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Tax Modernization Committee  
September 23, 2013

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[LR155]

The Committee on Tax Modernization met at 4:00 p.m. on September 23, 2013, at Western Nebraska Community College at Scottsbluff, Nebraska, for the purpose of conducting a public hearing on LR155. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairman; Kate Bolz; Kathy Campbell; Tom Hansen; John Harms; Burke Harr; Charlie Janssen; Beau McCoy; Heath Mello; Jeremy Nordquist; Pete Pirsch; Ken Schilz; and Kate Sullivan. Senators absent.

SENATOR HADLEY: I'd like to get the meeting started, if we could. This is a meeting of the Tax Modernization Committee. My name is Galen Hadley. I represent District 37, which includes Kearney and Buffalo County. I'm Chair of the Revenue Committee and Chair of the Tax Modernization Committee. I'd like to start on my right and have each of the senators introduce themselves and tell which district they represent, if they would.

SENATOR SCHUMACHER: I'm Paul Schumacher from District 22 which extends, basically, from Columbus to Stanton.

SENATOR PIRSCH: I'm State Senator Pete Pirsch, Legislative District 4, that's in Douglas County.

SENATOR HARMS: I'm John Harms, I represent the 48th District, Scotts Bluff County.

SENATOR BOLZ: Senator Kate Bolz, I represent District 29 in south-central Lincoln.

SENATOR MELLO: Heath Mello, I represent District 5, which includes south Omaha and midtown Omaha.

SENATOR CAMPBELL: I'm Kathy Campbell and I represent District 25, which is east Lincoln and Lancaster County.

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SENATOR HANSEN: I'm Tom Hansen from North Platte, representing Lincoln County.

SENATOR HARR: Burke Harr, Legislative District 8, the true midtown Omaha.

SENATOR SULLIVAN: Kate Sullivan of Cedar Rapids, I represent District 41, a nine-county area in central Nebraska.

SENATOR McCOY: Beau McCoy, District 39, western Douglas County.

SENATOR NORDQUIST: Jeremy Nordquist, District 7, downtown and south Omaha. I'm very glad to be in Scottsbluff.

SENATOR HADLEY: Thank you. And I would like to echo that. Thank you very much for allowing us to come out to Scottsbluff to have this hearing. It's the first of five hearings we're going to have around the state. I'd like to go through some of the procedural matters before we get started. There is a green sheet. I would like to have you, if you would, to fill it out and put it in the box up on the stand along with any handout that you want to give, that the committee could read later. Okay? You need to have the green sheet filled out so that we can have a listing of the people who do testify. When you testify, if you would state and spell your name; state and spell your name so we get it correctly. Please turn off any cell phones that you might have. We would appreciate that very much. Today, we're going to deal with property taxes, sales taxes, and income tax. We're going to start with property tax and we're going to spend an hour on property tax. We're going to spend an hour on sales tax. We're going to spend an hour on income tax. When you come up to testify, if you want to testify on all of them, you can; all of them at once, that is absolutely fine. You can certainly do that. I will...at the end of four minutes, I will put four fingers up. That will mean you have one more minute left. At the end of five minutes, I will just put five up and I would like you to close your testimony at that point in time. We want to do this in fairness to have as many people as possible

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testify. I want to give you just a couple of minutes of background. This process started with LB405 and LB406, which was the first bills to look at modernization of our tax system. We heard those in committee. We had 11 hours of hearings on them...on one, and probably 4 or 5 hours on the other one. Neither of those bills, or I should say, both of those bills were revenue neutral, meaning neither bill increased the total taxes in Nebraska or decreased the total taxes in Nebraska. They dealt with where we should be getting the money from in taxes. From that came LR155, which the Legislature passed, which is a result of this committee. LR155 has five guiding principles. We're to look at our tax system in regards to fairness, competitiveness, simplicity in compliance, stability, adequacy, and complementary tax systems. The goal of this committee is not to increase taxes in Nebraska, the overall taxes. The goal of this committee is not to decrease overall taxes of Nebraska. It is to look at the equity in the taxes of Nebraska. The goal of this committee is not to see that certain programs get more money or certain programs get less money. We have other systems set up that do that. We're looking at the overall equity in our tax system. Are the taxpayers of Nebraska...when you take property taxes, sales taxes, and income taxes and combine them, are they equitable in the share that we expect Nebraska citizens to pay of those taxes? With that, I would ask the first testifier to come forward. If you're going to testify, please come forward and sit in one of the front seats so we can keep it going. Would the first testifier like to come forward? [LR155]

CAROLINE WINCHESTER: (Exhibit 1) Okay. Thank you very much. I'm Dr. Caroline, C-a-r-o-l-i-n-e, Winchester, W-i-n-c-h-e-s-t-e-r, and I'm superintendent of Chadron Public Schools. We certainly want to thank the committee for the opportunity to testify from our perspective on tax issues and for coming to the Panhandle so that our patrons can have an equitable voice. You have a daunting task. No one wants to pay taxes. Thank you for taking a holistic approach because otherwise it becomes merely a tax shift. And we also want to encourage you in your goal of making it a tax neutral recommendation but, at the same time, a more equitable distribution of tax responsibility utilizing property, sales, and income taxes. The main emphasis for us is to reduce

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property tax reliance by increasing state aid funding from other sources. Currently, in my opinion, too few people share in the responsibility for the state obligation of financing public education. Of the approximately 900,000 acres in Dawes County, we have 100,000 of those acres are nontaxed. State aid is an economic development, it's an investment, and it's not in the state-induced cost. Chadron Public Schools ranks 24th from the bottom in valuation per student at \$461,836, while our neighbors have at least double the valuation or triple the valuation per student, and one neighbor is ten times with over \$4 million in valuation. Our district levy is \$1.05, the maximum levy that it can be. And we have neighbors that are lower than that and some even at 60 cents, which makes our patrons wonder: Why are we paying \$1.05 in Chadron Public Schools when my land across the road is only at 60 cents? State aid does not make up for this loss in property taxes because of...with that low of a valuation per student. We recently also, on top of that, endured a reduction in state aid of \$1.6 million, which resulted in the closing of four rural schools, reconfiguration of our town schools, reduction in staff both certified and noncertified. [LR155]

\_\_\_\_\_ : And the loss of academic programs. [LR155]

CAROLINE WINCHESTER: With such a low valuation per student, we cannot generate sufficient dollars even if given the opportunity to increase the levy. An increase of 5 cents for us gives us approximately \$200,000 while our neighbors for 5 cents can generate \$400,000 to, you know, \$600,000. Patrons recently soundly defeated a bond issue to repair aging infrastructure and safety concerns, not because they did not recognize the needs of the district, but they were unable to continue paying the levy on a bond. Our facility issues did not go away and our financial position is weakening. We've even borrowed \$1 million to replace a dying HVAC system in the primary building. But \$9 million of needed repairs to roofs, HVAC, lighting, windows, and a fire sprinkler safety system are...still remain. Because of dollars flowing into repairs which we can no longer delay and the drastic loss in state aid a few years ago, we cannot support the needed academic programs desired by our patrons. We urge you to be bold

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and to examine the data. Before finalizing your recommendation, please also consider meeting with the Education Committee to discuss the impact the recommended changes will have on the state aid to schools. Thank you very much for the opportunity to share. Are there any questions? [LR155]

SENATOR HADLEY: Seeing none, thank you, Dr. Winchester. [LR155]

CAROLINE WINCHESTER: Thank you. [LR155]

SENATOR HADLEY: Next testifier. [LR155]

ALICE SIBBITT: (Exhibit 2) Hi. I'm Alice Sibbitt, A-l-i-c-e, Sibbitt... [LR155]

SENATOR HADLEY: Did you fill out a green... [LR155]

ALICE SIBBITT: Yes, I did. It's sitting in there. [LR155]

SENATOR HADLEY: (Inaudible). [LR155]

ALICE SIBBITT: S-i-b-b-i-t-t. I'm a...part of a fourth-generation ranching family. The ranch started in 1888 with my husband's great-grandfather. It's been in the family for a long time. We are trying to now, at my age, we're trying to pass it on to our 27-year-old son. Trying to get him to take the reins to be a rancher. It (inaudible) help that property taxes have gone (inaudible). Let me kind of give you an example. Last year's property tax for the ranch was \$77,711.14. Now, that's a lot of land. We had a major drought. But, so when we sold cattle...and what I do, I'm just doing this per head. And we sold a lot of cattle last year because we had the drought. It was \$44.23 per head of that money went to pay property tax. If it would have been a normal year and we wouldn't have sold half of our calf herd and all of our replacement heifers and all that, it would have been \$85.99 from that check to go pay property tax. To give you another example, is that the

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\$77,711.14 is more than we paid for purchased feed. I'm talking about feed like cake, distillers. I'm talking about grain for the horses. I'm talking about mineral supplements. I'm talking about lick tubs for the young cattle. I'm talking about creep feeding. I'm talking about salt. And then I also, to throw in there, we can add into that one what our veterinary costs were for vaccine, for when we're calving and we need help for C-sections, for everything for...on that one, because that is only \$76,416.48. So that is less than our property tax was. Not a lot, but our property tax was more. We're talking about a substantial amount of money that's going for property tax. The operating costs on a ranch are significant. And the costs that we have determine how much money we can spend for replacement of vehicles, tractors, and even how much money we can spend locally at the lumber yard, grocery stores, things like that. The economic health of our local community depends on the economic health of our ranchers. If they don't have the money, they can't spend the money. So we're talking about small-town America is dying and things like that. Well, it all kind of depends on what the economic viability of the farmers and ranchers are. When I started looking at this overall tax thing and I started asking our county how much money was sent to Western Nebraska Community College and I found out--I called her--and it was \$177,802.92. Our population is 614 people. We do have land, grazing. It's not farming; it's grazing land for cattle. But the financial support needs to come from somewhere else. Our tax burden on property is so heavy that it affects all of our decisions. When we start doing our balance sheet at the end of the year, you know, that's right on there. We can't change that. I mean, we're fiddling with, you know, can we buy cake out of Montana, for goodness' sake, so we can save a few hundred dollars. Do we want to do that? No. We want to buy locally, we want to stay in Nebraska, but we have to make those decisions. I appreciate the opportunity to address you because this needs to be really looked at. I appreciate looking at an equitable way of taxation. None of us like taxes. I would just like to be taxed fairly. Thank you. [LR155]

SENATOR HADLEY: Thank you. Thank you. I appreciate that. [LR155]

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ALICE SIBBITT: Questions? [LR155]

SENATOR HADLEY: Yes, Senator Hansen. [LR155]

SENATOR HANSEN: Thank you. Alice, what do you...what would you replace property taxes with to run, say, Western Nebraska Community College? [LR155]

ALICE SIBBITT: You know, I think that that load, instead of just being property, needs to be with a sales tax that everybody...instead of just on landowners. [LR155]

SENATOR HANSEN: County sales tax? [LR155]

ALICE SIBBITT: County sales tax, something that would fit everybody. You know, and I'm really not even quite sure, when I started looking at how the...it's really odd. I was going into the different counties and how much money they put in. And it seems like Mid-Plains, what goes from Arthur County to Hooker County to Mid-Plains is tens of thousands dollars less than what we pay in Grant County. And I'm not sure how...but I'm not sure how that...all taxation. But there's got to be another tax instead of just property. Maybe a sales tax. [LR155]

SENATOR HANSEN: A sales tax in Grant County probably wouldn't bring in an awfully lot. [LR155]

ALICE SIBBITT: But you know what? Grant County people have to go to Scottsbluff. We have to go to Alliance. We have to go to North Platte. We don't have the...if we're buying things, we have to go somewhere else. We have a grocery store and a lumber yard. Thank goodness we do and we're grateful for those. But you're right, Grant County, in itself, but there could be a way... [LR155]

