. It's called IMPLAN multipliers, which are used by the Department of Revenue at the...here in the state of Nebraska. And what we looked at was looking at job losses. So the fundamental factor was job losses, which are very easy to document, and then based upon the job losses to sales, looking at that ratio and estimating the sales. So the real driver is how many job losses, how many jobs were lost as a result of the lack of an exemption. So that's where it comes from, yes. [LB986]

SENATOR PIRSCH: Wonderful. That helps me to understand. [LB986]

ERNEST GOSS: And it comes from the County Business Patterns as a primary source, although I did have data. The Iowa-Nebraska Equipment Dealers Association provided me with data, and I looked at that data as well to confirm the U.S. Census data. The U.S. Census data shows the number of dealers and the closures, the closure rates, and you'll find it's...I won't say shocking but it's disturbing if you happen to live in Nebraska to see the loss of those dealers and you see the expansion in other states. And again, my concern right now is, as a resident of the state of the Nebraska, speaking as a citizen,... [LB986]

SENATOR PIRSCH: Yeah. [LB986]

ERNEST GOSS: ...to South Dakota. And now again, they implemented an exemption in 2006,... [LB986]

SENATOR PIRSCH: Yeah. [LB986]

ERNEST GOSS: ...so those will grow. [LB986]

SENATOR PIRSCH: And so the expansions you've seen though in the other state were there was market expansion along the border areas with Nebraska. [LB986]

ERNEST GOSS: Particularly along the borders. That's where it's particularly the case. Of course, along the Missouri it's not...you can't...it's not that easy just to drive across to

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either Missouri or Iowa but...and you see fewer flows that way except when you are close to an access point if you're talking about the Missouri River. [LB986]

SENATOR PIRSCH: Wonderful. Thanks for helping me understand. [LB986]

ERNEST GOSS: Thank you, Senator. [LB986]

SENATOR CORNETT: I'm sorry. Senator Hadley. [LB986]

SENATOR HADLEY: Senator Cornett. Dr. Goss, thank you for coming. I just was...last week was working on my Nebraska state tax return and it had a line that I was supposed to tell them what my Internet purchases were and then they asked me to put my county number in and that computed a tax that I paid on those purchases. Did your study at all look at what the use taxes Nebraska is now getting from people in Nebraska who are buying out of state who are reporting that on their tax return? [LB986]

ERNEST GOSS: Yes, sir, and you are correct that the...does...you are allowed, if you wish to get that exemption, you can complete the paperwork. But the problem with that is at this point in time, at least according to the fiscal note, there's virtually, if you look at that, they are looking at a static analysis. There's virtually none of that happening right now. [LB986]

SENATOR HADLEY: Okay. [LB986]

ERNEST GOSS: So the fiscal note says \$10 million and thus, if you fill out that paperwork, I've looked at the paperwork, it's quite...well, I won't say daunting but, you know, as I...most of the farmers I know are sort of like me, they don't really want to fill out all that paperwork, but some of them do, I'm sure. But according to the legislative...the fiscal note, there's very little of that going on right now. [LB986]

SENATOR HADLEY: Okay. Thank you, Dr. Goss. [LB986]

ERNEST GOSS: Thank you. [LB986]

SENATOR CORNETT: Senator Schumacher. [LB986]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you, Professor Goss. I got a question. Let's say a farmer buys a \$1,000 part, a generator for a tractor, okay, and the generator cost the equipment dealer \$900 that he's got to pay to whoever the manufacturer was in Moline, Illinois, or wherever. So there's \$100 that is at stake here over the cost. If he spends that \$100 in Kansas instead of Nebraska, what is the net effect, detrimental effect, to Nebraska by that \$100 in profit staying in Kansas rather than here? [LB986]

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ERNEST GOSS: It's approximately about \$175, so there's an additional \$75 to \$80. In Nebraska, in anything to do with agriculture, the multipliers are much larger because we have such an infrastructure, a good infrastructure, that you have larger multipliers, the backward linkages, and that's one of the problems of course. Now we're severing some of those backward and forward linkages. So it's about \$75. That would be my estimate as I sit here. [LB986]

SENATOR SCHUMACHER: So that \$100 spent in Kansas does \$175 worth of good to the Kansas economy? [LB986]

ERNEST GOSS: Approximately, and likewise \$175 worth of... [LB986]

SENATOR SCHUMACHER: Detriment. [LB986]

ERNEST GOSS: ...bad for Nebraska, yes, sir. [LB986]

SENATOR SCHUMACHER: Okay. Thank you, Professor. [LB986]

SENATOR CORNETT: Further questions? Senator Fischer. [LB986]

SENATOR FISCHER: Thank you, Senator Cornett. Thank you, Dr. Goss. Have you looked at the value of this tax credit compared to other tax credits that the state either has already passed and offered to businesses or any of those that are proposed this year? And if so, how does this one balance out with those? [LB986]

ERNEST GOSS: No, Senator Fischer, I haven't examined that and compared it to other tax credits. And as I'm on record a number of times saying that the fairest tax is a low tax with fewer exemptions, I mean I think that we could all, I think, agree to that, that we want a low tax and not so much targeting. The problem, as I said in this case, is we're talking about taxing what we economists call a factor of production where you pyramid and you have a tax on a tax. So that's my basic fundamental disagreement with the tax as an economist. So but...that's a long answer to a short question but, no, I did not look at other exemptions though. [LB986]

SENATOR FISCHER: So this pyramid effect, is that...would your recommendation be that the state should look at more credits such as the one in this bill or what we've done in the past? [LB986]

ERNEST GOSS: In my judgment, and I'm not... [LB986]

SENATOR FISCHER: Where's the benefit? [LB986]

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ERNEST GOSS: Yes, Senator, I'm not trying to advertise for more work but I think there is a need for many states. In fact, I just spoke to a group not more than an hour ago via telephone in Illinois, and Illinois is a state at the epicenter of this. In other words, they are now fighting mightily granting various incentives to this group and that group, when Governor Quinn, in my judgment, would have been better off having a low tax than rather...than having a higher tax and then picking out winners and losers. And so I do think again that there are no good taxes. There are just some that are not quite as bad. [LB986]

SENATOR FISCHER: Would it be better to lower the sales tax across the state of Nebraska or offer a tax credit for implement dealers under this bill? [LB986]

ERNEST GOSS: That's a very good question. And when I say there are no good taxes, there are taxes that have less negative impacts. And so the problem with doing that is that you do have some companies, some individuals that are much more mobile that would react to that negatively. And so in a sense, what in my judgment you wish to do--and this doesn't sound very popular--is to tax the consumer, the consumer, and that consumer will...obviously there are negative consequences for that payment as well, but they are less negative than taxing, again, the factor...what we call the factors of production: labor, and in this case inventory, you're taxing inventory, and so on. But there are less negative consequences for that tax. So I would propose to tax...if I had--and again, I'm...this would certainly...if I ever even thought about running for office this would...it's right out the window--I would tax food in Nebraska. I would. I think that the negative consequences are less and provide perhaps a lower rate and tax food. Now why is that? I think the negative consequences are less. Now back to the question, well, what about the poor and how about the progressivity or regressivity of that tax? That's one of the problems Nebraska has. Almost all of Nebraska taxes are fairly regressive, so I would say that adding food would not change that too much. [LB986]

SENATOR FISCHER: And it's difficult to pick up an implement business or to pick up a ranch and move it to a more favorable state with regards to tax climate, correct? [LB986]

ERNEST GOSS: That's correct, a ranch, but believe it or not there are ranches that have...that do move and now usually that's more for the property tax. And we have seen reports of that where it has happened. Now implement dealers, it's not...that's one of the difficulties and these other individuals can speak to it better than I,... [LB986]

SENATOR FISCHER: Well, they have service areas. [LB986]

ERNEST GOSS: ...they can move, they can move fairly quickly. And again back to the question about border counties, it's much easier to move when you're on the border of the state, moving to Iowa or to Missouri, South Dakota, Colorado, and Kansas. [LB986]

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SENATOR FISCHER: Okay. Thank you. [LB986]

ERNEST GOSS: Thank you. [LB986]

SENATOR CORNETT: Seeing no further questions, thank you. [LB986]

ERNEST GOSS: Thank you, Senators. [LB986]

SENATOR CORNETT: Next proponent? [LB986]

KENT KIRCHHOFF: (Exhibit 8) Good afternoon. My name is Kent Kirchhoff. I am...that's spelled K-i-r-c-h-h-o-f-f, and I'm testifying on the behalf and in support of LB986. My background is with the John Deere Company, for 12 years traveling around the state of Nebraska, living in western Nebraska, Scottsbluff and Norfolk, Nebraska, and now here in Lincoln, Nebraska, is where I reside and work for Plains Equipment Group. A few years ago, I left John Deere Company to join the dealership. My whole career, however, has dealt with these type of things with John Deere on the border towns. And in fact, since I came back to Nebraska to join the dealership, the South Dakota tax has changed, so I'm...I've seen that change already. Plains Equipment Group has 400 employees in the state of Nebraska. We have 14 John Deere dealerships. We have more than 260 miles of border in our organization. The towns that we have that are on the border are McCook, Nebraska, Ainsworth, O'Neill, Gretna, and Elkhorn; and we've also in the last ten years lost a dealership that was on the border of Tekamah. As I researched and prepared for this testimony, I thought, let me look at the history because as you all know, as we...the biggest predictor of our future is our history. So I found that 95 percent of the John Deere dealerships that have closed in the last 25 years were border town John Deere dealerships. There were 16 stores in there. They are Tekamah, Tecumseh, Falls City, Fairbury, Byron, Benkelman, Grant, Kimball, Chadron, Alma, Verdigre, Spencer, Valentine, Bartley, Oxford, and Franklin. And so as you can see, these can have a major devastating effect on the communities. And as a representative of our company, I just ask that we try to have a fair playing field in the John Deere or any ag business. So are there any questions? [LB986]

SENATOR CORNETT: Senator Adams. [LB986]

SENATOR ADAMS: Thank you, Senator Cornett. You know, as I look at this list of towns, it certainly does most probably make your point. I'm wondering, though. It seems like in so many businesses anymore, economy of scale and aggregating is the way to go. Are any of these closures the result of consolidation rather than border bleed? [LB986]

KENT KIRCHHOFF: I'm not 100 percent familiar with all the situations of the closures.