SENATOR HANSEN: But it's got to be bigger than a county sales tax. [LR155]

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ALICE SIBBITT: It's got to be bigger than a county. But with our...the way everything...how often...when you fuel up with fuel...I don't travel often but, when I do, I slide my card and they tell me what...you have to put in your zip code. I mean, that technology is there. [LR155]

SENATOR HANSEN: Thank you. [LR155]

SENATOR HADLEY: Senator. [LR155]

SENATOR NORDQUIST: Thank you for testifying. You mentioned the rapid increase in the amount of property taxes. Is that due to valuation in change in levies by the county or school district (inaudible)? [LR155]

ALICE SIBBITT: Actually, it's been valuation. It's been amazing, the valuation. And, you know, the scary part of that is, I look at the valuation, how it goes up, and I'm going...you know, you always think that: I can work smarter and I can do and everything else. I can't put any more cattle out on those pastures and especially after a drought. I cannot do...you know, when you're trying to through...businesswise, how can you do it? And that's what's sad, is that there's not a lot...we can't do more. For farmers, they probably can't plant more or run two corn crops, you know. [LR155]

SENATOR NORDQUIST: In your property tax bill, do have any sense what percentage is to counties and schools and community colleges? [LR155]

ALICE SIBBITT: You know, I didn't get the...I didn't have the breakdown of that. I didn't bring that with me. [LR155]

SENATOR NORDQUIST: Okay. Thank you. [LR155]

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SENATOR HADLEY: Okay. Thank you. We've been joined by Senator Schilz, District 40... [LR155]

SENATOR SCHILZ: Seven. [LR155]

SENATOR HADLEY: ...47, lives in Ogallala. Thank you, Senator Schilz. Senator Janssen down on the other end--okay--Fremont, District 30? [LR155]

SENATOR JANSSEN: Fifteen, thirty. [LR155]

SENATOR HADLEY: Fifteen, thirty, something like that. (Laughter) Another thing: And when you're testifying, it's perfectly all right to come up and say, I agree with the previous testifiers too. I mean, that is appropriate. Next. [LR155]

JEFF METZ: (Exhibit 3) Good afternoon. My name is Jeff Metz and I farm and ranch with my wife and two boys and my parents near Angora. I'm also president of Morrill County Farm Bureau and I'm here today representing the 11 Panhandle county farm bureaus and our farming and ranching members. We wish to thank the committee for coming to Scottsbluff. [LR155]

SENATOR HADLEY: Excuse me, sir. Would you spell your last name for us? [LR155]

JEFF METZ: M-e-t-z. [LR155]

SENATOR HADLEY: M-e-t-z, okay. I'm sorry, go ahead. [LR155]

JEFF METZ: Taxes are never an easy topic of discussion because no one ever enjoys paying them, but that is how our services and schools are funded. And our goal here today is pointing out that a huge burden of that funding has steadily been increased to the agriculture sector. While agriculture is the backbone of the Panhandle's economy,

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ag also bears the largest portion of the tax bill. We feel there is a great need of property tax relief. As you know, farms and ranches have had to increase in size to attain the same amount of income once acquired on a much smaller acreage, thus increasing those producers' tax burdens. Fewer and fewer producers are paying more and more of the tax bill. In Morrill County, the average irrigated farm is approximately 1,550 acres. The average property tax assessed per irrigated acre in the county is at \$25. Therefore, the average farmer pays about \$38,750 in property taxes alone. In addition to a property tax, most farmers...most irrigated farmers pay a surface water irrigation tax of \$23 to \$27 an acre per year. That includes...that totals another \$35,000 to \$42,000 a year. Before he ever puts a plow in the field, he's paying over \$80,000 an acre in taxes...per farm. Farmers are also required to pay a personal property tax on equipment and pivot irrigation systems, adding another tens of thousands of dollars of taxes being paid. Ranchers in Morrill County and the Panhandle also pay a large amount of property tax. Most cow/calf operations like mine can run one pair per 20 to 25 acres of grass. With grasslands' values doubling in the last eight years, it now costs \$85 to \$105 in taxes per head. In drought-stricken years, like 2011 to '13, and limited grass supply, some ranchers struggled to make the ends meet. Liquidating cow herds is sometimes the only option and we have seen a lot of that happen here in the Panhandle. Property taxes are largely leveled at the local level but the Panhandle county farm bureaus maintain that the Legislature has a number of options available to help reduce the property tax burden faced by farmers and ranchers and other property owners across the state. We strongly support property tax relief by lowering the current ag land value ratio from 75 percent of market value. This approach has an advantage because it would not require a redefinition of the current valuation system laid out in state statute. Such a change would assist in bringing the property tax burden faced by the Nebraska farmers and ranchers more in line with property taxes being paid in our neighboring states where, in many cases, ag land is assessed through a use value approach. And in some instances, annual valuation increases are capped. In Colorado, Wyoming, and Kansas, ag land is assessed using a value approach and then it's taxed at a rate of 29 percent, 9 percent, and 11 percent, respectively. In Iowa, a use value is applied and a year-to-year

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valuation increase, they are capped at 4 percent. Another property tax relief option has to do with education funding. On an average, 73 percent of every property tax dollar collected goes to fund education. Agriculture is funding our schools. We feel there is a need to restructure the school finance formula. Many of the small school districts in western Nebraska no longer receive any equalization aid or it has been greatly reduced, further placing the responsibility for funding public education on the backs of farmers and ranchers. We support lowering the \$1.05 mill levy that the school districts can impose. We also support a balanced combination of school funding to come from one-third property tax, one-third sales tax, and one-third income tax. We also believe funding our community college should come from state General Funds and not property taxes. [LR155]

SENATOR HADLEY: You have one minute, sir. [LR155]

JEFF METZ: We support our schools and public education but we believe agricultural landowners are disproportionately paying more of our fair share to fund education. Additionally for consideration, we urge the commission recommend of removing ag machinery and equipment from the personal property tax roll. Finally, we would like to reinforce the Panhandle county farm bureaus' position in relation to sales tax. We strongly oppose the removal of any of the sales tax exemptions currently in place for agriculture. The necessity of sales tax exemptions for agriculture is prevalent for the Panhandle in regards to our neighboring states having the same exemptions. We also believe that ag machinery repair parts should be exempted from the state sales tax. We wish to thank you for your time. Are there any questions? [LR155]

SENATOR HADLEY: Senator Harr. [LR155]

SENATOR HARR: Thank you. Thank you, Mr. Metz. And thanks for having me out here. I guess I have a couple of questions for you. And I understand what you're talking about, the valuation doubling. When I purchased my first home, it doubled in value in

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the first six years. I didn't get any property tax relief for that. And I guess my question is, how is my home doubling in value different than ag land doubling in value? [LR155]

JEFF METZ: The ag land has increased at such a rapid rate over the last few years. I mean, it's...it...in a lot of cases it's 200 percent, not just 100 percent. I mean, it's 200 percent on some of this irrigated ag land. And more and more of the taxes are collected from that but it's just a steady...I like the approach where the increase is capped at a certain rate. [LR155]

SENATOR HARR: Well, that still doesn't...and, again, my house doubled in six years and I got (inaudible). It's a little different (inaudible)...I paid 100 percent tax on that. [LR155]

JEFF METZ: Well, it also...we have such... [LR155]

SENATOR HARR: And I didn't see any money increase in value. I didn't see any additional income on my house. My house increasing in value, actually, was a deficit to me, short term. [LR155]

JEFF METZ: It requires a lot of acres to run cattle. It requires a big operation to receive the same income that we used to. So we have...this is an investment that we have to have to make a living for ourselves and our families. This whole economy is centered around agriculture. [LR155]

SENATOR HARR: And I don't disagree with that at all. I guess my issue is, what I don't understand is, if we do change the valuation, where do we come up with that difference in money of income for the state, because we've got to cut services. What would you like to see? If we're going to increase state aid to education, does that mean...because I have a fiduciary duty as a state senator of the state tax dollars. And if I'm going to increase the amount of aid I give, I'm going to put greater strings on those dollars. And

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I'm going to make sure that the money is spent more how I want and maybe not necessarily the way a local community may want because, again, it's my fiduciary duty as a state senator. So I guess my question is, if we do move away from property tax valuation, are we willing...are you willing to see some of that power, that local control of your education--if education is 73 percent of the cost of your property taxes--to the state? [LR155]

JEFF METZ: I would like to see 73 percent of that cost be transferred to sales and income tax. [LR155]

SENATOR HAAR: Okay. But that would then go to...against the state coffers. [LR155]

JEFF METZ: I don't know how much local control our boards have anyway. [LR155]

SENATOR HARR: Okay. [LR155]

SENATOR HADLEY: Okay. [LR155]

SENATOR HARR: That's a good point. Thank you very much, I appreciate it. [LR155]

SENATOR HADLEY: Senator Schilz. [LR155]

SENATOR SCHILZ: Thank you, Senator Hadley. Mr. Metz, thanks for coming in. You're not done yet. (Laughter) I've got a couple of questions for you. We do this all the time, actually. And you'll want to piggyback off what Senator Harr said. All this ag land that you're talking about, is that the be-all, end-all to your agricultural endeavor? I mean, is that the product that you're putting out is the land? Or is the land an input into your product...your end product? [LR155]

JEFF METZ: Right. It takes the land to make a product. [LR155]

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SENATOR SCHILZ: Right. And then the next question that I have for you: Do you own a house, as well? [LR155]

JEFF METZ: Sure. [LR155]

SENATOR SCHILZ: Do you pay 100 percent of that in property taxes (inaudible)? [LR155]

JEFF METZ: Yes. [LR155]

SENATOR SCHILZ: So what we're talking about here is two different things if you look at it. One is an input into a business endeavor that goes on. And one is an actual property tax on where you living and what you're doing, which you do the same as Senator Harr does. You pay the same on that as well, right? [LR155]

JEFF METZ: Right. We're...in the ag industry, we are takers. We don't get to set the price for our commodities. We get what they give us, you know, so we're not able to transfer or carry on any taxes that are incurred. [LR155]

SENATOR SCHILZ: Thank you, sir. [LR155]

SENATOR HADLEY: Okay, thank you, Mr. Metz. [LR155]

JEFF METZ: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

STEVE ERDMAN: (Exhibit 4) Good afternoon. Thanks for coming out. Appreciate it. You guys get the big bucks for doing this (laughter) and I know what that's all about. My

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name is Steve Erdman, E-r-d-m-a-n, I'm from Morrill County. I'll piggyback a little bit on what Jeff said. Senator Harr, to answer your question, your real estate taxes on your house are too high also. Okay? So it's not because ag land is too high. I'll just put it in, it's too high for everybody. [LR155]

\_\_\_\_\_: Can you spell your name, please? [LR155]

STEVE ERDMAN: E-r-d-m-a-n. [LR155]

\_\_\_\_\_: Thank you. [LR155]

STEVE ERDMAN: Okay. For example, we had a couple that moved to Bayard several years ago from Texas, bought a house. Because they bought the house, the taxes was paid in advance. And the next year when the taxes came due, they had a few medical problems and they decided: Either we got to buy medication or we got to pay our taxes; which are we going to do? And they moved back to Texas. So when we have older-generation people that have to make a decision between property taxes and medication, our taxes are too high. So they're too high there. I read, for example, what you guys had written...what the committee had written, what they want to do and you said, if you have specific problems we should try to identify those, and if you have a solution, come up with those. And one of the things that troubles me just a bit about your goals is to remain revenue neutral. I think that in there lies the whole problem of taxation. We need to make cuts. Okay? We need not stay revenue neutral. Okay? There's got to be some cuts made. When the state balances their budget, they say, okay, we send money to cities, we send money to counties, and so we're not going to do that anymore, we're going to keep that money and balance our budget. It's time for the state to step up and make some cuts that really count instead of passing it off to us. So what happens is, you pass off that to us and then we, as commissioners or whomever else, we make the tough decisions because we see those people on the courthouse steps. We see them at church, we see them at the restaurant. And they say,