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I'm sure there are some consolidation items there. I just thought statistically, to see that 16 out of 17 were border areas just drew a, you know, an exclamation point in my mind. [LB986]

SENATOR ADAMS: It does, thank you. [LB986]

SENATOR CORNETT: Seeing no further questions, thank you. Next proponent? [LB986]

STANLEY STUTHEIT: (Exhibit 9) Good afternoon, Senators, and thank you for letting me speak on behalf of LB986. My name is Stan Stutheit, S-t-a-n S-t-u-t-h-e-i-t. I am the owner of Stutheit Implement Company in Syracuse, Nebraska. We have the John Deere ag dealerships in Syracuse and Auburn, and we've been in business 46 years and currently have 56 employees between the two locations, so I ask you for your support on LB986. I want to point out the fact that it's not a tax break to farmers; it's actually to help our businesses in Nebraska and to keep revenue and dollars and jobs at home. Lost repair parts sales leads to lost revenue sales and it leads to lost equipment sales. I have talked to an individual I know, somebody that worked at a dealership in Kansas and he lived in Nebraska. He said he used to bring parts home all the time and they didn't have to charge sales tax, basically, on their invoice. They don't have to show if the customer picked them up or if he delivered them, so he basically got away with it. He also told me that basically they used that as a selling tool because they could tell the customer to bring the combine or equipment into a Kansas dealership and you don't have to pay sales tax. So if you got a \$15,000 or a \$20,000 repair bill on a combine or a tractor, you know, that adds up quite a bit. That's not all just parts sales. Half of that can be labor sales, so it's also loss of jobs for Nebraska and more jobs for out of state. I have another neighboring dealer, because I'm close to Iowa, that I know for sure has at least six employees that live in Nebraska that work for that dealership. One of them is one of my past technicians who was one of my best technicians. They hired him strictly just to cover the state of Nebraska. They also hired a parts person away from me, and he worked for them for five months and he realized that the main reason they hired him was to sell and deliver parts back to Nebraska. He quit and came back to work for us because he didn't want to do that to us. They also have a salesman living two miles from my dealership door in Auburn. He brings parts home with him every night. The pickup is full; he brings them home. I'm sure they're probably not charging sales tax because there's no proof that he didn't...that those dealers, those farmers didn't buy them back in Iowa. But it surely gives him a big opportunity to sell equipment at the same time he's delivering parts, so it's just...that's where I get back to the loss of labor sales and the loss of equipment sales. Last fall, my neighboring out-of-state dealer even delivered a postcard to my customers, my neighbors. Even two of my employees received those postcards because they are part-time farmers, and this is a copy of the postcard. So that was delivery points, six points between Louisville and Auburn. It was through Cass County, Otoe County, and Nemaha Counties, and so they were dropping

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parts on that route. Three weeks ago, I had my John Deere division sales manager and division dealer development manager come to my dealership. I thought that was an honor, but they started talking about my market share numbers were low, and come to find out that my area of responsibility...I have eight counties for an area of responsibility in Nebraska and my market share was only 35.6 percent, down from 55.7 a year ago. I say a lot of that is because my neighboring out-of-state dealers are taking that business from me. My worst counties are basically counties along the borders. Nemaha County, we have 100 percent responsibility for, and my area, my market share was only 11.8 percent. We're the only dealer in Nemaha County and it's 11.8 percent. That business is getting away and that's where it's going. So, as you noticed in the Goss study, the Nebraska border counties lost 16.3 percent of their jobs among farm equipment suppliers. Iowa counties contiguous to Nebraska has a 34.2 percent gain, employment gain, so. [LB986]

SENATOR CORNETT: Questions from the committee? Senator Schumacher. [LB986]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you for your testimony today. Do you know when Kansas and Nebraska sales tax policy diverged? Did Kansas never ever have a tax? When did this start becoming a real problem? [LB986]

STANLEY STUTHEIT: Yeah. Truthfully, like I said, I've been in a dealership for 24 years of the 46 and I don't remember them ever having sales tax on farm equipment repair parts, so. [LB986]

SENATOR SCHUMACHER: Thank you. [LB986]

SENATOR CORNETT: Seeing no further questions, thank you. [LB986]

STANLEY STUTHEIT: Thank you. [LB986]

SENATOR CORNETT: Next proponent? [LB986]

BRETT SWANSON: (Exhibit 10) Hello, Senators. I'm Brett Swanson from Sandhill Equipment located in Bassett, Nebraska, a third-generation equipment dealership. [LB986]

SENATOR CORNETT: Mr. Swanson, I apologize. Could you spell your name? [LB986]

BRETT SWANSON: S-w-a-n-s-o-n. We're a third-generation business. We've been in business for 55 years. We're located 30 miles from the South Dakota border. I'm going to go over just a few examples that I know for sure. I have a good friend and customer that lives in Spencer, Nebraska. Every spring/summer he buys around \$2,500 worth of parts to get ready for haying season. And he goes to Wagner, South Dakota, and buys

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those parts because he does not have to pay sales tax. He's buying the parts 5.5 percent cheaper than if he comes to our dealership and buys them. And, you know, that's a lot of money leaving our state that we'll never get the chance to get back. We also have an employee who works at Sandhill Equipment. Him and his dad own a ranch. His dad will actually drive to Burke, South Dakota, which is about 50 miles from Bassett, and buy his New Holland parts to save the 5.5 percent. And I was involved in another deal. A customer called me from north of Newport, which is about 25 miles from the South Dakota border. He needed a reel for a swather that was \$2,215. He called me. I said, yes, we have it. He said oh, okay, I'll be down to get it. It was after hours. I went and loaded the part for him, come back in, told him what his total bill was, and he said you told me it was \$2,215. And I said, well, you have to pay sales tax. He said I'm not paying sales tax. I said, then we'll have to unload the part. And he said, well, I'll pay it because I need it. But, he said, that will be the last time I do business with you guys; you're higher priced than the competitor just north of you. I said, well, that's your choice. I mean, that's just one example. Those are just three examples of money that's leaving our business, leaving the state. How many times has this happened that we never know about? So I believe that it is important as a third-generation owner of a farm equipment dealership that we have a level playing field against the other dealers in the surrounding states. Revenue is leaving our state. I thank you for your time. Any questions? [LB986]

SENATOR CORNETT: Senator Schumacher. [LB986]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you for your testimony. It strikes me that you're describing a situation where a farmer goes out of state, buys something, brings it back to this, his farming operation in this state, puts it on a piece of equipment, uses it. Nebraska has a use tax when you bring that back in. Do you suppose you would get your level playing field if, as part of the Nebraska tax return, you have a specific line for farm equipment that asks the question how much they imported and the amount of that so that the tax penalties would begin to apply for not reporting it? Would that level the playing field? [LB986]

BRETT SWANSON: Well, it may. But how, I mean, how many of those farmers are actually being honest and writing that down? [LB986]

SENATOR SCHUMACHER: Well, I mean, you know, we hammer people for not being honest on audits. [LB986]

BRETT SWANSON: Right, but...yeah, I guess I can't answer that question 100 percent. [LB986]

SENATOR SCHUMACHER: Then a follow up: Do you have many people from South Dakota coming down to do business at your shop? [LB986]

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BRETT SWANSON: Yes, so...very many and, you know, they have to pay sales tax on our, you know, on repair parts. [LB986]

SENATOR SCHUMACHER: But they still come down to your area? [LB986]

BRETT SWANSON: Yeah. I mean...you know, part of it is a lot...if you have the part, you know, they really don't care that it's going to cost them a few extra dollars because they're broke down. But, you know, when they're, you know, getting their planter ready or combine ready when they're buying a lot of parts, that's when they're going to the dealerships where they don't have to pay sales tax. When they're...when it's a \$100 part, it's not a huge deal. But, you know, I've got a good friend that owns a John Deere combine. He...you know, it's nothing to buy \$10,000 worth of parts for a combine. He goes to South Dakota and purchases his parts so he doesn't have to pay sales tax. [LB986]

SENATOR SCHUMACHER: Is that when the combine is broken down or does he just buy the parts to have in the warehouse? [LB986]

BRETT SWANSON: That's in the offseason when they're doing the repairs, so, you know, time is not an issue, so. [LB986]

SENATOR SCHUMACHER: Thank you for your testimony. [LB986]

SENATOR CORNETT: No further questions. [LB986]

BRETT SWANSON: Thank you. [LB986]

SENATOR CORNETT: Next proponent? [LB986]

JIM RECOB: (Exhibit 11) Thanks for your time, Senators. I am Jim Recob, R-e-c-o-b, co-owner of Northeast Equipment. We're a four-store John Deere dealership group in northeast Nebraska with locations in Bloomfield, Hartington, Laurel, and Wayne. Our area of responsibility includes the border counties of Knox, Cedar, Dixon, Dakota. Our area borders South Dakota and Iowa. I have been in the farm equipment business for 33 years. It's been said that if farmers make a dollar, they'll spend a dollar. While that's a slight exaggeration, it is basically true. Farmers are the engines that run our ag economy. They're good businesspeople. While they spend money if they make money, they also spend it very wisely to improve and grow their operations. I've developed many customers over the years and my customers are also my friends. I have had customers bring their equipment into our shop, have it diagnosed, and then take it out of our shop to another state to get it repaired. They're basically getting a 5.5 percent discount on the repair bill by doing that. Our customers want to be very loyal to our local communities. But like the line from the The Godfather: It's only business. When we lose

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these repair jobs, we not only lose the parts business but we lose the labor sales also. And, Senator Adams, if I may respond to a question you asked Dr. Goss, one of the customers that took his tractor to a neighboring Iowa dealership was 50 miles away. We ask for your help in promoting LB986 to help keep our agricultural dollars circulating in our communities and in our state. Thank you for your time and everything you folks do for the state of Nebraska. Are there any questions? [LB986]

SENATOR CORNETT: Senator Hadley. [LB986]

SENATOR HADLEY: Senator Cornett. Thank you for coming down. Just for my own information: On a repair job, you charge sales tax on the parts but there is no sales tax on the labor, is that correct? [LB986]

JIM RECOB: That is correct. [LB986]

SENATOR HADLEY: In South Dakota, do they charge sales tax on the labor? [LB986]

JIM RECOB: I do not know. These cases I'm talking about went to... [LB986]

SENATOR HADLEY: Because I know they have a very broad base of sales tax and I just don't know whether they exempt the part but turn around and charge sales tax on the labor, and maybe we can find that out. [LB986]

JIM RECOB: I do know that South Dakota charges sales tax on the purchase of machinery, but then they also don't pay property taxes on the machinery like our customers do. [LB986]

SENATOR HADLEY: Thank you. [LB986]

SENATOR CORNETT: Senator Pirsch. [LB986]

SENATOR PIRSCH: Just trying to get...and I appreciate your testimony here today. My wife's family is from up in your neck of the woods. But trying to get a feeling for the price sensitivity of these purchasers, right? So on a...I think there was a hypothetical we talked about before, \$2,500 piece of equipment. So if you're right around 5 percent, you're doing...talking about a little bit more than \$125. Is that enough to send--on the, you know, \$2,500 replacement part--him across to the dealers up there? Is...? [LB986]

JIM RECOB: Probably not a small item like that. With our inspection programs that we do in the offseason, repair bills can get up to \$20,000, \$30,000--we've seen repair bills like that--and you're talking at 5.5 percent real money. [LB986]

SENATOR PIRSCH: Okay, thank you. [LB986]

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SENATOR CORNETT: Seeing no further questions, thank you. Next proponent?  
[LB986]

MITCH MERZ: (Exhibit 12) Hello, I'm Mitch Merz, M-e-r-z. I am also a third-generation farm equipment dealership. We're located in Falls City, Nebraska. I'm 28 years old, just came home to the dealership two years ago. My father and uncles were involved; they've all retired except for my father, so it's just me and him. Previous to that, I actually worked for Sandhills Publishing here in Lincoln. I worked in the TractorHouse. I covered seven western states. Some of the sales tax laws out there when I was talking to those dealers, you know, they kind of looked at me and said really, you have to charge sales tax. And so our dealership is three miles from the Kansas line; we're nine from the Missouri line. I have four competing dealers, different brands of dealerships, four of them located within 25 miles from me. None of those are in the state of Nebraska. I have one additional dealership that sells similar products to me, same brand, within 25 miles as well; not including a few within 25 miles in the state of Nebraska, but five out of the state. We've been recently annexed into the city limits of Falls City, so on top of the 5.5 percent, my customers are paying 7 percent sales tax on any parts that they are purchasing. According to NAEDA--the North American Equipment Dealers Association--18 percent of your sales, bas far as a benchmark, 18 percent of your sales should be parts as a dealership, 8 percent should be service. On the second page of my handout there, I have proof that shows that mine are actually 12 and 4 rather than the 18 and 8. We have a higher sales margin, which is fine, especially for my grandfather and for my father, but my generation is using the Internet a lot more. Farms are getting more and more trucks. They have access to trucks. You know, they have a couple of months, kind of a slow time in the winter where it's nothing for them to get in a semi and go four states over to Illinois and pick up a tractor because they can save \$10,000. The sales margins are being cut. The future of an ag dealership is in the aftermarket, the parts and the service and the sales of those aftermarket products. For me to make it, I'm going to have to make money in those departments. I have 42 percent of my sales of equipment are actually sold in the state of Missouri. I'm selling customers in those states these products but they're not coming to me to buy the parts and service. They're going to their local Missouri dealerships to buy those. On top of that, there's 15 Richardson County citizens that I know of that drive to one of those five dealerships to work. I have two students that are sitting over here. They're both in school at Southeast Community College in Milford right now. Their families are customers of ours. They've both worked for me in high school--summers, after school, that type of thing. They both want to move home to Falls City and work for Merz Farm Equipment. But I don't know, you know, as far as if I can make it all work to continue the growth where I am losing the border bleed to these competing dealers. Thank you for your time and if you have any questions, I can attempt to answer them. [LB986]

SENATOR CORNETT: Senator Brasch. [LB986]

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SENATOR BRASCH: Thank you, Chairman Cornett. And thank you, Mr. Merz, for coming here from Falls City and bringing your crew and students here today. And you did mention...our other testifiers, they were green tractors. [LB986]

MITCH MERZ: Um-hum. [LB986]

SENATOR BRASCH: Are you green as well? [LB986]

MITCH MERZ: No, we're actually red. We're Massey Ferguson. [LB986]

SENATOR BRASCH: Oh, okay, because I thought maybe there was a problem with green tractor service and parts. [LB986]

MITCH MERZ: No, that's why I sat on that side and they sat on this side. [LB986]

SENATOR BRASCH: You're red. Okay, I get it. Okay now, and what I'm hearing here today is that you're just asking to be the same as over the border. [LB986]

MITCH MERZ: Yeah. [LB986]

SENATOR BRASCH: You're not asking to have a deal or a huge tent sale or something where... [LB986]

MITCH MERZ: No. [LB986]

SENATOR BRASCH: But just the same, so you can compete, you can hire these two young men, you can continue the fourth and fifth generation of your farm implement dealership. [LB986]

MITCH MERZ: Exactly. And as I mentioned, you know, the past generations, they could make it work off of more sales revenue. My generation, with the Internet and the mobility of products, farmers do and will go four states over. And so it's more important than ever to capture that parts and sales than margins on those parts, so. [LB986]

SENATOR BRASCH: Very good. I'm also the parts runner on our farm, and we don't have to get a lot of red parts, you know, so. [LB986]

MITCH MERZ: Yeah, well... [LB986]

SENATOR BRASCH: No, thank you very much for your testimony. [LB986]

MITCH MERZ: Yeah. [LB986]

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SENATOR CORNETT: Senator Schumacher, then Senator Pirsch. [LB986]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you, Mr. Merz, for being here today. We've been talking about when you bill your customer now, you bill them for the part and you have to throw on sales tax. Have you done a comparison with your competitors across the line as to what their property tax rates are on their facilities compared to yours, and if their income tax and corporate tax rates compared to yours? Because they've got to roll those taxes into their price, too, so how do we compare on those? I think we've been focusing on the sales tax and gee, you know, we're coming out on the short end of that stick. How about the other two, do you know? [LB986]

MITCH MERZ: I don't know. I don't have an educated answer for you on that, I don't. [LB986]

SENATOR SCHUMACHER: For us to pass judgment, almost we have to know that. [LB986]

MITCH MERZ: Yeah. Oh exactly, yeah. [LB986]

SENATOR SCHUMACHER: Okay, thank you. [LB986]

MITCH MERZ: Yeah. [LB986]

SENATOR CORNETT: Senator Pirsch. [LB986]

SENATOR PIRSCH: Thanks. Did I hear you right that you said the aftermarket sales of parts and service, that's the key for your future success? Is that, even though it's a relatively smaller percentage of your overall sales...? [LB986]

MITCH MERZ: Yeah, sure. [LB986]

SENATOR PIRSCH: But that's the key between make and break, is that what you meant? [LB986]

MITCH MERZ: In my mind, the future of the business, that's going to be where...in my philosophy, as long as you have parts available, you know, you've heard a lot of these previous guys say, well, if they need the part and you have the part, they'll pay the sales tax. But if you have the part and so does the next guy, then they're going to choose where the sales tax are not. But with the parts availability and the service side of it, that's going to take care of your sales. They're going to buy from you if you can take care of that customer. The farmer is going to...he's not going to go buy just because he's got a cheaper price from a guy that doesn't have a service department because

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he's going to need that service department to back the purchase of a \$400,000 combine. He's going to need that...those mechanics to take care of that \$400,000 machine. So the parts and the service side, if you've got the parts there and you've got the service available and those guys know that, that's key in their initial purchase of the equipment. [LB986]

SENATOR PIRSCH: So the question, I guess the follow up is, with respect to your new equipment sales... [LB986]

MITCH MERZ: Um-hum. [LB986]

SENATOR PIRSCH: ...which is the majority, I guess, of your...is that eroding as a result of your after...your...I guess what you would...competitive disadvantage with respect to the aftermarket sales? [LB986]

MITCH MERZ: Sure, sure. Yeah, that would decrease as the...your parts and service increase. [LB986]

SENATOR PIRSCH: You've noticed (inaudible)? [LB986]

MITCH MERZ: Yeah, yeah. [LB986]

SENATOR PIRSCH: Thank you. [LB986]

SENATOR CORNETT: Further questions? Seeing none, thank you. Next proponent? How many further proponents do we have? [LB986]