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why did you do that? But when you pass that off, if you don't come to the local people, they never see you people. And so it makes a big difference on what kind of decisions we make. And so it's tough decisions. I put in the box what Morrill County pays on an annual basis the last two years to defend, protect, and prosecute people who break state laws. Okay? They don't break too many county laws but they do break a lot of state laws. And so we house those people in our jails, we pay for their dentist work, we pay for their medical bills while they're in there, and we pay all that. I told our sheriff, when they get sick, turn them loose. (Laughter) But the point is, \$641,000, or 21 percent of our tax asking, goes to defend state laws, it goes to protect people who...or to prosecute people who have broken state laws. That's 21 percent of our tax asking. Okay? That's astronomical. So I've heard many times that property tax is a local issue. It is a local issue but it is more costly because of state issues. And so it's not just a local issue, it's a state issue as well. And so, consequently, when we see all those things happen and we have to do all those unfunded mandates...and I have a list of those and...if you'd like to see them. I didn't make a copy for everybody but there's...they're too numerous to mention. [LR155]

SENATOR HADLEY: If you want to put it in the box, we will, certainly. [LR155]

STEVE ERDMAN: I already did. I put it in there. But anyway, the point is, you know, the things you talked about, the seven or eight things that you mentioned in your property tax valuation, Morrill County, last year, the valuation went up \$95 million. All of it...all of it but \$3 million was in irrigated ag land. We reduced the mill levy 4 mills. If you were a homeowner, dryland farmer, or have pasture land, your taxes for the county went down. And about 18 percent of the tax collected goes to the county. If you're an irrigated farmer, your taxes went up. It's disproportionate and we need to figure out a different way to value ag land. And I'm not saying that residential is okay either. It's too high also. And you talk about sales tax. Well, you have Banner County, Arthur County, and the other...Grant and some of those other smaller counties. They have no sales tax. So it has to be a wider sales tax, Senator Hansen. You got it right. And so we need to

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expand the tax base. So if the average farmer in Morrill County has 1,500 acres, if he owned 1,000 acres at \$3,000 an acre, that's \$3 million. He pays \$55,000 a year in property tax. If you could shift some of that burden from property tax to sales tax, he would have to spend \$793,000 at 7 percent sales tax to pay that same amount of tax. So we need to shift it to sales tax if it does really remove the property tax burden from the landowner. That's the question, really. And last but not least, at least I passed up an opportunity to talk about the Nebraska Department of Roads. Okay. [LR155]

SENATOR HADLEY: You have one minute left, sir. [LR155]

STEVE ERDMAN: Okay. We have a situation where we have the same number of employees at the Nebraska Department of Roads as we had in 1980 when we did all the construction. We did everything. We don't do any of that stuff, we have the same number. We have a quarter of a cent that's been taken from sales tax for construction of roads. I propose that you make the cuts necessary in the Road Department to get efficient. You take the quarter cent that has been designated for construction and you use that for property tax relief. It's time that somebody steps up and gets the Road Department in control. We're out of control on those number of people they employ and what they do. [LR155]

SENATOR HADLEY: Okay. Thank you, sir. [LR155]

STEVE ERDMAN: So with that, I'll finish. And if you have any questions, I'll try to answer them. [LR155]

SENATOR HADLEY: Questions? Seeing none, thank you, Mr. Erdman. [LR155]

STEVE ERDMAN: You bet. Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

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GLENN PRICE: (Exhibit 5) I'm Glenn Price, it's G-l-e-n-n P-r-i-c-e, I live in rural Dawes County. I may have a solution for some of your problems. But I was concerned when I read some of the Tax Modernization papers that came in the paper and other ways, in e-mails, and I only saw a couple of sentences on intangibles tax. And I really want to know why we're not considering intangibles tax or tax on stocks because I don't believe that people that own agricultural land or business buildings or stocks expect to lose money. They buy them for the same reason. And the people that buy land and farm, like I do, or buy a business, I participate. I buy a stock, I don't do anything. I just hope it goes up, you know, and complain that the CEOs are making too much money. And, you know, in farming and in the oil business, too, when a well dries up in one location, you go to another location and dig another hole. Nebraska's richest person pays no yearly tax on his stocks. If he's worth \$30 billion--and I think it's more, I don't know; this is a few years ago, doesn't make any difference--but using the tax rate that's on our land, my land, is 1.697 percent of the assessed valuation. And if the assessed valuation is 70 percent, then I changed the real value of the land. And so it comes out to 1.1 percent of the value goes to property tax. On \$30 billion, that's \$330 million. That's quite a bit of money. I thought it was \$100 million and I was going to give each county an extra million dollars. But it's quite a bit bigger than that. And I realize nobody wants to pay taxes. But an intangibles tax seems to me to be a big exclusion from property that people have and hope to make a living on. In my travels, I've managed agricultural cooperatives in Texas, Kansas, and Nebraska. And every place I've been, when I talked to the area's richest farmer, I think every one of them made their money in the stock market. Very few of them made their money in agricultural production. Now agriculture gave them a big lump sum and they were able to use that money and put it in the stock market and made money that way. And the other thing is that I can tell you to the penny what the value of my stock is on December 31. But there's nobody who can tell me what the value of my land is worth to the penny or even to the nearest \$100 in December 31. Now I don't know whether the exclusion is political or whether it's practical. I've asked quite a few people, you know, why we're not doing this. And I haven't really received

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what I consider a good answer. I think we've all heard the expression, "land poor," but we've never heard--or I haven't heard--an expression, "stock poor." You know, stock is way more liquid than land is. So I think that this, you know, may be a new source or something, but it should be considered if we're going to try to equalize the tax burden for all Nebraskans. [LR155]

SENATOR HADLEY: You have one minute left. [LR155]

GLENN PRICE: Thank you. [LR155]

SENATOR HADLEY: Mr. Price, I'll see if I can give you a reason. One of the concerns when we have taxes is mobility. The person you're talking about is Warren Buffett. [LR155]

GLENN PRICE: Sure. [LR155]

SENATOR HADLEY: I would guess he could move 5.3 miles to Council Bluffs, Iowa, and not pay it because he is completely mobile to move wherever he wants to and take whatever he has. So you have to be careful. It would be a great idea if we could force everybody to continue to live in Nebraska. But you have to be concerned about the mobility of people to move in that kind of situation. I only give you that as a possible reason. [LR155]

GLENN PRICE: Sure, and I appreciate that. You know, people say, well, they could put it somewhere else. There's a...and that's probably true. But UBS got sued because there was so much money in Switzerland from people trying to avoid taxes. You know, and with the technology that we have today, you know, we can find most of it. And, you know, what would everybody in agriculture do if they sold all their land and bought stock? I mean, then you wouldn't have anything. I mean, somebody would have to have the land, you know, but they're not going to...I don't know that...I'd like talk to Warren

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Buffett because I think he's a pretty interesting person. You know, he... [LR155]

SENATOR HADLEY: Sure. Any other questions? Seeing none, thank you, Mr. Price. [LR155]

GLENN PRICE: Okay. Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

JAMES O'ROURKE: (Exhibit 6) I'm Jim O'Rourke, O-'-R-o-u-r-k-e, I live south of Chadron. Property tax funds 40 percent of the Chadron Public Schools' budget. Fifty percent of that property tax is paid by 10 percent of the population of Dawes County, and that's farmers and ranchers. We talk about...we've always talked about a three-legged stool for funding public entities: sales tax, income tax, and property tax. We really ought to be talking about at least an eight-legged stool of those sources from state revenues: state income tax, state sales tax, gas tax, corporate income tax, the other categories of state taxes, as well as three local taxes being: property tax, inheritance tax, and local sales tax if local entities choose to do that. If 40 percent of the school budget is paid by property tax, we've got a very lopsided stool here, folks. We've got seven legs that are pretty short and we've got a stool that's not very useful. I read your options and issues that you developed and I commend you for that. I think it's a very nice list and a very good starting point. Unfortunately, I see a document full of discussion about potential exemptions and credits. And I think we need to be careful about that. I'm really concerned about those exemptions and credits that you list in there that regard everything from property tax, all four issues that you deal with there: property tax, sales tax, individual income tax, and corporate income tax. At issue, as Dr. Winchester said a little while ago, our issue in Dawes County is funding of the public school system. And I would urge you that any modernization of the Nebraska tax system which reduces taxes on any state revenue sources will result in an increase in local taxes, which is what? Property tax paid by farmers and ranchers. It's essential that

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state revenue sources pay a larger share of that Dawes County school system budget. Any reduction in state-collected taxes with a resultant increase in property taxes will be impossible for farmers and ranchers, as you've heard other people say today. As an example, in Dawes County, in addition to the school system being funded 40 percent by property taxes, there was a school bond issue floated last year. That school bond issue was soundly defeated by the taxpayers of Dawes County simply because they could not shoulder any more taxes. I might also like to point out, I have a bit of a problem with this term "state aid." That's not aid, folks. That is taxpayers' dollars that has been loaned to the state to be returned to fund state entities which those taxpayers have agreed to support. It's not a gift from the state, it's taxpayers' money. And I'd really like to see that term "state aid" thrown out the window and call it what it really is. The modernization of the Nebraska taxation system must not only accomplish equity in collection--and that's what you've all talked about here today and a lot of people have--but we also need to be concerned about equity in redistribution of those collections to the entities the taxpayers have agreed to support. Now I realize that's another issue beyond your committee here. But I think we need to be concerned about that as you discuss this whole issue. Thank you very much for your time. [LR155]

SENATOR HADLEY: Questions? Senator Nordquist. [LR155]

SENATOR NORDQUIST: Thank you, Mr. Chairman. And thank you for being here, Jim. One of the...we've heard a number of testifiers address the concern of property taxes. Would you be inclined for us to support some sort of a policy change that would put the dollars up front to K-12 districts, increasing state aid, increasing aid...putting aid back to counties and cities to help them meet their budget needs, to reduce property tax levies, or something on the back end, in terms of credit, or increasing their property tax through the credit fund or income tax credit to make up for property taxes? Which way do you think we should be addressing this problem, on the front end or on the back end? [LR155]

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JAMES O'ROURKE: Yeah. Good question. I think I lean toward the front end. But I'm a bit concerned about a property tax credit. Now I can sit here as a rancher and as a landowner and say, yeah, I would like a credit, I would like an exemption. But wouldn't we all? I think if we're going to address this issue of equity, we all need to be concerned about what is a credit, what is credited, what is exempted. So we all need to come to the table willing to give up but to make sure that those taxes that we do pay...that's the biggest concern to me is that those taxes that are collected are coming back to support the institutions that we've agreed to fund. [LR155]

SENATOR HADLEY: Yes. Senator Harms. [LR155]

SENATOR HARMS: Thank you very much, Jim, for coming. You talked a little bit about exemptions. We have...we give about \$4.4 billion worth of exemptions. Would you be willing to give up some of those exemptions to then fund education appropriately to take care of the rural issues that we have with the state aid formula because, quite frankly, if we took the exemptions or part of those exemptions, we could deal with the tax structure. [LR155]

JAMES O'ROURKE: Right. [LR155]

SENATOR HARMS: But the issue of it is, it does have impact on you in the agricultural world. So there's some give-and-take here and we could take care of some of this pretty easily. What are your thoughts about that? [LR155]