DENNIS SWANSON: (Exhibit 13) Thank you, Senators. I'm Dennis Swanson, S-w-a-n-s-o-n. And, Senator Brasch, we sell yellow. First of all, I see a lot of familiar faces here and I thank you guys for taking the time. I'm actually here in a twofold, representing the Farm Equipment Dealers Association and I also serve on the State Chamber board of directors and they support our bill. And, Senator Fischer, thanks for all your work, so. Senators Heidemann, Dubas, and Loudon have all introduced bills in the past. Here we are again, and the reason that we're back and we'd like to get this thing moved on to the floor is there's a couple of reasons. And one of them that I've shared with a few of you is that we feel that if we could get this bill to the floor--LB986--we could have conversation with the senators that have districts along the border and their constituents. And the loss of business along the border continues to decay and business is leaving our state. Why does the Dealers Association keep coming back? Because the sales tax is an exempt bill, it's flawed, it's failed, and we need your help to fix it. Five out of six adjoining states have exempted. Somebody asked about Kansas; I don't know which one of these are. But back, way back in time--I think Missouri went in '39--but several years ago, none of the states...all states had

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taxes on parts. But three of them, in '78, '87, '99--South Dakota was already mentioned in '06--those all had exemptions. And we've fallen behind. I mean, we just...it's time to rectify this disadvantage. Purchasing parts with volume discounts, you know, you guys have done that with early orders and you get 1 or 2 percent advantage and that's a great big help when you're competing in state. But if you go out of state, you start with that 5.5 percent disadvantage. And you can't blame our farmers and ranchers. They're all good shoppers. Some of you are farmers and ranchers; you know how it goes. Geographically, the highways that run across the top of Nebraska...because we're in Bassett; I forgot to say that. I think most of you know we're north, so South Dakota is our competitor on the sales tax. And so no different, but we start out with that 5.5 percent disadvantage, and as long as that disadvantage is there, that road is going to be continued to travel. And we know which one is prevailing. As long as that tax disadvantage is there, those guys are going to go out and do...and head north in our case. And we're not just losing the sales tax. We're losing that...once they get there and they build that relationship, we're losing that tractor sale, the baler sale, the swather, healthcare. In our case, we've got people going up there to do healthcare, groceries, gas. They're all being purchased in South Dakota. I belabored a business drain on our borders and we've talked about the...and it truly is an ongoing problem. We talked about...Ernie had a great presentation. My second reason is economic development. Any time the word economic development is mentioned, it receives all kinds of attention. The words are viewed as a financial investment to the state and our future. We need to remove the sales tax on parts. It is an economic opportunity for existing businesses. Nebraska tax policy must invest in the future growth of our state, and I think we do a fair job of that with economic development. But I think the real story that we might be overlooking, in some help, is retaining businesses that we already have. Existing businesses are a lot more than shovel ready. For this generation, it's revenue leaving our state, and I think that's an investment worth saving or at least deserves a competitive environment. In wrap up, I hope my story and all the others you have heard or received by e-mails make for a clear choice to move LB986 out of committee and on to the floor. Thank you, and do you have any questions for me? [LB986]

SENATOR CORNETT: Senator Schumacher. [LB986]

SENATOR SCHUMACHER: Thank you, Senator Cornett. And thank you for your testimony. I'll ask you the same question I asked an earlier testifier. If, on the Nebraska income tax return, we had a specific line or schedule in which it was required that a farmer list all of his agricultural parts purchases not made in the state of Nebraska and at that point assess a sales tax, would that level the playing field? [LB986]

DENNIS SWANSON: Possible. The one thing you've got to remember is you're asking for the honesty of a farmer or rancher to financially gain or disadvantage his own dollars. Is there a police out there that does that? [LB986]

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SENATOR SCHUMACHER: The Department of Revenue has got a lot of auditors. [LB986]

DENNIS SWANSON: Well, I understand that. But I can't answer that, Senator. [LB986]

SENATOR SCHUMACHER: Okay. All right, thank you. [LB986]

DENNIS SWANSON: I'm sorry, I'm...that's a fair question, though. I think that's a good point to look at. [LB986]

SENATOR CORNETT: Seeing no further questions, thank you. [LB986]

DENNIS SWANSON: Oh, I got off easy. Thank you. [LB986]

SENATOR CORNETT: Next proponent? I believe there was one more proponent. [LB986]

ANDREW GOODMAN: (Exhibit 14) Thank you. My name is Andrew Goodman, G-o-o--I'm sorry; I'll give you that as well--G-o-o-d-m-a-n. I'm president and CEO of the Iowa-Nebraska Equipment Dealers Association. I want to thank Chair Cornett and the rest of the committee for allowing me to speak with you. I have also brought with me a letter of recommendation on this bill from the Nebraska Pork Association. I don't have written prepared testimony; I'm just going to be very brief. I would like to address a couple of questions that came up earlier. Perhaps I can add a little clarity here and there. There was a question that came up of whether some of the loss of dealers in the state had to do with consolidation versus border bleeding. And we have 450 dealer locations in Iowa and Nebraska; there are 300 in Iowa; there are 150 in Nebraska. I've been with the association for 18 years and over those 18 years, there's been less than a 10 percent loss of dealership locations in Iowa. But the loss of locations in Nebraska has been in the range of 30 percent, so substantially greater loss in Nebraska than there has been in Iowa. In terms of the consolidation issue that we see, for the most part we've seen, particularly in Iowa with consolidation, is that there has not been a loss of locations. The locations have stayed the same and we really haven't seen loss as a result of consolidation, except in rare instances in Nebraska. The losses that we've had have very much had to do with competitive situations, the competitive disadvantages that dealers have in Nebraska. There was a question that came up about what we call absorption in our industry, and what absorption is, is what actually pays for the operation of the business. And the major manufacturers have done a number of studies and have made it very clear to dealers that if you are not making your profits on your parts sales and your service that you do in your dealership, you will not survive. The margins on whole goods is in the mid single-digit area. I'm talking 5, maybe 6 percent, even in good times, so there isn't much margin there. You have to make it on the parts, you have to make it on the service. I realize that I have a limited amount of time. I would

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like to entertain any questions that you might have, and I certainly thank you for the opportunity to speak. [LB986]

SENATOR CORNETT: Seeing no questions, thank you. Next proponent? [LB986]

PETE McClymont: Chairman Cornett and members of the committee, for the record, my name is Pete McClymont, P-e-t-e M-c-C-l-y-m-o-n-t. I'm vice president of legislative affairs for the Nebraska Cattlemen, and we wish to be on the record in support of LB986. [LB986]

SENATOR CORNETT: Thank you, Pete. Any questions from the committee? Seeing none, thank you. [LB986]

PETE McClymont: Thank you. [LB986]

SENATOR CORNETT: Are there any further proponents? Opposition? Neutral testimony? Senator Dubas. [LB986]

SENATOR DUBAS: I will be brief and I do thank you again for your time and your attention. I mean, we know when we're talking economic incentive packages on the floor, programs on the floor, we're doing it because we have to be competitive with other states. We have to find a way to make ourselves look a little bit better than everybody else. We're not an economic island and we are impacted by the tax policy that other states put into play. And I think because of the tax policies that our neighboring states have put into play, it has caused a great deal of hardship for our dealerships, and especially those who are on that border, and I think the stories that you've heard here today were great examples. I know that you, as well as all of us, are going to have some difficult decisions ahead, but I would not have brought this bill to you if I did not truly believe that this would be a good tax policy decision for our state to make. And, I think that it has the potential to have really positive economic returns for us. Yes, the exemption creates a loss of revenue on the surface, but I think Dr. Goss stated that that loss could be recouped in a certain amount of years. And I think we have the opportunity to keep these businesses viable, provide jobs, stimulate the economy in the local area which in turn supports the entire state. So this bill, as has been stated, has been brought to you several times in the past. We've never been able to get it out of committee. It's my hope that we can advance this bill to the full Legislature for debate and let everybody have a chance to weigh in on it, have the up or down vote, and move on from there. So again, I appreciate your attention, the questions, and I would be happy to answer any questions if there are any. [LB986]

SENATOR CORNETT: Senator Hadley. [LB986]

SENATOR HADLEY: Senator Cornett. Senator Dubas, thank you, and I appreciate the

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way you framed it because it is a tax policy question. I guess the only question I have is maybe your staff, if you could find out what the surrounding states, whether they charge... [LB986]

SENATOR DUBAS: I had that down as a question. [LB986]

SENATOR HADLEY: ...sales tax on labor on repairs. [LB986]

SENATOR DUBAS: Yes, I will get that information to you. [LB986]

SENATOR HADLEY: Okay, thank you. [LB986]

SENATOR CORNETT: Senator Brasch. [LB986]

SENATOR BRASCH: Quick question. And I'm just curious--and there probably isn't an answer--but I'm thinking probably the bigger the tractor, the bigger the repair and probably the bigger is their property tax burden as well, the...you kind of size your equipment to the amount of land you have. And I know that they're looking for property tax relief, which is the dilemma. And at this point, if we can just be competitive with sales tax--this is the question, here--on parts and labor, because it's an input, correct? [LB986]

SENATOR DUBAS: Correct, that would be very correct. [LB986]

SENATOR BRASCH: I have no other questions. [LB986]

SENATOR CORNETT: Seeing none, thank you, Senator Dubas. [LB986]

SENATOR DUBAS: Thank you. [LB986]

SENATOR CORNETT: There. Senator Council, I didn't see you sneak in. [LB986]

SENATOR COUNCIL: Good afternoon, Chairman Cornett and members of the Revenue Committee. I am Senator Brenda Council, last name spelled C-o-u-n-c-i-l. I represent the 11th Legislative District. And, quite frankly, this is the first opportunity I have had to appear before the Revenue Committee and admittedly, my first appearance could have been on the subject that would generate less opposition--and yes, I anticipate significant opposition to my bill. Nevertheless, I believe that the issues presented by the enactment of the Build Nebraska Act dictate that we revisit those issues at this time. In fact, the likelihood of revisiting the Build Nebraska Act this year was acknowledged on several occasions during floor debate on the bill last year. Additionally, for planning purposes, we should not put off until next year that which inevitably may need to be done next year. As you know, the Build Nebraska Act

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requires that one-quarter of 1 percent of the state sales tax be allocated between the State Highway Capital Improvement Fund and the Highway Allocation Fund on the 85 percent/15 percent basis. The intent of the Build Nebraska Act is an admirable one, and that is to provide greater funding to road construction and improvement in the state of Nebraska. Indeed, I joined those in recognizing a need to make a greater investment in the state's transportation infrastructure. In fact, I attended a conference hosted by Senators Fischer and Ashford in Omaha to hear alternatives for funding road construction and improvement in the state of Nebraska. However, the Build Nebraska Act represents a radical departure from the manner in which this state has historically funded road construction and improvement. Moreover, in the words of Governor Heineman when he signed the Build Nebraska Act last year, the act represents a "risky financial strategy." It is for these and other reasons that I introduced LB1098. Simply stated, LB1098 provides for the repeal of the Build Nebraska Act. The repeal of the act does not in and of itself require that the Legislature forgo looking to the General Fund for additional dollars for road construction and improvement. Rather, with the repeal of the Build Nebraska Act, any use of revenue that ordinarily would go into the state's General Fund would have to be appropriated for roads in the same manner as are the other functions of government funded in this state. And in that regard, the amount of the appropriation for roads would and should be dependent upon a determination of its relative priority. I think most of us agree that the major priorities and functions to be addressed from state revenue are education, public safety, public infrastructure, and meeting the needs of our vulnerable residents. It is enough of a challenge to fund these priorities without increasing our revenue sources, which are principally sales and income tax. It is quite another challenge to fund these priorities in the face of proposals to reduce the state's revenue and uncertainties regarding the costs of other obligations of the state. However, that is precisely where we are at this juncture. According to the Appropriations Committee's preliminary report, while the current fiscal year '12-13 biennial budget is balanced at the present time, the prospects for the following biennium financial statements are at best pessimistic. The Build Nebraska Act becomes operative during this very same following biennium. The current financial status with the Appropriations Committee's preliminary budget adjustment yields a projected balance that is \$343 million below the minimum reserve. As shown in the preliminary report, a \$93 million positive structural balance in the fiscal year 2012-13 between revenues and spending turns into a \$158 million structural imbalance in fiscal year '13-14. This is the result of below-average revenue growth, higher spending, and--admittedly, my colleague, Senator Adams--especially in TEEOSA school aid, with expiration of some of the changes made in LB235 last session, and initial implementation of the Build Nebraska Act. This structural imbalance expands in fiscal year '14-15 as projected spending growth again exceeds below-average revenue growth. This imbalance that I referenced--the \$343 million imbalance--does not include consideration of the Governor's recommendations in LB970. This amounts to a revenue reduction of \$51.8 million in fiscal year '12-13, with full-year costs of \$131 million in fiscal year '13-14 and \$144 million in fiscal year '14-15. Incorporating the LB970 tax cuts into the committee's

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preliminary budget results in a \$660 million shortfall in the following biennium if we proceed with the Build Nebraska Act and the other preliminary budget projections. Additionally, the Appropriations Committee preliminary budget does not include any projections for this state's implementation of the Patient Affordable Healthcare Act. Those costs are expected to hit the state in fiscal year 2014-15, which is the second year of the biennium in which the Build Nebraska Act is anticipated currently to take effect. Again, let me emphasize the fact that I agree that we need to address the roads infrastructure issue in the state of Nebraska. My concern, and the reason I introduced LB1098, is that I believe that this is the best time for us to consider whether or not we want to proceed with utilizing general funds for that purpose, and if so, whether we want to continue to go forward under the terms of the Build Nebraska Act, which is to allocate a quarter percent of 1 percent of our sales tax. It is my opinion that to do so would require us to make even more substantial cuts. Clearly, under the current budget shortfall projections, we're going to be looking at a TEEOSA reduction in order to balance the budget for the biennium; that, in light, Senator Hadley, of the efforts during this biennium to raise the funding for aid to K-12 education to the \$880 million, which was projected under the formula and estimated to be available. And I started my opening by acknowledging the fact that there would be opposition to this bill, acknowledging that there were quite a few supporters of the Build Nebraska Act initially. But lest these voices be muted, I have here over 50 e-mails that my office received in opposition to the Build Nebraska Act. And if you review these e-mails, the authors, like myself, do not dispute that we need to provide additional funding. Many--quite frankly, Senator Fischer--favored the portion of the Build Nebraska Act as originally introduced that provided for identifying a designated funding source to provide for bond debt reduction. The opposition is to using a designated portion of the sales tax for the infrastructure development. Finally, in looking at the projects--and I have listened to the concern expressed by many that the Department of Roads has been relying upon the action taken by this Legislature last year in enacting the Build Nebraska Act--I am reminded of our conversation last week during the Education Committee when we were considering bills introduced by Senator Hadley and Senator Adams, that projections are one thing; reality is what we need to deal with. And while it was projected that there would be \$60 million available beginning in July of next year, just like with any other function of government that this body is obligated to provide the funds for, we need to annually assess where we are, what the priorities are, what dollars are available, and what's in the best interest of the state. I would love to see the expressway completed. But based on my calculations, even if the Build Nebraska Act remained in effect, with the current projected cost of completing the entire expressway system, it would take us over 50 years. So we do have challenges and we do need to develop a way of providing additional funding. I don't believe that LB84 is the vehicle that if General Fund dollars need to be used for this purpose, which I would prefer not to see, because I, like others, view the use tax--and that being the gasoline tax and the motor vehicle-related taxes--being the more appropriate but, under these circumstances--the need for us to address these issues sooner rather than later--would be open to looking at the General

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Fund but not looking at it with an...what others have referred to as an earmark. So with that, Chairman Cornett, I close and would entertain any questions the committee may have. [LB1098]

SENATOR CORNETT: Senator Schumacher. [LB1098]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Thank you, Senator Council. And thank you for bringing this bill because I think it enables us to have a discussion on some really important issues. Regardless of where people are on the raise taxes/cut taxes, raise spending/cut spending issue, a third point of where we're at in our nation's economic situation, almost everybody agrees that we've got to have some type of infrastructure spending. [LB1098]

SENATOR COUNCIL: Correct. [LB1098]

SENATOR SCHUMACHER: We have a substandard rail system in the northeast; we have an interstate system that hasn't been updated, may have a bad foundation under it; we have bridges that are 50 years without repair; pretty sorry state of affairs and, of course, we all don't want to pay anything. But in that particular context, right now, by directing some of this money toward the roads program, we're at least filling in some of the blanks in this state. We have a piece of highway between Fremont and Schuyler that is a missing link of 23 miles of pretty sorry road on Highway 30 compared to nice four lanes that we've invested in over the years on either end of that. Someway we've got to figure out how to do that and some of the roads situations around Lincoln, Omaha, out west, in the Heartland Expressway--there's a number of really good projects--275 in the...from Norfolk and through to Fremont. Given that situation and given our sorry state of when to cut taxes, cut spending--you know, whatever on that--at the same time, we have an enormous amount of money that is sitting in the private sector. We've got farmers bidding up land in excess of \$10,000 an acre and it's going up, and lord knows if that's a bubble when it will burst. We have people sitting with CDs with no money in the bank--or no interest being drawn on that money in the bank. We have a stock market that will give you a tummy ache riding the roller-coaster. How do you see that philosophically, we might be able to mobilize that private sector resource in order to do some of these infrastructure projects and maybe avoid some of the touchy questions of taxing and spending, or at least minimize them? [LB1098]

SENATOR COUNCIL: Well, you know, the only way that you can get--in my opinion, and I don't profess to be an expert on financing--but the way to get the private sector involved is through bonding, I mean. And that's something that the state has shied away from and I understand the reason for that; other states have had negative experiences. But in those states, there hasn't been a dedicated source of revenue for retiring that bond debt. And as I indicated, if we were looking at some smaller percentage of the sales tax that would be dedicated to bond debt service, then I think we'd go much

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further than we would, in fact, with the quarter percent being set aside for road construction and improvement. [LB1098]

SENATOR SCHUMACHER: But looking just at the bonding option, from a prospective government, if you were anticipating inflation--and many economists do say that the feds can't...the Federal Reserve cannot suppress the inflation forever--from the government side, it's good because you get the cheap, payoff the bond with cheap dollars. From the private sector side, you also get paid back with cheap dollars. Are there any other mechanisms we might look at to try to blend the equity value of those roads with maybe a bonding mechanism? [LB1098]

SENATOR COUNCIL: Well, I wasn't prepared to come in, but...and I think Senator Fischer may be aware of the South Carolina model that uses bonding and other private investment mechanisms and they've been pretty successful. I'd be happy to pull that research back out and share that with you, Senator Schumacher. [LB1098]

SENATOR SCHUMACHER: Thank you, Senator Council. [LB1098]

SENATOR CORNETT: Further questions? Seeing none, thank you. [LB1098]

SENATOR COUNCIL: Thank you. [LB1098]

SENATOR CORNETT: May I see a show of hands for proponents? All right, it is late in the day; we seem to have a number of testifiers. I will limit testimony to three minutes. I do not want repetitive testimony. Please start moving forward. First proponent? [LB1098]

ROBERT KUZELKA: (Exhibit 15) Senator Cornett, members of the Revenue Committee, my name is Bob Kuzelka, from Lincoln, Nebraska, K-u-z-e-l-k-a, and I'm representing an organization entitled ProRail Nebraska, which is dedicated to supporting and advocating for rail service in the state of Nebraska. We thank Senator Council for bringing this issue back into discussion. We opposed LB84 last year and therefore we support LB1098 to repeal LB84. Our major concern with our purpose for an organization is that it only benefits state highways and ignores other forms of ground transportation in Nebraska. We encourage you to advance this bill. I've given other reasons we have but I won't go into them now; you can read those. We ask you to advance this bill. We think the Legislature should provide increased funding for our state highway system through other means than they acquired through LB84. Thank you for the chance to testify. [LB1098]