JAMES O'ROURKE: Yeah. The biggest exemptions I see in the documents you laid out, as well as those from OpenSky Institute, are...is the sales tax exemptions. I think that's a big issue for you to look at. [LR155]

SENATOR HARMS: Thank you. [LR155]

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SENATOR HADLEY: Okay. Thank you, Mr. O'Rourke. Next. [LR155]

MICHAEL PICKINPOUGH: My name is Mike Pickinpough, P-i-c-k-i-n-p-o-u-g-h. I'm not a farmer, I'm not a rancher, I've never been in the industry. Since I was 17, I've worked and carried a lunchbox and "drawed" a paycheck, which I think is important to note because there's probably 27 percent of the people out there that draw a paycheck and carry a lunchbox that don't have anything to do with agriculture. I like some of the offers you have for Social Security income but I do think you need to raise your limit on filing joint. I think it needs to be around \$125,000 range because medical expenses, property tax, question marks on what you're going to pay every year, keep going up and up. And I'd like to mention property taxes. Back in the '80s, I think it was '85, I think the senate, or excuse me, the state Legislature adopted the Marshall Taft (phonetically) computer program, for lack of a better word. We still have the ability to protest our taxes. And I have about a four-inch stack of protests I've done since I've owned property in Scotts Bluff County. I didn't think it would be appropriate to bring that. But the end of the protest comes and the assessor can no longer do anything for me because it can't get the parameters in the computer. Whatever she puts in has to match the computer. So my question is, why do I even have the right to protest if I can't get the computer to agree with the assessor? Right now, the assessor has made a decision that all residential property taxes are going to be 100 percent replacement cost. She told me that the state Legislature passed that. I get the Unicameral when you guys are in session all the time. I don't remember reading anything about that in the last three years. So my question is, give our...if we're going to have...what we got, 92 or 94 counties in Nebraska? We have all that administration expense and yet we can't argue with the computer. Why is that? Another thing, I wrote my senator three years ago, Mr. Harms, about the possibility of charging people a tax or a tariff, if you will, that have permanent jobs in Nebraska and reside in another state, such as Wyoming. Out of 400 people that I work with, nearly half of those individuals have a Wyoming residence and have permanent jobs in Nebraska because they want to avoid paying the taxes in Nebraska. I realize it is a constitutional issue. I realize it could be considered taxation

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without representation. But we don't have a problem charging the truck drivers the time and the mileage that they're in, in various states within the Midwest. Why do we have a problem getting bona fide tariff or tax money from the individuals that use our infrastructure and don't pay anything? And that's all I have. [LR155]

SENATOR HADLEY: Are there questions? Seeing none, thank you, sir. [LR155]

MICHAEL PICKINPOUGH: Uh-huh. [LR155]

SENATOR HADLEY: Next person. [LR155]

BRIAN COPSEY: I'm Brian Copsey, B-r-i-a-n C-o-p-s-e-y, I own JBC in Gering, Nebraska and I'm also on the board of the Nebraska Petroleum Marketers and Convenience Store Association. And I do not envy the task that you guys have at hand. As has been well stated, nobody likes taxes. Any tax is too much. But it's about equity. And one of the things that I want to make sure we address is, if there is a reduction in the property tax, where is that money coming from? And the one thing that I know has come up before is an occupational tax. And I want to argue steadfastly against that, is that that is double taxation. That is, my business pays a significant portion of taxes to be in business, to register with the state of Nebraska, to provide services, payroll taxes, those types of things, sales taxes for convenience stores, sales taxes for the items sold. And then to incur another tax on top of that would be unfair. In the Omaha metro area, you mentioned Warren Buffett could move five miles. We see a significant revenue shift whenever we adjust those revenues or those tax dollars at the convenience store level. Those dollars go to Council Bluffs. And it is...I don't have those numbers in front of me but it is significant. So I just wanted to make you aware of those situations, that it does impact our business, even out in western Nebraska. For years, we had many people that would always want to go to Torrington for fuel because it was cheaper. So I just want that to be considered as you guys visit about this. [LR155]

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SENATOR HADLEY: Are there questions for Mr. Copsey? Well, certainly, I think, in the five years I've been in the Unicameral, the term "border bleed" has been used a lot. The idea of a lot of our population is close to borders. And it is something every state looks at when you're doing taxation, is the mobility of citizens to do so. Thank you for your comments very much. Next. [LR155]

CHRIS GARRETT: Hello. Thank you for taking time and making the effort to look into these problems. My name is Chris Garrett, that's G-a-r-r-e-t-t. We farm and ranch west of Chadron. We have three daughters, all in the Chadron school system, and we are ardent supporters of the schools and its programs. However, I do feel as though the property tax that we pay is unreasonably high. I really don't claim to know all the ins and outs of this tax code. But I do understand enough to know that for dryland crop ground and pasture grassland, the amount we can earn versus what we pay is incredibly high. We run about 2,400 acres; 1,800 acres of that is grassland. We are totally dependent on the weather. In the past 10 to 12 years, we have faced far more years of drought than we have had wet years. Some of these years have been far worse than even some of the famed Dust Bowl years. Last year, alone, we put up exactly 28 bales of hay off 400 acres of cropland. The last three years, we've had to make the decision to cut all of our wheat, which is our only cash crop, and we cut that for hay to keep the cows together. Last year, the USDA set the pasture grass loss in Dawes County at 85 percent loss. This year, the loss was appraised at 75 percent. I say all this, simply, to illustrate the fact that raising a crop or growing grass is a high-risk endeavor. The one thing that we can always count on, however, is that property taxes will go up. I'm urging you to consider looking at what the ground can produce or the number of cows that could be raised per acre and taxing that number. Our like sales where we're at, are highly suspect with recreational lands, investors, borrowed sales from other counties, or even assigned values being placed on the roster for figuring out valuations. Even with historically high cattle prices, we cannot make any money on \$750 to \$1,000 pasture ground that someone will come out and buy for an investment or to shoot an elk off. So when they say that our land is worth those amounts, well, I guess it might be, but only if

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I sell it--and I never plan on doing that. So for me and my family, the only thing that we can value is what we can raise off that land. The states that surround Nebraska have property tax placed on their acres so much cheaper than we do, it really ties our hands when trying to compete with other producers. These other states also have tax breaks when buying other inputs that we don't. I feel that our rural counties that are dominated by pasture land are really being yoked with a much heavier load than is fair. There are some years when we pay close to 10 percent of our total income in property taxes and then turn around and face income and sales taxes also. I highly doubt that any main street businesses face that kind of heavy load. I thank you for your time and I urge you to help our Nebraska cattlemen to continue to be successful and competitive. [LR155]

SENATOR HADLEY: Thank you, Mr. Garrett. Seeing no questions... [LR155]

CHRIS GARRETT: Okay. [LR155]

SENATOR HADLEY: ...I appreciate your coming down, Mr. Garrett. [LR155]

CHRIS GARRETT: Yep. [LR155]

SENATOR HADLEY: And we drove through a lot of rain on the way out here, so maybe... [LR155]

CHRIS GARRETT: It's kind of hard to complain about a drought today, yeah. (Laughter) [LR155]

SENATOR HADLEY: Next. [LR155]

MARK HAYNES: (Exhibit 7) My name is Mark Haynes from Dawes County, M-a-r-k H-a-y-n-e-s. The main issue, I guess, that I would like to deal with is on the property taxes. Looking back the last 12 years that the valuation changes on ag land statewide

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has gone up 8.94 percent. The state's total valuation has gone up 5.64 percent through that same time period. For 2013, ag land valuations have gone up 22.8 percent statewide. And out of the \$13.5 billion total state increase in valuation, ag land represents \$11.1 billion of that increase. By adding all the real estate, ag improvement farm site, agriresidential personal property, it will nearly equal 40 percent of the state's total valuation. Meanwhile, the population of the living on the farms has dwindled significantly. Yet for the purposes of funding education, you have about 5 percent to 6 percent of the population supporting 40 percent of the schools' funding. We know that property tax is a heavy load. We know it is in Nebraska on everything because two-thirds of the property tax dollars goes to fund education statewide. Sixty percent, K-12, about 5 percent on your community colleges, and less than 1 percent on ESUs, that's more than any other state around us by far. The state's total individual income, I believe, last year was around \$78 billion. The farm income was a record high, around \$7.4 billion. Douglas and Lancaster Counties the last 12 years had slower growth on their property valuations than the average state. Their average was about 4.1 percent, Douglas County. Lancaster, around 4.3 percent. Meanwhile, the rest of the state grew at 5.6 percent. But yet their populations exploded compared to the rest of the state; they've grown at a much faster rate. The two counties lag behind in funding for education on property tax when they're not keeping up with the valuations. Why would counties that grew so much in population not be able to at least be at the same level of valuation as the state average? Our problem is, is that we use a comparable sales approach, the fair market value, supposedly. And that is very uncompetitive with the surrounding states. And the biggest problem with using a sales-based approach is, you put the largest burden on grazing land. I've had a long conversation with Ruth Sorensen a year or so ago and asked, how do you set a value on somebody that buys a piece of property for \$425,000 and it is assessed \$600,000 and you tell me it's 75 percent of market value? And you take a guy that buys a 40-acre tract on a river bottom and pays \$2,000 an acre and you assess them at...or you tell them that theirs is worth \$357 dollars an acre. So the problem you have with valuations are when you use that market-based approach, you've just put the biggest demand on grazing land. And you

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do that, primarily, because that's what most of the land is in the state of Nebraska. That's what generates the most valuation. It's a valuation game; it's not anything to do about accurate assessment. We're not going to ever be competitive with Kansas, Colorado, because they use a use value and they use 29 percent to 30 percent of use value. So their grazing lands, which they pay 40 cents to 50 cents an acre, you'll pay \$4.50 or \$5.00 an acre on your grazing land. You'll pay ten times what they will. But on your dryland, you'll pay only about four times more and on irrigated about three times more. [LR155]

SENATOR HADLEY: You have about one minute left, sir. [LR155]

MARK HAYNES: Okay. All right. Ninety-seven percent...93 percent of the state's total valuation or total land mass is agriculture land but, yet, they only generate about...it should turn down from about nine percent down to six percent of the state's total income, so. Things that I would definitely go against is changing the valuation from 75 percent to 70 percent because I think you need to ignore that approach because all you do then is just take sales of noncomparables and ratchet up the valuation. You take it out of the hands of the property tax administration and you put it into the Nebraska Department of Agriculture where you use the yields and the prices that are established. And you cannot manipulate the numbers through the property tax administration. That would be my recommendation. [LR155]

SENATOR HADLEY: I think your time is up. [LR155]

MARK HAYNES: Yeah. [LR155]

SENATOR HADLEY: Are there questions? Seeing none, thank you. [LR155]

MARK HAYNES: Yep. [LR155]

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SENATOR HADLEY: We appreciate your diligent work in putting together the facts and figures for us. Thank you. [LR155]

MARK HAYNES: I have copies here for you. [LR155]

SENATOR HADLEY: Okay, just throw them in the box there and we'll...thank you. We have about ten minutes left on property taxes. Is there anybody else that would like to come up on property taxes? [LR155]

TERRI HAYNES: All right. Do you want to go for... [LR155]

\_\_\_\_\_ Go ahead. [LR155]

TERRI HAYNES: (Exhibit 8) Okay. All right. [LR155]

\_\_\_\_\_: Take a seat. [LR155]