SENATOR HADLEY: Thank you, Mr. Kuzelka. Are there questions? Seeing none, thank you. The next proponent? [LB1098]

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JERRY HOFFMAN: Good afternoon, Senator Hadley and Revenue Committee members. My name is Jerry Hoffman, J-e-r-r-y H-o-f-f-m-a-n. I'm here representing the 28,000 members of the Nebraska State Education Association, and we support LB1098 and thank Senator Council for bringing this bill forward. NSEA supports the adequate and equitable state funding of K-12 of public schools. State support for public schools is constitutionally paramount to all other priorities, and LB1098 ensures that the state of Nebraska's resources are properly aligned with support of this number one priority, which is strong schools for every Nebraska child. And with that, knowing that you're...been here for a long day, I will conclude my remarks and... [LB1098]

SENATOR HADLEY: Thank you, Mr. Hoffman. Are there questions? Seeing none, thank you, Jerry. [LB1098]

JERRY HOFFMAN: Thank you. [LB1098]

SENATOR HADLEY: Next proponent? [LB1098]

BRAD MEURRENS: (Exhibit 16) Good afternoon, Senator Hadley and members of the committee. For the record, my name is Brad, B-r-a-d, Meurrens, M-e-u-r-r-e-n-s, and I'm the public policy specialist for Nebraska Advocacy Services, the Center for Disability Rights, Law, and Advocacy. We also want to thank Senator Council for this legislation. And to spare you the time it would take me to read my testimony, I just wanted to say that we do share similar concerns with Senator Council and we believe that there would be...there are more pressing priorities that would need this, the monies that would be earmarked under the LB84 from previous session. [LB1098]

SENATOR HADLEY: Thank you, Mr. Meurrens. Are there questions? Seeing none, thank you. Is there...the next proponent? [LB1098]

AUBREY MANCUSO: (Exhibit 17) Good afternoon, 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 also here in support of LB1098 because of concerns about revenue adequacy. We've seen cuts to our programs serving children dating back to at least 2002, and so we would ask that going forward that the committee consider advancing this bill and ensuring that funding for children's services is on the same level as funding for infrastructure. And I'm happy to take any questions. [LB1098]

SENATOR HADLEY: Are there questions for Ms. Mancuso? Seeing none, thank you. We appreciate you coming forth. [LB1098]

AUBREY MANCUSO: Thank you. [LB1098]

SENATOR HADLEY: Next proponent? [LB1098]

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JENNIFER CARTER: (Exhibit 18) Good afternoon, Senator Hadley, members of the committee. My name is Jennifer Carter, J-e-n-n-i-f-e-r C-a-r-t-e-r. I'm the director of public policy at Nebraska Appleseed, and we are also here in support of LB1098. Our support is mainly because we are concerned that the law as it currently stands would tie the hands of future legislatures in terms of having flexibility to address budget needs going forward. We believe our state's budget should reflect our state's priorities and certainly building and maintaining roads is an important government function and a priority. But our concern is that the current law gives roads funding the highest priority above all others and does not give future legislatures the flexibility to weigh the needs for roads funding alongside the fiscal needs and obligations of the state that currently exist or may exist in the future. So for those reasons, you know, we believe there are other key priorities like educating children, repairing our child welfare system, investing in education and training programs, and we'd like to make sure that the state can weigh those priorities equally in the future. So I'm happy to take any questions and thank you for your time. [LB1098]

SENATOR HADLEY: Thank you, Ms. Carter. Senator Fischer. [LB1098]

SENATOR FISCHER: Thank you, Senator Hadley. Thank you, Ms. Carter, for coming in today. [LB1098]

JENNIFER CARTER: Sure. [LB1098]

SENATOR FISCHER: You said you think that LB84 ties the hands of future legislatures. Do you believe the TEEOSA formula ties the hands of future legislatures when we are designating a certain amount every year that continues to grow? [LB1098]

JENNIFER CARTER: To be honest, I don't know as much about TEEOSA so I don't know if it's structured in a similar way. I guess my very limited understanding of TEEOSA was that I have seen that amount go up and down and my concern is that the roads funding is always sort of outside--as I understand the law now--would be outside the general budget so that it wouldn't...it would dip only as it would dip with tax receipts is my understanding, rather than the Legislature being able to decide this year we can't afford that much--as much--in roads funding the way the TEEOSA formula gets changed, and certainly as the way we've seen Medicaid cuts happen and things like that. [LB1098]

SENATOR FISCHER: I guess I would counter to you that 25 votes changes anything in this Legislature, as it does with TEEOSA funding every year. [LB1098]

JENNIFER CARTER: And I think that that's true. My concern is we'd have to pass the law to undo LB84 or change the amount that gets diverted. And then that first year,

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would we really be able to recapture the funds that are necessary, at least in that first year? Certainly, as this bill shows, you know, the law could be changed going forward. But my concern is in that, at least that first budget year, if we discovered that they needed some of the money that currently but through LB84 has been diverted, I don't know if the timing would work such that you could recapture those funds in time. [LB1098]

SENATOR FISCHER: I guess I would counter to you that the budget year next year, the Legislature will have that information before them before LB84 takes effect in July, and so they could make those adjustments. [LB1098]

JENNIFER CARTER: And that's...and we...that's partially... [LB1098]

SENATOR FISCHER: I think it's being presented in a maybe disingenuous way than the bill actually is going to be taking effect. [LB1098]

JENNIFER CARTER: The...sorry, what? That... [LB1098]

SENATOR FISCHER: The budgeting process will still be available for the Legislature to look at that. [LB1098]

JENNIFER CARTER: The budget process? I see, I see, so that this could come...yeah. And we do appreciate that. We appreciate the discussion now, but I appreciate that this could be brought up next year as well. [LB1098]

SENATOR FISCHER: Thank you. [LB1098]

SENATOR HADLEY: Any other? Thank you, Jennifer. [LB1098]

JENNIFER CARTER: Thank you. [LB1098]

SENATOR HADLEY: Appreciate you coming. [LB1098]

JENNIFER CARTER: Yeah. [LB1098]

SENATOR HADLEY: Further proponents? Seeing none, opponents? Welcome to Revenue, Mr. Todd. [LB1098]

LOY TODD: (Exhibit 19) Thank you, Senator. Senator Hadley, members of the committee, my name is Loy Todd, that's L-o-y T-o-d-d. I'm the president and legal counsel for the Nebraska New Car and Truck Dealers Association. I have also been asked to submit a letter of opposition from the Nebraska Petroleum Marketers and I have done so. I will be as brief as possible. I can tell you that our method of funding

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roads in Nebraska historically has been the envy of many, many other states. Our Highway Trust Fund and the user-fee approach to funding roads has worked terrifically in the past; however, it's just simply failed to keep up. The demand far exceeds the available funds and our industry is...to give you an example, three or four years ago our industry sold 18 million new cars nationwide. That went down to 8 million. We are having a tremendous recovery and hoping to get maybe back to 12 million. And so the sales tax on motor vehicles has dramatically shrunk. Also, the other funding for the roads is fuels, and as we all know, people in this economy are driving a lot less. Motor vehicles are so much more efficient. We're now looking at 40 and 50 miles per gallon with federal mandates that we maintain that for entire fleets, and so that funding is driving the funding down. LB84 was the first really big thing that's happened in many, many years and it set up a positive approach toward reaching into other funding that's necessary for roads. It provided predictability and stability. The criticism of it as a somewhat reliable source, we actually think is one of the things it needs. There's no such thing as a shovel-ready roads project. They have to be planned many, many years in advance. The EPA requirements, all the other requirements are just incredible. You just can't go build a road. And the funding has to be there and these funds build and then they're spent and you have to plan for that, so it just...and we were down to maintenance only for this state and we'd be below that had we not passed LB84. There are lots of other ways that we can raise taxes. I'm always intrigued by people coming in and saying yeah, we ought to just compete. What you just saw is what you'll get every year. You'll get schools, needy people, you'll get...there's always somebody needing the money. And I don't know if this Legislature really wants to be faced with those kinds of choices on an annual basis because it's so unpredictable. I see my time is about gone. There are other ways. I can tell you that, you know, over \$120 million of taxes on motor vehicles goes to schools right now, so it isn't, you know...I think the public would be surprised to find out how much there is that is a motor vehicle tax that does not go to the Highway Trust Fund. And so with that, I'll answer any questions that you might have. [LB1098]

SENATOR HADLEY: Okay. Are there questions for Mr. Todd? Seeing none, thank you, Mr. Todd. [LB1098]

LOY TODD: Thank you. [LB1098]

SENATOR HADLEY: Next proponent? Welcome. [LB1098]

MARLENE JOHNSON: Good afternoon again. My name is Marlene Johnson, M-a-r-l-e-n-e J-o-h-n-s-o-n, and I'm here as a representative of NEED, which is the Nebraska Expressways for Economic Development, and also on behalf of the League, as vice president of the board of directors of the League of Nebraska Municipalities. And I just want to speak in support of LB84 and in opposition to LB1098. We have this mechanism in place now to move roads projects forward. We have been waiting for

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expressways for 20-plus years. I hate to see this all get shoveled out the door and not have anything moving forward. Those of us in small communities that are away from the metropolitan areas, we need the four-lane highways at least to our communities, so that we, too, can participate. Businesses want to move in, they want four lanes of highway in and out, and we need this in order to help our communities to continue to grow and to prosper. So I am not going to go on and on and repeat the same things, but we're very much in opposition to LB1098 and hope that if there's anything else or if I can answer any questions, I'd be happy to do so. And otherwise, thank you all for your time and effort. [LB1098]