TERRI HAYNES: All right, thanks, Gary. I'm Terri, T-e-r-r-i, Haynes, H-a-y-n-e-s. I am from Whitney, Nebraska, and I am also a school board member on Chadron Public Schools. I want to thank you for coming to Scottsbluff so I only had to ride on a bus for 200 miles instead of 900. (Laughter) Okay? So I want to point out that on your way out here, you may have noticed that northwest Nebraska is different in many ways from the rest of the state. Therefore, the tax structure affects us differently. Our state relies on property tax to fund education. This is an antiquated way to fund education, particularly in our county. Our county is relatively small in acreage. It has an unusually high amount of nontax land from which to generate taxes. Our county is different from many counties across the state. The type of agriculture we have here is not as productive as it is in the eastern part of the state. One acre in Dawes County does not equate in productivity to one acre in eastern Nebraska. We are at a disadvantage in soil types, heat units, rainfall. Our cropland is growing 35 bushels of wheat every other year while eastern

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Nebraska is growing corn at 200 bushels an acre annually. Our county is relatively small in acreage compared to other western Nebraska counties. For tax purposes, we have around 900,000 acres. And 10 percent of that is not taxable in the...due to federal state lands. We do have some tax dollars in lieu of taxes, but it does not equate. It is, however, one of the things that makes us gorgeous that you may have noticed. How does this affect our school system? Well, like many schools, we have an aging infrastructure and no funds to repair these. School systems are offered property tax as a way to fund bonds for repairs and renovations. We went to the patrons to ask for a bond. Our rural property owners who already pay more than their share for schools effectively stopped this from passing, and rightfully so. They already pay an exceptionally high share of taxes towards education. They're not willing to take on another \$12 million. Our greatest financial challenge is finding funds for our infrastructure as the funding of schools from the General Funds continue to slip backwards. We are forced to ask for more local property tax. This is an unreasonable approach for us. I would urge you to fully fund the TEEOSA formula to help us out and to integrate other types of tax to be more prominent than property tax for education. And just remind you that we are different in our county than many of the eastern Nebraska counties. [LR155]

SENATOR HADLEY: Are there questions? Seeing none, thank you. [LR155]

TERRI HAYNES: Thank you. [LR155]

SENATOR HADLEY: I think that's the third one or fourth one from Chadron. So if we could give, maybe, other people a chance to come up. [LR155]

TERRI HAYNES: All right. And I do have testimony from another Chadron person to put in your box. [LR155]

SENATOR HADLEY: Okay. [LR155]

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TERRI HAYNES: All right. [LR155]

SENATOR HADLEY: Are there other people? [LR155]

MARK NIENHUESER: Mark Nienhueser, N-i-e-n-h-u-e-s-e-r, here as a citizen, today, of Sidney, Nebraska. I also serve as the vice mayor of Sidney and also as the vice president of real estate and construction for Cabela's. As you go through this, I applaud the effort to go through the modernization of our tax structure. I've lived in Nebraska all but eight years of my life but, when we moved back ten years ago, noticed the significant difference in the taxes, the way they're assessed in the state of Nebraska. And I highly encourage you to consider as you...we are bordering states, to consider those. Sidney, we are ten miles away from the Colorado border. As we recruit a number of employees to Cabela's, a lot of them can choose to live in the state of Colorado, ten miles to the south, just because of the difference in property taxes. They're half of what they are in the state of Nebraska. So we're losing tax base in our communities by not being competitive with our neighbors. The state aid formula for schools and city has proven, to me, over the ten years, it's broken whether it's schools or whether it's cities. It's not equitably distributed. It's just distributing to the inefficient. Another one, when you distribute it, it comes back with rules. A classic example in Sidney, Nebraska, is, we approved, in 2009, to accept a \$500,000 trail grant to build...continue a trail through our community, of which the community put up \$150,000 matching. It is yet to come out of the federal process. It's being administrated by the Nebraska Department of Roads. During the...you go through all the paperwork and the process that land ownership changes, people that agreed to do things five years ago don't do it today. We send...we, the local citizens, we send this money to the feds and to the state and it comes back with strings on it. It really bothers me that the strings come back because we're sitting there...one of the hold ups has been...it's a livestock pen, 80 years ago, sitting there. It might be an environmental, historic monument that we should not run the trail through there. How silly is that? We built the trail around the Cabela's complex back in 2010 and

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spent \$45 a lineal foot to build that. The engineers' estimate, if it ever comes out...it's still tied up in paperwork. This is 2013. The engineers' estimates today are well over \$90 a lineal foot to construct this trail. Just look at what we can do. As you go through the modernization, get rid of the...look for the efficiencies. Get rid of the bureaucracy. Don't send more strings back to it. The last thing we need is more strings at the local level being attached to the state aid dollars. We can spend it better than anybody else at the local level. We don't need more strings. Yes, there's more state aid needs to come back to reduce the property tax so we can be more competitive. But the last thing we need is more strings attached. Thank you. [LR155]

SENATOR HADLEY: I guess I have a quick question. If we do send more state aid back, would you support increasing corporate, personal income taxes, sales taxes, to find the money to send back? [LR155]

MARK NIENHUESER: Well, you have to...again, it all has to balance with what's going on in the bordering states. [LR155]

SENATOR HADLEY: Yeah, I mean, that's what we have to...we have to balance it. What would be your recommendation? And what should we increase in order to... [LR155]

MARK NIENHUESER: Well, the personal taxes are...I think the answer is in your exemptions because if you look at where we're at from a personal tax, you're higher than your neighboring states, most of them. We look at where we're at from a...we're way ahead on the corporation taxes than neighboring states. So I don't know how we can assess those. If you look at where we're...according to Kiplinger's newsletter in 2013, we're the number seven least-friendly state for retirees for, you know, for everything from sales tax to income tax, income tax on Social Security, inheritance tax, all those. We're number seven. We're encouraging people to leave our state because of our tax system the way it is. So... [LR155]

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SENATOR HADLEY: But where should we find the money? If we... [LR155]

MARK NIENHUESER: You have to compare to all the neighbors in states and balance it. [LR155]

SENATOR HADLEY: Okay. But I mean, where do we find it? Do we raise income taxes? Do we raise sales taxes because you want more money to come back to the state? If it's revenue neutral, we've got to find more money to do that. [LR155]

MARK NIENHUESER: What you do is you take the state...the taxes you're taking from us, as local citizens, that we're sending to you, in an income form or in a sales tax form. Leave them with us. Don't attach strings to them. Take the bureaucracy out of it. [LR155]

SENATOR HADLEY: But then how do we run the...what do we use the money to...for the state? How do we run the state then? [LR155]

MARK NIENHUESER: Reduce the size of state government. (Applause from the audience). [LR155]

SENATOR HADLEY: Okay. Other questions? Okay. Okay. Okay. [LR155]

ROBIN LAPASEOTES: I'll answer all your questions really quickly. Hi. I'm Robin Coulter Lapaseotes. [LR155]

SENATOR HADLEY: Okay, this will be our last property tax. [LR155]

ROBIN LAPASEOTES: Oh, you've got to let him go. If I go real fast, then he gets to go. [LR155]

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SENATOR HADLEY: Okay. [LR155]

ROBIN LAPASEOTES: Okay. I appreciate that. I've met quite a few of you in different endeavors. I farm and ranch in Morrill County. My husband and his family also farm and ranch in Morrill County. We have two daughters and a son-in-law in our operations and I'm a fourth-generation rancher. I'm also the taxation chairperson for the Nebraska Cattlemen, although I'm just representing myself tonight. It seems to me like the state and county should be funded equally with sales, income, and property. At this time, as you all know, sales is like 23 percent; income, 33 percent; property tax, around 43 percent. There are pros and cons to all three types of taxes. So kind of to offset that, it seems to me like just use all three of them equally. In order to reduce the property tax, the offset revenue loss needs to come from your sales tax, as it's not carrying its fair share. In order to do that, I would suggest increasing sales tax on services. Perhaps you have to increase the overall sales tax, in general, however, not on inputs to businesses. And then the avenue to get that money back to the property owners probably needs to be with the property tax credit relief--if I'm saying that correctly--that's already in place. There's a huge concern that if the money is collected and goes to Lincoln and comes back as state aid, that it will not come back out west. There is a big concern in western Nebraska that because of the population, where it's placed, and consequential representation in the Legislature, that it's harder and harder to get that money to come back out to western Nebraska. That's about all I have. I do believe in sunseting your exemptions, examining them often. Property tax should not be funding education so heavily. And also, the savings that the state has built back up, should not be touched. And any taxes that we do collect additionally, through sales tax, should not result in increased spending. That's all I have. [LR155]

SENATOR HADLEY: Okay. Questions? Would you...did you give us your name and spell it? [LR155]

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ROBIN LAPASEOTES: That might take time from him because it's kind of long. [LR155]

SENATOR HADLEY: No, go ahead, please. We have to have your name spelled. We need your name and spell it, please. [LR155]

ROBIN LAPASEOTES: Robin Lapaseotes, R-o-b-i-n L-a-p-a-s-e-o-t-e-s. [LR155]

SENATOR HADLEY: Okay. Thank you. [LR155]

ROBIN LAPASEOTES: Thank you. [LR155]

SENATOR HADLEY: We have one more on property tax. [LR155]

PAUL LESEBERG: (Exhibit 9) Well, thank you for making time for me. And thank you, Robin. That was very kind of you. My name is Lawrence Paul Leseberg, L-e-s-e-b-e-r-g. I live in rural Scotts Bluff County out by Minatare. I've been a city councilman and mayor of Bayard. I've been on the Nebraska Crime Commission. I served along with Pete Pirsch before he ran for the senate. I've been on the board of governors at Western Nebraska Community College for about 14 years and when Dr. Harms was president. So I've seen a lot of the tax debate on both sides, both as a consumer and as a elected official. A lot of the things that I've heard today are people saying their tax burden is too high, it needs to be shifted somewhere else. Well, nobody is ever going to be completely happy with that simply because the way that we do things here, a lot of the things that the state of Nebraska does, are...they've used...the federal government is an example of how to do things. And in addition to that, we've got all these unfunded mandates forced upon us by the federal government which, basically, I understand, means we don't have a choice. It's a federal law but you guys are going to pay for it. And as far as I know, the largest portion of the state revenues does not go to education but to social services through unfunded mandates. I look back to the time when Lyndon Johnson started the Great Society and I say, he didn't do such a great job of creating a

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great society but he sure has cost the taxpayers a lot of money. I sympathize with the businesses, with the farmers, the ranchers. I know that when their valuation goes up, they have no say in the market of what they're going to get for their cattle. I know their inputs go up if they don't get the proper amount of rain. I understand that and I do sympathize with them. I agree with what Steve Erdman had to say. I thought he did an excellent job. What we need to do is reduce our own expenses. I drive...I drove down here in a van that I bought used a year and a half ago, it's got 140,000 miles on it. I've got another car sitting at home that's licensed, it's got over 150,000 on it. I've got one in the garage that was my uncle's, it's a 1995 Buick. I don't know how many miles are on it because the odometer has broken twice. And I don't have any new cars. [LR155]

SENATOR HADLEY: You have one minute left. [LR155]

PAUL LESEBERG: Okay. When my uncle passed away, he had no kids. He left me and four of my cousins--three cousins and my sister--a sizable estate. That estate paid more than the lady who...the first lady who talked about her ranching operation. It paid more than the 1,500-acre farm in Morrill County paid. And at the beginning of this year, there were eight states that had inheritance tax. Indiana repealed theirs retroactively to January 1, 2013. Tennessee's got an exemption of \$1.25 million this year, \$2 million next year. [LR155]

SENATOR HADLEY: I am sorry, sir. Your time is up now. [LR155]

PAUL LESEBERG: Okay. We're going to end up with six states. And in addition to Kiplinger saying Nebraska is one of the worst places to live, so does Forbes Magazine. It says it's one of the worst places to die. [LR155]

SENATOR HADLEY: Thank you. Okay. Okay, we're going to shift gears now and talk about sales tax. [LR155]