SENATOR HADLEY: Are there questions for Mayor Johnson? Thank you. We appreciate your testifying. [LB1098]

MARLENE JOHNSON: Thank you for your time. [LB1098]

SENATOR HADLEY: Thank you. Next proponent? Or, I'm sorry. Next opponent? Getting a little confused late in the day. [LB1098]

RICHARD REISER: Thank you, Senator. My name is Dick Reiser. I'm an attorney from Omaha, Nebraska. I'm here today representing...last name is R-e-i-s-e-r. I'm here today representing the Omaha Chamber of Commerce, the Nebraska Chamber of Commerce and Industry, the Nebraska Trucking Association, and the Nebraska Bankers Association. I testified last year on LB84 in favor of the bill for those organizations with the exception of the Nebraska Bankers Association; someone else testified for their interests. We believe that LB84 was fully considered and debated last year. In fact, listening to the arguments today, I'd remark that I haven't heard anything new today in favor of LB1098, any points that weren't made last year. We strongly supported the network of good roads that we have in Nebraska. We see those as an economic driver for the state of Nebraska. It's interesting to hear people talk and say...and everyone acknowledges, gee, I know we have a problem with roads funding, we need more, but. Okay, the roads don't understand that part. They're going to continue to deteriorate and get worse if we don't find the way to fund them now. This is a big step, we've found a way to fund them, and in our opinion, there's really no reason to look back on this at this time. Keep going and oppose LB1098. Thank you. [LB1098]

SENATOR HADLEY: Are there questions for Mr. Reiser? Senator Schumacher. [LB1098]

SENATOR SCHUMACHER: Thank you, Senator Hadley. [LB1098]

SENATOR HADLEY: We've got questions, here. [LB1098]

RICHARD REISER: Sorry. [LB1098]

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SENATOR SCHUMACHER: Life is probably going to get rougher rather than easier on funding roads and everything else. Our roads system has basically been laid out according to the happenstance of the early 1900s and the needs then. Do the organizations that you represent--which are very significant organizations--they undertaken any independent kind of study that basically asks the question: If we were to design a roads system for today's agricultural economy and today, in the emerging pattern of where population may settle in the state, are we doing it right or should we be deploying resources along another design for roads rather than just keeping up what we kept up? [LB1098]

RICHARD REISER: Senator, I don't believe that any of the organizations that I'm speaking for today have conducted such a study. I was a highway commissioner for about nine years. I've talked to people at the Nebraska Department of Roads about that. I think admittedly there are highways in the state which are part of the 10,000 miles of state highways that we support that have a traffic count that doesn't justify that being on the state highway system. But having said that, I think realistically, thinking that anything might get done about giving up...to give up a highway in Nebraska currently, you have to have somebody to give it to, which would be the county--or the counties, depending on the road--and the counties are not at all interested in taking on any more highways. So I guess my answer to your question is there's probably a better way to design it, but it's probably not an option for us and it probably wouldn't save us any money to try to stop and do that. [LB1098]

SENATOR SCHUMACHER: Thank you. [LB1098]

RICHARD REISER: You bet. [LB1098]

SENATOR HADLEY: Mr. Reiser, I guess since you mentioned you were on the commission... [LB1098]

RICHARD REISER: Yes, sir. [LB1098]

SENATOR HADLEY: Monty Fredrickson, the director, made a comment. We have a joint meeting between the Appropriations Committee and the Transportation and Telecommunications Committee every year to get a report from the Department of Roads on what they see in the future. I can't quote exactly, but Mr. Fredrickson said under the current system, we do not have enough money to basically maintain the roads we have right now. Is that, in your idea, a pretty fair statement? [LB1098]

RICHARD REISER: Yes. We have a sitting highway commissioner here behind me prepared to testify, but I'll answer your question to the best of my ability from when I was there. There was a chart showing that the way that revenue was coming in from

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gasoline tax and the other sources. And we are at a point where without this, there really isn't any money for new construction. It gets down, it's going to hit a point--if it hasn't already--where it's only enough to do maintenance and eventually not that. And this is an area, as other speakers have pointed out, where deferred maintenance becomes very costly maintenance later when the road needs greater repairs than it needed when you could have fixed it. So the money is...I know we all, everybody needs money. But when the roads go bad, there's just nothing you can cut. I mean, it's just you either fix them or you don't. [LB1098]

SENATOR HADLEY: Thank you, Mr. Reiser. Any further questions? Thank you, Mr. Reiser. [LB1098]

RICHARD REISER: Thank you. [LB1098]

SENATOR HADLEY: Next opponent? [LB1098]

RODNEY VANDEBERG: (Exhibit 20) I have copies. I did edit my comments quickly. I hope you'll have a chance to read my entire testimony. Good afternoon, Senators. My name is Rodney P. Vandenberg, R-o-d-n-e-y P. V-a-n-d-e-b-e-r-g. I reside in Falls City, Nebraska, and I presently serve as a state of Nebraska highway commissioner representing District 1. Senators, I am here today representing the entire commission, having been selected by a unanimous vote of our seven other commissioners to speak in opposition of LB1098. I have served on the commission since May 2008 and served as its chairman in 2010. During my year as chairman, it became crystal-clear to me that revenues from our gas taxes--which you know is the primary source of funding for the Nebraska Department of Roads--is no longer adequate and has resulted in the department's annual revenues declining to a point where we now have barely enough to do required preservation on our roads and bridges, and that leaves virtually nothing for our many much-needed capital improvement projects throughout the state. This is unfortunate and a major concern because there are in almost every instance projects which are needed for reasons of safety. Because of our concerns during my year as commission chair, again in 2010, my vice chair and I met twice with our Transportation and Telecommunications Chair, Senator Fischer. And it was at that juncture that Senator Fischer assured us she was very aware of the seriousness of the problem and that she was planning to introduce a new bill during the 2011 Session, with LB84 turning out to be that bill. And, Senators, I applaud you for the passage of LB84 because you hit a grand-slam home run in terms of what it will do for our state roads in the next 20 years. And it would be unfortunate if you would now take it away or reduce it, remembering, I believe, that Senator Fischer actually began by asking for .5 percent of our sales taxes and ended up with .25 percent. I'm going to ad lib from this point on and tell you that it's a serious problem and in my opinion, if we overturn LB84, we're going to take a giant step backwards. I just don't know where we'd go from there because all of a sudden, the Department of Roads has been put in a position where we can plan ahead

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for the very complicated process of planning and building roads and bridges, which is a tremendously time-consuming endeavor. And we finally have a plan that allows us to do that, and I sincerely hope that we can keep, that we do not repeal LB84. And I thank you very much. [LB1098]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. [LB1098]

RODNEY VANDEBERG: Thank you. [LB1098]

SHANE WEIDNER: (Exhibit 21) Senator Cornett, members of the committee, thank you for your time today. I know it's been long. My name is Shane Weidner, S-h-a-n-e W-e-i-d-n-e-r. I'm the city administrator for the community of Norfolk, Nebraska. Simply said, please don't move this bill forward. LB84 last year passed, it passed in good standing, and it's our chance to do something special. I can tell you there's been too many coalitions built, too many partnerships made across this great state to address a need that is obvious to everyone in my mind. So please don't pass this bill out of committee, and let's get a chance to do something good for our infrastructure. Thank you. [LB1098]

SENATOR CORNETT: Thank you. Questions from the committee? [LB1098]

SHANE WEIDNER: Thank you. [LB1098]

SENATOR CORNETT: Seeing none, thank you. [LB1098]

COBY MACH: (Exhibit 22) Good afternoon. My name is Coby Mach, C-o-b-y M-a-c-h, representing the Lincoln Independent Business Association. We are opposed to LB1098 because we see this as a safety issue. In the last 11 years, there have been 17 people that have lost their lives in accidents on Highway 2. Let me clarify I'm talking about Highway 2, from one end of Lincoln to the other. Just east to west, that small stretch of Highway 2, we have had 17 people lose their lives in tragic accidents in the last 11 years. Highway 2, from east to west through Lincoln, is very dangerous and it keeps taking lives. According to the Nebraska Department of Roads and their 20-year plan, there is one highway that is in what they call the red zone for extreme semi-truck traffic in the future and that also happens to be Highway 2. The funding that was created last year with LB84 provides funding for projects in Blair and Kearney, Schuyler, Fremont, Alliance. I can...you know the list as well as I do. It also provides funding for a south beltway for the city of Lincoln. We've already invested significant amount of money in purchasing right of way for a south beltway. This thing has been planned now for the last 40 years and finally there is funding in place to make this happen. We do see this as a big safety issue and so do others. In June of 2009, United States Senator Ben Nelson told the Lincoln Journal Star that he had concern over "the lack of progress on

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Lincoln's south beltway." Lincoln Mayor Chris Beutler summed up the importance of a south beltway also when he told the Journal Star in 2009 that the beltway's completion is crucial to Lincoln's economic vitality and to our drivers' safety. For the safety of our families in Lincoln and for those across the state, please oppose LB1098. I would be happy to answer any questions. [LB1098]

SENATOR CORNETT: Seeing none, thank you. [LB1098]

COBY MACH: Thank you. [LB1098]

MICHEAL DWYER: Good afternoon, Senators. I appreciate the opportunity to testify. Senator Cornett, Chairman, and the rest of the members, my name is Micheal Dwyer, D-w-y-e-r, and I'll make this very short. The last gentleman stole most of my thunder, so I'll try to keep this very short. I'm a member of the Arlington school board and also a member of the Blair Area Chamber of Commerce board of directors and the Arlington Volunteer Fire Department. And I simply, as a school board member in a choice between public education and public safety, even as both of those entities, the choice is fairly easy and of course it's public safety. The funding provided in the Build Nebraska Act is critical to improving the safety of Nebraska roads. In addition to the list that Senator Schumacher had, I would add Highway 133 from Blair that's in critical need of funding, that is long overdue, and I would encourage you to oppose LB1098. Thank you. Any questions? [LB1098]

SENATOR CORNETT: Seeing none, thank you. [LB1098]

ROD STORM: Senator Cornett, Senators, I thank you for the opportunity to testify. Again, Rod Storm, city administrator for the city of Blair, R-o-d S-t-o-r-m. Again, we would urge the committee to oppose LB1098. In Blair, it's an issue of public safety. As the previous gentleman just talked about, too many times I've had to visit, counsel with our fire and rescue personnel who have had to return from a fire rescue call on Highway 133 due to the death of citizens from the Blair/Washington County area. It is a very dangerous road. Blair has, as one of the (inaudible) that testified earlier this afternoon, the ability to have good economic development, along with that goes the need to improve our infrastructure and our roads are some of the most-needed improvements in the state. We have 30 to 40 percent truck traffic on our main street in Blair, Nebraska. The future possibility of building a bypass with the city has already put close to \$750,000 of our own money into doing an environmental impact statement to prepare to move ahead with construction. We need to be able to have the additional dollars to help move forward. So for us, it's not necessarily just an economic development issue; it is a safety issue. We want the kids that should be going to school to be able to return the next day to school in a whole manner, not be absent from the classroom because of an accident. I'll answer any questions. [LB1098]

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SENATOR CORNETT: Seeing none, thank you. [LB1098]

JERRY JOHNSON: Thank you, Senator and Committee. My name is Jerry Johnson, J-e-r-r-y J-o-h-n-s-o-n. I've reduced mine to four bullet points. One, LB84 is a vehicle in order to get the funding rolling. It's not the only vehicle out there. It's a washed-down vehicle, a downsized vehicle, and I believe there is other tools that can be added to this. I believe taking this away is a great setback from the standpoint of planning. Our community has been in the process of planning for an expressway, and we are in the process of working on our \$3 million project that will tie the community to the new expressway. And it takes a long time to get all those permits and all that work done. That's just in the community of Wahoo. I'm mayor of Wahoo. The Schuyler-Fremont expressway was also discussed. Safety is another big factor for the roads and I would paraphrase something. We have safe routes to schools. I would also say roads would be safe routes for buses to go to schools. Please oppose LB1098. [LB1098]

SENATOR CORNETT: Questions? Seeing none, thank you. [LB1098]

JERRY JOHNSON: Thank you. [LB1098]

KARL FREDRICKSON: Good evening, Senators, thank you. My name is Karl Fredrickson, F-r-e-d-r-i-c-k-s-o-n, and I'm here today to represent the Lincoln Chamber of Commerce, the city of Lincoln, and the American Council of Engineering Companies of Nebraska. I think I'd reiterate all what the previous speakers say, that we are in opposition of LB1098 for all the reasons that they said. One additional item I would have is that last year's discussion also talked about the unknown and the future and what the revenues would be. Lincoln Journal had an article about the state sales tax revenues. We're training upward. We heard testimony earlier that more cars are being sold, so from last year to this year the economy is coming back and hopefully a lot more and more robust. But with that, I'll close and we oppose LB1098. [LB1098]

K.C. BELITZ: (Exhibit 23) Good afternoon, Senators. K.C. Belitz, B-e-l-i-t-z, from the Columbus Area Chamber of Commerce. On behalf of our legislative committee, transportation committee, and the board of directors, as well as our other partners in northeast Nebraska, we'd like to make you aware of our opposition as well to LB1098. I will only make two additional points in addition to reiterating everything that's been said already. Number one, it is for us an economic development issue, there's no question. I had dinner last night with a company who is looking at us as one of the possibilities to bring more jobs to Columbus in Senator Schumacher's district. And I was able last night to say that in 2016, the stretch of expressway from Schuyler to Fremont is on the plan to begin construction. I couldn't have said that a year ago and that makes a difference to them. It is certainly not the only factor, but it is a factor. The other is clearly it is a public safety issue for us. Fatalities, serious injuries continue on that stretch of expressway that needs to be finished and is not. As recently as just a couple of weeks ago, it

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happened again and will continue to until that piece of expressway is finished. So for those reasons and all those others that you've already heard this afternoon, we oppose LB1098. [LB1098]

DOUG CUNNINGHAM: (Exhibit 24) Just about good evening, Senator Cornett and members of the committee. My name is Doug Cunningham. I am registered lobbyist for Affiliated Foods Midwest. I am also testifying today for the Norfolk Area Chamber of Commerce and Industry. And I'm going to let you read my testimony. I agree with everything that's been said today. I would just make a couple points. You know, we have worked so long to get these roads funded. Even with LB84 in place, it's still going to take a lot of years, as Senator Council did tell you, so we just can't afford to lose that now. I would look at the money that's going to be lost from the state budget as an investment and a job creator and it's going to bring more tax money into the revenues for the state Nebraska to fund schools and other entities. So with that, thank you and I'm sorry for the late day for you. [LB1098]

SENATOR CORNETT: Next? [LB1098]

CURTIS SMITH: (Inaudible) you sit down, I'll be very brief. My name is...good to see you this afternoon, Senators. Thank you. My name is Curtis Smith. I'm the executive director of...S-m-i-t-h, by the way, I am the executive director of the Nebraska Chapter of Associated General Contractors, and I would just say ditto to everything that's been said and remind the senators of the needs assessment again that Senator Hadley made...mentioned that's available on the Web site, the list of projects that's also available that will not be funded without this additional funding. So I thank you again and say ditto in opposition to LB1098. [LB1098]

PETE McCLYMONT: (Exhibit 25) Senator Cornett, members of the committee, for the record, my name is Pete McClymont, P-e-t-e M-c-C-l-y-m-o-n-t. I am vice president of legislative affairs for Nebraska Cattlemen. I'm also here representing, at their request, the Nebraska Rural Electric Association. And also, the written testimony that you're receiving is from Nebraska Farm Bureau. The only thing I could add to what the previous testifiers have said, LB84 will do a lot to maintain good farm-to-market roads in rural Nebraska and so for that reason, we are opposed to LB1098. [LB1098]

LARRY DIX: Good afternoon, Senator Cornett and members of the Revenue Committee. My name is Larry Dix. I'm executive director of Nebraska Association of County Officials, here today in opposition to LB1098. I think it's widely known our support for LB84, and thus we appear today to be on record in opposition to LB1098. Thank you. I'd be happy to answer any questions you may have. [LB1098]

SENATOR CORNETT: Further opponents? Neutral? Senator Council. [LB1098]

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SENATOR COUNCIL: Thank you, Madam Chairman. And I will be brief, committee members. I think it's important to discuss these issues, and I want to begin by saying I respect the opinions of all of those who have testified, both in support of LB1098 and those in opposition. I respect their opinions. I understand and appreciate their concerns, but it is for the reason of the level of concern that has been expressed that I introduced LB1098. Senator Fischer suggested that it was disingenuous for those who came up in support of the bill to suggest that the legislative body next year or in subsequent years couldn't take the action that is being proposed in LB1098. Well, if that is disingenuous, it is no less disingenuous to think that that action won't be taken next year, which is what the bulk of the opponents of LB1098 appear to be suggesting in their testimony. They appear to be suggesting in their testimony that the funding mechanism has been put in place and that it will stay in place. Well, that's no less disingenuous than to think that next year's Legislature couldn't change what's been enacted. So laying that aside, the point to be made here is no one disputes the priorities. And I sat here and I listened about Highway 2 and about Highway 133. And one of the things I did in my research before introducing LB1098 was to go back and look at previous years' planning reports of the Department of Roads, and I can't think of a planning report or an annual report in the last 20 years that didn't include Highway 2 or Highway 133 or the expressway. So when those who get up and testify about, well, planning has begun as a result of LB84, I suspect that that same planning has been occurring over the last 20 years. And I would think that Senator Adams would be quick to say that we don't expect K-12...in fact, we would be surprised if K-12 school districts were spending money; in fact, they can't spend money in anticipation of what's been projected for out years. It was estimated there would be \$880 million available next year. That may or may not be the case. So the issue here is what are reasonable expectations and whether or not we should be open and forthright in terms of what we will and can do in terms of funding roads. I was reminded as I was sitting here when the case was being made about the number of fatalities that have occurred in the last few years and that there was no additional money provided to the Department of Roads notwithstanding the fact that these priorities have been identified, these safety risks have been identified, this body, instead of providing additional funding, weighed priorities and made some different decisions. One that I'm reminded of was we've decided to provide the University--an institution I support wholeheartedly--\$25 million for the Innovation Campus. That \$25 million could have very easily gone towards correcting the problem on Highway 2 or the problem on Highway 133 or move us forward in the expressway, but this body established a different priority. And that's all that LB1098 is proposing to do, is that you include the Department of Roads in that same priority process when we appropriate monies from the General Fund and that I would be one of the first if the priority is established that says you need \$75 million, let's try to find it. But when I look at an Appropriations Committee preliminary report that says for the very fiscal year that these fine folks are expecting to get \$120 million over two years, that our preliminary report shows a \$660 million shortfall, my question is: Where is it coming from? Where is it coming from? So with that, I would appreciate your favorable consideration of advancing LB1098, if for no

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other reason that this issue needs to be debated again by the full body, recognizing that a significant number of the people who voted for LB84--including the introducer--won't be here next year when this very issue will have to be faced head-on, head-on because next year we will be setting the biennial budget. Thank you. [LB1098]

SENATOR CORNETT: Thank you. That ends the hearings for today. (See also Exhibit 26) [LB1098]