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TODD SORENSEN: (Exhibit 10) Hi. I left the green sheet in the box a while ago.  
[LR155]

SENATOR HADLEY: Okay. [LR155]

TODD SORENSEN: And I gave you transcripts of my testimony. My name is Todd Sorensen, last name is S-o-r-e-n-s-e-n, I'm the president and chief executive officer of Regional West Health Services which includes Regional West Medical Center and Regional West Physicians Clinic here in Scottsbluff. I'm mindful of the difficulties you face as you evaluate our state's tax structure. And I appreciate the opportunity to offer my thoughts for your consideration. I also thank you for making the trip to Scottsbluff and maybe discovering that it is almost as far from east to west as it is from west to east. (Laughter) I understand that LB405, if adopted, would institute sales and use tax collections for hospitals and other providers for healthcare in our state. I did not see in the bill that services provided to those patients covered by Medicare or Medicaid would be exempted from this provision. It's also not clear whether the proposed sales taxes would be applied to gross charges or to net charges which is the remainder after reducing gross charges by contractual allowances, charity care, and bad debt. So the calculations I've included below will consider each of these scenarios. At Regional West Medical Center, approximately 60 percent of our gross revenue and 40 percent of our net revenue derives from provision of services to Medicare and Medicaid beneficiaries. Payment for these services are established by federal and state governments, respectively, and are not subject to change through a process of negotiation. We currently provide services to patients covered by these programs at a financial loss to our system. Approximately 25 percent of our gross revenue derives from provision of services to commercial payers, including Blue Cross and Blue Shield, with whom we have contracts that specify payment amounts. Of the remaining 15 percent, eight percent is self-pay and the balance comes from workers' compensation, liability claims, and other sources. Charity care is included in all the numbers since many patients have self-pay balances that may be eligible for reduction or forgiveness under our financial

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assistance policies. So the sales tax on gross charges, if a 7 percent sales tax is levied--and we have gross charges in 2012 estimated at \$500 million--would be \$35 million. Excluding Medicare and Medicaid, that amount is \$200 million for a tax liability of \$14 million. If the tax computation is made on net charges, our net charges for 2012 were an estimated \$250 million or about half of the gross charges, which would result in a tax liability on charges of \$17.5 million. For net charges, excluding Medicare and Medicaid, of \$150 million, the tax liability would be \$10.5 million. Nationwide, the average hospital net margin for 2012 was approximately 3 percent. Regional West's system margin was substantially lower than this amount. The impact, then, of a 7 percent sales tax on net margin would be to drive the average hospital from a 3 percent positive margin to a 4 percent negative margin with limited or no ability to recover these costs due to current contracts and to relationships with Medicare and Medicaid. The least costly scenario, that is, tax calculated on net revenue excluding Medicare and Medicaid, would have resulted in a reduction in our financial performance or net margin of 4.2 percentage points. The addition of such unrecoverable costs on our hospital would result in a clearly unsustainable trajectory. If the sales tax is considered a noncovered charge by insurance companies, we would be expected to turn to patients for tax payment. We would expect that this process would have the impact of causing patients to seek care in surrounding communities in other states--more border bleed--where such a charge would not be levied, which would accelerate our financial decline. So thank you for the opportunity to present our thoughts on this matter. I hope you find these comments of some value as your committee and the Legislature evaluate these proposals. [LR155]

SENATOR HADLEY: Thank you, Mr. Sorensen. Are there questions? Seeing none, thank you. [LR155]

TODD SORENSEN: Okay. [LR155]

SENATOR HADLEY: Just a comment: If you wish to testify, we've got three or four

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seats up here, if you would please move up to the front so we'll try to do this as fairly as we can. So if you want...if you plan on testifying, please come up to the front row. Okay. [LR155]

JASON HOULT: Hello. My name is Jason, J-a-s-o-n, Hoult, H-o-u-l-t, here representing both 21st Century Equipment and the Iowa-Nebraska Equipment Dealers Association, specifically talking about the sales tax exemption for repair parts on agricultural equipment. The main premise...and all of you have a briefing from the Iowa-Nebraska Equipment Association that I'm going to reference in here as well. We talked during the income tax and the property tax that we would need to be revenue neutral. Well, this is one area that, according to the Goss Study, that allowing the exemption to the repair parts is actually a net gain after 7 years, for a total gain of \$115 million over 20 years. So, in essence, we do have a win/win here. We've reduced taxes, we've created jobs, and we've increased revenues. That's on page 35 of that package. So as an equipment dealer, why does this affect us so heavily? Well, this is not just a minor addendum to a sales tax exemption. Our whole goods margin if, say, they're X, parts have 10 times that margin and our service work has a 25-times margin to what we make on the equipment when we sell it to begin with. 21st Century Equipment has locations in Nebraska, Wyoming, South Dakota, and Colorado, so we see this parts drain across the state's borders when we look at the P and Ls for each of our stores. We have stores competing in Sidney and Sterling, Ogallala and Imperial versus Holyoke and Wray, so we see this day in and day out. Our employees move between stores to match the revenues of those stores. We've seen our customers ship parts rather than come to the store to pick them up. Rather than have our service technicians put them on, they have their local shade-tree mechanic install them rather than our equipment technicians. This also eliminates a trip into town. And we know when they come to pick up parts, that's usually not the only thing they do when they come to visit our small towns. Parts installed by our shops also multiply the local revenue because the service, as I mentioned earlier, is a much bigger margin than what we have just even on the parts and definitely on the whole goods. When we sell whole goods, we pretty much just change the name on the

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check and send it to Moline and none of it really stays in the local market. We also have same-day courier service within this two-state area between Nebraska and Colorado. So this allows a farmer to call up at his store in Colorado, have the part transferred from Nebraska, and it will be sitting in the Colorado store the same day. This allows them to move those parts business where they do get the tax exemption. And then, as mentioned earlier, consumption of parts are actually to produce the agricultural output, the corn. I joke, as a John Deere dealer, we would be out of business if somebody figured out a way to grow corn without driving a tractor. That's what all of this is used for. As an example of that, we run an air seeder and planter refurbishment program in our Colorado stores where we go on-site and we replace all the wear items and do an inspection on that piece of equipment before it goes back to the field. This is a very profitable service, as we talked about, because it's entirely parts and it's entirely labor. This is not something that we've been able to get started in our Nebraska stores. We recently added an additional technician and bought a \$100,000 service truck for our Colorado location to support this service that we've been unable to get established in our Nebraska locations. We've also seen, as mentioned in the report, pyramid taxations. We're seeing some of our larger customers becoming dealers. They have specialized equipment. One example, where he has his for his specialized equipment, he buys his equipment direct. And it's a very parts-intensive equipment, it's a lot of wear items onto there. So he is able to get those parts direct, not pay a sales tax on them, and then put them right into his operation for that. Other than a few large brands like John Deere, dealer agreements are not very hard to obtain. This will become easier as their own purchases are large enough to justify the expenses of becoming a dealer for that operation. So we'll see that, then, as some people have an advantage as they get larger because they're not paying sales taxes. [LR155]

SENATOR HADLEY: You have about one minute left. [LR155]

JASON HOULT: One major thing as well is, we're a major employer in many of the towns we operate in. So these are the jobs that keep our kids from moving away,

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coming back from their college, reversing the population drain that we're seeing in western Nebraska. We were out there this week recruiting at UNL and K-State and CSU to bring jobs back into our towns. So supporting the job creation within the Nebraska cities brings our kids back home as well. Thank you. [LR155]

SENATOR HADLEY: Thank you. [LR155]

JASON HOULT: Yes, sir. [LR155]

SENATOR HADLEY: Senator Schumacher. [LR155]

SENATOR SCHUMACHER: One brief question. This morning I was reading through some of the material on the ag parts debate. And one of the statutes, the regulations refers to a rebate for depreciable parts. Are you familiar at all with that? [LR155]

JASON HOULT: I am not, sir, but I'd be happy to research that for you, if you'd like. [LR155]

SENATOR SCHUMACHER: Okay. Thank you. [LR155]

JASON HOULT: Okay. [LR155]

SENATOR HADLEY: Senator Pirsch. [LR155]

SENATOR PIRSCH: Is the most damaging part of the...as per your testimony, is that...with respect to, then, the customers going out of state or making other arrangements to purchase that or is it a little bit more? They go out of state, they buy repair parts there, but then they establish strong relationships with dealerships out of state and, when they go to purchase new equipment, then purchase large expenditures out of state. [LR155]

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JASON HOULT: Yes. That is a very big aspect for other dealers within the Iowa-Nebraska Dealers Association. Specifically, with my testimony, since we have both stores in Colorado and Nebraska, they're still doing business with 21st Century except that business is being done in Colorado rather than our Nebraska stores. But for stores...for equipment dealers that don't have that opportunity, that's exactly what's going to be happening. They would be establishing a relationship with an out-of-state dealer. [LR155]

SENATOR HADLEY: Mr. Houlton, one of the things is--and I sat on the committee for five years and heard this--is that we expect significant businesses in Nebraska, when they fill out their income tax form, to put down the use tax on items that they've bought out of state and brought in the state to use. We expect Union Pacific to do that. We expect Goodyear to do that. We expect Burlington Northern to do that. We expect Cabela's to do that. We expect all those businesses to do that. Why are not farmers doing that? That's a legal requirement in the state of Nebraska that if you buy a repair part in another state and bring that part into the state of Nebraska and use it, you are to put it on your income tax and pay sales tax on it. So why do we say that agriculture is different, that they don't have to put it on the tax return and pay a use tax on it and we expect other businesses to? [LR155]

JASON HOULT: Well, I can't speak for my customers. But I do know this is a very hot topic on sales taxes, as well, with Amazon.com and several other places as well. So it's not a unique attribute that's just for ag parts, their usage. But some of our customers, it is very hard to determine whether...if you used it in both states, which one do you pay the sales tax to? So I can't answer that directly. [LR155]

SENATOR HADLEY: Okay. Okay, any other questions? Seeing none, thank you. [LR155]

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JASON HOULT: Thank you. [LR155]

SENATOR HADLEY: Next. Senator. [LR155]

LORAN SCHMIT: (Exhibit 11) Chairman Hadley and members of the Tax Modernization Committee, my name is Loran Schmit, L-o-r-a-n S-c-h-m-i-t. I'm testifying today on behalf of the Association of Nebraska Ethanol Producers. Members of the association do not feel that there is a specific problem with the Nebraska tax system at the state level. Our members feel very strongly that the state is best served by a combination of the sales and income taxes. This does not mean that minor adjustments should not or maybe may have to be made. We do object to a major change in the sales tax which would place a sales tax on energy used by agriculture and manufacturing. The Nebraska ethanol industry was built under the present tax structure which exists today. If we were to make a major change in that system, it would have a very adverse impact upon a new industry which has been a major factor in contributing to an economy boom in this state. Dr. Kenneth Lemke is an economist with the Nebraska Public Power District. Dr. Lemke has studied the ethanol industry in Nebraska for many years and has conducted economic projections for prospective ethanol projects and has studied the real effects of the ethanol industry on Nebraska's economy. The latest study focuses on the cumulative economic and employment impact on Nebraska. According to Dr. Lemke, Nebraska's 24 ethanol plants produced nearly 2 billion gallons of ethanol back in 2010. This created a total economic impact of more than \$3.5 billion. The ethanol industry directly created over 1,300 jobs in Nebraska. When accounting for indirect economic impacts, ethanol production has created nearly 3,000 full-time jobs in Nebraska. Tax revenue generated by ethanol production and related industries tops \$30 million. Retail sales of ethanol continue to increase each year and ethanol has substantially improved grain prices for Nebraska farmers. I would like to cite a fact before the passage of LB536 in 2001. Corn was selling below \$2 a bushel in Nebraska and gasoline was below \$2 a gallon. We have now taken the 1.5 billion bushels of corn which we normally raise in Nebraska, which used to generate maybe \$3 billion worth of

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income, and raised that to \$10 billion. We have talked a lot here about having to...if we take the tax off one area, we have to add it somewhere else. The ethanol industry has increased the value in a real value-added structure of our production here in Nebraska. And we now have the money to buy a \$600,000 combine from the gentleman that preceded me or a \$30,000 low-price automobile which other people sell. We did not have that until we created the demand for corn which we have the capability of producing this year. It's accurate to say that the establishment of the ethanol industry was encouraged by the pro-business Nebraska Legislature. It is also fair to say that if a business moves to a state where it is invited, it remains where it is well treated. We hope the committee agrees that it would be a mistake to impose sales taxes on energy consumed by manufacturing and agriculture. I'd like to point out...and I keep a copy of the 1967 sales tax bill on my desk. And that bill does not contain many of the exemptions that are available today. Those exemptions were not adopted willy-nilly by the Nebraska Legislature. Every exemption was fought hard and there was a lot of blood left on the floor every time the Legislature adopts an exemption. There was a specific purpose for each and every exemption. And I think that the committee will find out as you travel the state, you will find that the support for those exemptions will continue strong yet today. We talk a lot about, as some folks just mentioned, we should cut down the cost of state government. I have to just make this comment: About a month ago, a gentleman was found guilty of stealing \$90 worth of coinage from a laundry in Nebraska. He was on probation for having committed a similar offense. Our court system sentenced him to 10 to 30 years for stealing \$90. That gentleman is going to spend 10 years, minimum, maybe 30 or less, at a cost of \$0.5 million for the state of Nebraska. We're being pressured now to look at maybe we need to build a new prison system because we're overcrowded. We need one here. Looking at this sort of thing, you have to recognize there are some really serious problems in this state. And if we could get our judicial system and our correction system to take a look at those things, we can make some major changes. I'll be glad to answer any questions and thank you very much. [LR155]

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SENATOR HADLEY: Thank you, Senator Schmit. Are there questions? Thank you, Senator Schmit. [LR155]

LORAN SCHMIT: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

WENDALL GASTON: We'll tag team this. [LR155]

SENATOR HADLEY: Okay. [LR155]

WENDALL GASTON: My name is Wendall Gaston, W-e-n-d-a-l-l G-a-s-t-o-n, I'm mayor of Sidney. And if we knew bringing all these senators out to Scottsbluff would produce this rain, we'll ask you to come back next June. (Laughter) I have three points to make and then I'll turn it over to Gary. First, Senator Harr, welcome to the, what you'd call, property tax creep or equity creep. I think that's occurred in everybody and I think it's somebody's opinion that causes that. If you would keep your house for 25 years and have a mortgage of 5 percent or less, you pay more on your property tax every year than you would your house payment. Second of all, in 1980, the city of Sidney passed a sales tax. We projected that to offset property taxes and it has done a very good job. But as of today, if just we took the exemptions away from the amount of property tax...we could drop our property tax just by eliminating the exemptions that we had in 1980. If we just went back to what we had in 1980, our property tax request would be virtually zero for the city of Sidney. So that shows you a little bit about where we could be and what's occurred with the property tax in that particular item. The third thing I ask is, please, when you set formulas, such as the formula state aid to cities, state aid to schools, I think senators ought to demand that it be a formula you can understand and that any common, everyday person can figure it out. I think it ought to be a requirement of your body to say, make it...because I have yet to be able to figure out either one of those formulas and come out with a total. You have to ask some state official. And

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usually there's one or two people at the state level that can figure out that formula. I think you ought to require that to be some kind of formula everybody can understand. With that, I'll turn it to Gary. [LR155]

SENATOR HADLEY: Okay. [LR155]

GARY PERSON: (Exhibit 12) Okay. All right. Gary Person, P-e-r-s-o-n, I'm the city manager for the city of Sidney. And I'm speaking as a manager while I'm here. Some of you have heard my platform before. Most of it, I'm going to provide in written testimony so we don't take more of your valuable time. But I want to make some very quick points. And I have some charts in here that are very interesting as well. In the 14 years I've been a city manager, I've kept track of all of the information in regards to the issues I'm going to bring up, so the charts reflect that. Three primary issues and then just one conclusion. Local sales tax refunds to pay for state incentive programs: This has created kind of major heartburn with our budgeting process. We all understand why incentives exist. And we do our part as a local community. We go out there and work hard, we provide incentives, we want things to happen. We're glad the state is a great partner in that. Our point is, state incentives ought to be paid for by the state of Nebraska just as local incentives are paid by the local citizens in initiatives that they adopt. We've lost \$5.2 million to tax exemptions. So I'm just talking about economic, job-creation incentives. We've been very aggressive as a small western Nebraska community but we're being penalized for that. And we're being penalized for success, we're being penalized for creating Nebraska's economy. If this was a local problem we could care of, we'd do it, just like we did our water problem, our wastewater problem, our landfill problem, everything. Our community has pulled itself up by the bootstraps and went out and worked hard and we made it work. But we bring issues to you because you're the only folks that can fix this for us. That's point number one. There's an administrative surcharge of 3 percent on our local sales tax that goes to fund the state Municipal Equalization Fund. If it's the state's Equalization Fund, then the state ought to pay for it. Don't expect Sidney, Nebraska, to subsidize Hastings, Lexington,

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South Sioux City, Grand Island, Beatrice, Fremont, McCook, North Platte, Bellevue, and I could go on and on. I mean, if you saw the list of those communities, you'd say, who has more resources, those communities or this little western Nebraska community out west? We're going to pay \$120,000 out of our local sales tax this year to pay for that surcharge that goes there. And it's supposed to be a state Municipal Equalization Fund, not an additional tax on a local community to pay for it. The Municipal Equalization Fund, itself, is very, very flawed. We get zero. Not only do we get \$120,000 taken away from us up front, but our...what we get back is absolutely zero. For other first-class communities, one of them gets over \$1 million a year. One community, which was asked to help write the last formula when it was tweaked, gets \$950,000. We get nothing, absolutely nothing. And when it was tweaked, even found a way to get Scottsbluff, York, Norfolk, and Kearney money, but Sidney still gets zero. There's something terribly, terribly wrong with that when you punish success over and over again. Final point I want to make is, I think it would behoove all of us as Nebraska's...in Nebraska if all of our political subdivisions were on the same fiscal year. The state has a different one, the counties have a different one, the municipalities and schools have a different one. It just creates absolute chaos. I appreciate very much the fact that we worked with you and you gave us now a year's notice on all the refunds that we're going to lose instead of one-month notice. And it took us ten years to get the one-month notice. We used to didn't get any. And so we'll get that one-year notice. But you run on a calendar year, we run on a fiscal year. It's still going to create a problem for us to try to figure out how we budget for that. So those are my major points. I have all the charts and the argument points right there. [LR155]

SENATOR HADLEY: Okay. Questions? Senator Nordquist. [LR155]

SENATOR NORDQUIST: Thank you, Mr. Chairman. This will be for either of you. When the Legislature took an action, a couple of years ago, to eliminate state aid to cities and counties, we did see some of those local subdivisions increase their property tax levy the following the year. What actions did Sidney have to take to make up for that loss?

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[LR155]

WENDALL GASTON: Well, we kind of went from zero to zero. We were getting very little. [LR155]

GARY PERSON: We weren't getting any. [LR155]

WENDALL GASTON: And we went from very little to none. So the impact it had on what we were doing with the property tax had...it really didn't affect...it didn't...I would say it made it go up because it didn't make it go down because we went from zero to zero. [LR155]

GARY PERSON: And all those communities that I mentioned, most of them have a lower property tax levy than we do because we're penalized for our success. They're rewarded out of our dollars and they can use it to help lower their levies when it should be just the opposite. You ought to be rewarding performance. We preach to the local electorate, if we can build our economy, then we spread the tax base and we can reduce the property tax levy. We can't do it with all those penalties for being successful. If we didn't have to pay the state refunds and we got treated as an equal partner in the Municipal Equalization aid, we would virtually wipe out our General Fund property tax. And then that's not even counting what the mayor brought up in the exemptions that were around...that weren't around in 1980 that are around today. [LR155]

WENDALL GASTON: We could play the formula a little bit if we could read it or understand it in any way. We would be very successful because we've been successful at finding other things. We'd be successful at that, too, but I can't figure it out. [LR155]

SENATOR HADLEY: Any other questions? Thank you. [LR155]

WENDALL GASTON: Thank you. [LR155]

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SENATOR HADLEY: Next. [LR155]

WENDALL GASTON: See you next June. (Laughter) [LR155]

TIM HRUBY: My name is Tim Hruby, and that's H-r-u-b-y, Hruby. I'm a District 8 representative for the Young Farmers and Ranchers Committee which is this area out here. And I guess, mainly, I'm here representing myself, my wife, and my three little kids, as well as any other young producers. And, honestly, I wasn't going to testify; but nobody has told my story yet, so I guess I will. A little background on myself, we bought a ranch two years ago, my wife and I did. We moved out west here. We were originally from central Nebraska, moved out here, bought a place of our own, have started a windmill service business of our own that I own and operate myself. We currently employ three...we have three part-time employees. But I'm going to hit just a little bit on the taxes, income tax as well...or sales tax as well as property tax. And this is just my personal take on it. We get hit pretty hard with the property tax. We have a ranch, you know, so we get hit pretty hard with the property tax. The problem that I see, being a young person and trying to budget what we have, is with the property tax; we get hit with it, regardless. But if it were shifted a little more to a sales tax...and I know not everybody is going to like this. But if it was a higher sales tax...you talk about offsetting. So say, if that money come from a sales tax instead of a property tax, if I don't have the money to spend, then I don't spend it; where the property tax, if I don't have the money to spend, I still got to spend it. And I don't know if that makes sense to anybody. [LR155]

SENATOR HADLEY: It does. [LR155]

TIM HRUBY: But that's the way I look at it from my own personal perspective. If we can't afford a new car or new stuff, we just don't, you know. And maybe that's a bad thing but for us, you know, that's just kind of the way it is. I guess that's just all I really have. [LR155]

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SENATOR HADLEY: Well, thank you for coming up. Yes, Senator Hansen. [LR155]

SENATOR HANSEN: Thank you. Just one quick question. Would you mind a sales tax on your service, your windmill service that you have? [LR155]

TIM HRUBY: There already is. I'm not exempt. [LR155]

SENATOR HANSEN: You're not? [LR155]

TIM HRUBY: Everything I sell to farmers and ranchers...I sell pumps and motors and work on windmill stuff. Every producer out here--and a bunch of my clients are behind me--they pay for that. They're...those parts are not exempt. [LR155]

SENATOR HANSEN: But the service, the labor? [LR155]

TIM HRUBY: Actually, I believe the labor is taxed as well. [LR155]

SENATOR HANSEN: Labor is? Okay. I write those checks but I guess I didn't check on that one. [LR155]

TIM HRUBY: Well, and if it's not, then I'm doing an injustice to them guys because I'm charging it. [LR155]

SENATOR HADLEY: I'm sure they'll let you know, right? (Laughter) [LR155]

TIM HRUBY: Anyhow, I'd probably be run out of here, you know. But I guess that's...and I don't know. I've had people tell us it's a ranch service so maybe we shouldn't be taxed. But we are. We pay disability, unemployment, I don't know, there's a bunch of other...you guys probably know these taxes better than me. But a lot of farmers and

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ranchers don't have to pay their employees unemployment or disability. But out of my business, it's a service, so I pay those taxes. And from the perspective of somebody that owns a business, and I have that perspective of being a farmer and rancher, I would rather pay that tax than the property tax because if I don't do this work or if I don't spend this money, then I don't have to pay that tax. If I can't afford to, then I just don't buy the new stuff, where the property tax, I'm paying it. If we have a drought, I'm paying it. If I have nothing to produce, I'm paying it. Where on the sales tax side...and like I said, that might not be popular with a lot of the people but that's the way I look at it from our perspective. [LR155]

SENATOR HADLEY: Thank you, Tim. Any other questions? We wish you well and we hope in five or ten years, you're back complaining that you're paying so much in tax. [LR155]

TIM HRUBY: That would be a good problem. Thanks. [LR155]

SENATOR HADLEY: Next. Please come up and sit in the front rows if you want to testify. [LR155]

DARWIN SKELTON: (Exhibit 13) Good afternoon. My name is Darwin Skelton, D-a-r-w-i-n S-k-e-l-t-o-n, I'm the airport director for Western Nebraska Regional Airport here in Scottsbluff. Nebraska state Statute, Section 77-2704.03, exempts sales taxes on aircraft fuel. LB405, as proposed, would repeal that statute and make other changes to the Nebraska state law which would allow the taxation of aviation fuel. However, under federal law, 49 U.S.C., Section 47107(b) and 47133, for those airports that have accepted FAA airport development grants--such as Western Nebraska Regional Airport--state taxes on aviation fuel are considered to be airport revenue. And using such tax revenue for non-airport purposes is prohibited. The United States Department of Transportation Federal Aviation Administration has stated as follows: Any action by the state legislature to impose a sales tax on aviation fuel sold on an airport and to use

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the proceeds derived from the tax to support non-aviation activities would be inconsistent with federal law. Monies from such a tax would have to be spent to either support (1) the capital or operating costs of the airport and local airport system, or other local facilities owned by airport or operated by the airport owner or operator and directly, substantially related to the air transportation of passengers or property, or (2) a state aviation program for a noise mitigation purpose. Accordingly, enactment for the legislation to permit general use of the proceeds from the aviation fuel tax could jeopardize continued federal funding for airport and noise abatement projects at federally assisted airports throughout the state of Nebraska. Therefore, in formulating proposed legislation in the future, I strongly urge you not to repeal Nebraska's state statute 77-2704.03. I also urge you not to impose any sales tax on aviation fuel. Doing so could result in losses of millions of dollars for airport improvement projects which airports receive yearly across the state. [LR155]

SENATOR HADLEY: Are there any questions? [LR155]

DARWIN SKELTON: And I left copies of all that here for you. [LR155]

SENATOR HADLEY: Thank you, sir. I appreciate it. [LR155]

DARWIN SKELTON: Okay. Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

QUEEDA BALDWIN: Hello. My name is Queeda, Q-u-e-e-d-a, Baldwin, B-a-l-d-w-i-n, I live in, and we ranch in, Sioux County. We have four children and my husband and I and his parents are in ranching operation together. We moved here to Nebraska 17 years ago. And one of the things that was most surprising to us after we moved here was the taxing situation in Nebraska as compared to where we'd moved from, Colorado. One of the things that I've learned over the last 17 years is--well, over the last little

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while, while I've been studying this, because I think I started studying it about the time you guys formulated this tax committee--is that the way the tax structure in Nebraska is made up of the three legs to the stool. And the part that is really obvious, which has already been hit on, is how much property tax is taking in comparison to the other two sides. And I feel that we need to work on trying to get them more back closer to 33 percent on all three legs so that it's a stool that sits more squarely than it does right now. Earlier, we heard from Steve Erdman. And I have to agree with everything he had to say. That was very well-thought-out testimony. And so...you said, too, if you agree with someone, say that. So I won't repeat that. Now since we're talking about sales tax and, you know, I'm concerned about property tax, I'm also concerned about the sales tax in Nebraska. And I want to tell you how I feel about that. I support a sales tax on final consumer purchases of goods and services, including food. No one has talked on that one, that issue. But I believe that any new income that's generated from sales tax, if we do some changes in the sales tax, needs to go to property tax relief because it is the one leg that is paying the higher portion right now. I oppose any sales taxes placed on business-to-business purchases of goods and services used as inputs in the production process. As such, I strongly oppose the repeal of existing sales tax exemptions for inputs used in agriculture and manufacturing processes and for the sales of commodities produced and consumed by agriculture and manufacturing. I support the establishment of a system of taxation on Internet sales so that sales tax income can be preserved for the state in which the buyer resides. Purchase of biofuels should be exempt from sales tax when used as an energy source in processing, manufacturing, or refining. And when we also talked about...when I looked at your talking points, I agree with your sales tax issue number three on taxing consumer goods. That's where I think we need to concentrate a lot of effort. And I realize that it's not an area that may produce tremendous amounts of revenue. But I'm going to tell you, if I go get my hair cut, I think I should be paying sales tax on that. If my car is getting fixed, I should be...and it's my personal vehicle, I should be paying sales tax on that. If it's a business, if my truck is getting fixed and it's the ranch truck, if I filled out all the paperwork that allows me to be exempt from that, I should be allowed for that way because it's an input

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cost to my business. And it's a difference than my just personal expenses. And I believe that we should be taxing personal...our personal services. One last thought that nobody has touched on is, there's one group of property owners in this state that don't pay any tax. And that is the severed mineral interest owner. And where a severed mineral interest owner comes into place is when they are...the mineral rights are severed at the point...with a...either when you sell a property, the seller keeps those severed minerals. And I'm not talking about a severance tax issue where you are paying a tax on the production of those minerals. I'm talking about a severed tax. And that's something that is very apparent out here in the western part of the state. I think it's something you guys need to look into. There are tax...it's available right now. But you will have to rely on the surface property owner to go to the assessor and ask for those taxes to be severed. And I can tell you right now, in Sioux County, when I talked to the assessor's office this morning, there is not one severed tax mineral owner in Sioux County that is being taxed. And these may be people who live in New York State who have just, over the last five years, leased their mineral rights to a developer to see if they explore...it's for the exploration of oil. So they've benefited from it. The income there has been reported in New York but Nebraska hasn't seen anything in that area. And I think that's an area we need to look at. Right now, like I said, the burden is on the surface property owner. The only...but the problem is, is... [LR155]

SENATOR HADLEY: I think...I think... [LR155]

QUEEDA BALDWIN: Okay. [LR155]

SENATOR HADLEY: We've used the time, so. []

QUEEDA BALDWIN: Okay. Yep, that's fine. [LR155]

SENATOR HADLEY: Are there questions? [LR155]

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QUEEDA BALDWIN: Do you have any questions? [LR155]

SENATOR HADLEY: Thank you, Ms. Baldwin. [LR155]

QUEEDA BALDWIN: Okay. [LR155]

SENATOR HADLEY: We appreciate you coming in. [LR155]

QUEEDA BALDWIN: Uh-huh. [LR155]

MIKE MEISTER: My name is Mike Meister, Meister is M-e-i-s-t-e-r. I want to shift gears a little bit. I know we're talking about being revenue neutral and taxes. And I don't want to talk about taxes. I want to talk about increasing revenues so, then, you can offset taxes. And I think there's two ways that we can look at that almost immediately. One of those is in what this state invests in tourism. We are 45th in the country in what we invest in tourism. Now those of you from the eastern part of the state may not realize this. But those of us in the western part of the state truly understand our tax burden because we know every day when the coal trains come through from Wyoming, we're paying the Wyoming people's income tax. And we know that every time we go to the Black Hills, we're paying the South Dakotans' income tax. The difference is, South Dakota makes their tax money on tourism dollars. If you think that only applies to this part of the state, you're crazy. A few years ago the state decided to close a tourism facility at Bushnell. That meant, at that time, that the first state-sponsored tourism material that we would get if we were traveling eastbound was Ogallala. To put that into perspective, that means nobody would find out about the Henry Doorly Zoo if they crossed the Iowa border until they got to Grand Island. It's a untapped resource. It's the third-largest industry in the state. And I'll give you this to think about because most folks don't think about this when you say tourism. They think about state parks and they think about state historical places. Ask the city of Lincoln. All those Husker faithful that come to the town every Saturday for a game, folks, those are tourists. They don't live in

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Lincoln but they spend their money there. And if we started to put a little bit more investment in the tourism side of Nebraska, we would see...reap huge dividends. We could tie into the folks that travel from Colorado to the Black Hills. The second thing I'd like to talk about is infrastructure investment. The Bakken oil field in North Dakota has got so much trucking things going on, it's crazy. And yet the Heartland Expressway, which was first discussed in 1988, still languishes on the board. I agree with Mr. Erdman's frustration with the Department of Roads but for different reasons. Somewhere we have got to get things under control. We've got to get that built. If you go today and you drive up to Rapid City, South Dakota, you will see the economic development that is taking place all the way from the South Dakota border to Rapid City. It's growing. It's doing what it's supposed to do. We need to get the Heartland completed out here to help us out. All those folks traveling through then spend dollars. Again, it's a kind of a piece of the tourism thing. The final thing I'd suggest to you is, I think you should take a hard look at possibly entering a public/private relationship in terms of Game and Parks. Game and Parks right now, I think you all know it, one park in this state returns revenue to the fund, and that's Mahoney. In the state of Ohio, as an example, their game and parks returns a lot of revenue to the general fund because it's privately operated by a company named Xanterra. Xanterra also operates most of the federal parks. What they do is, they lease the land from the state, they maintain the land on a long-term lease, and they collect the taxes of people who use it and return that money to the state. There is no loss to the state, there's no determination in terms of employment. And rangers then take over a law enforcement position. You know, just recently the Star-Herald was lamenting the fact that we're seeing... [LR155]

SENATOR HADLEY: You have one minute left. [LR155]

MIKE MEISTER: ...our state fees--thank you--seeing our state fees raised but our services decrease because we're closing state historical sites like Fort Hartsuff and other places around the state that are just gems; they're treasures and we're not taking care of them. And we've got to figure out a way to do that. Are there any questions?

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[LR155]

SENATOR HADLEY: Questions? Yes, Senator Hansen. [LR155]

SENATOR HANSEN: One. Mr. Meister, so a tourist would be someone who's traveling to a town to find out something, if something exists or something encourages them, right? [LR155]

MIKE MEISTER: Well, there's various types of tourism, Senator. I mean, there's... [LR155]

SENATOR HANSEN: But what about Lincoln? [LR155]

MIKE MEISTER: Well, for instance, if I drive from Scottsbluff to Lincoln... [LR155]

SENATOR HANSEN: You've driven a long ways. [LR155]

MAKE MEISTER: I've driven a long ways. But I'm spending my money in Lincoln restaurants. [LR155]

SENATOR HANSEN: Right. [LR155]

MIKE MEISTER: I'm getting a Lincoln hotel. I'm probably getting gas in North Platte on the way. So I'm paying those dollars as I'm traveling in terms of sales tax or hotel taxes or whatever else those taxes may be. But if I encourage people to do the same thing...as an example, everybody probably from southern California to northern Washington has some tie to this very area because their ancestors traveled the Oregon Trail. And you know, we've done tremendous things out here to develop the Chimney Rock visitor center and some other things. So I mean, there's ways to market that would bring outside dollars in and increase that spending which, in turn, increases sales tax

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and everything else. [LR155]

SENATOR HANSEN: And Lincoln has some built-in things where they can attract people. [LR155]

MIKE MEISTER: Right. [LR155]

SENATOR HANSEN: I have this ticket that I spent two weeks ago looking for a defense on the Huskers and I couldn't find it. (Laughter) [LR155]

MIKE MEISTER: I think we've all felt that frustration, Senator. [LR155]

SENATOR HADLEY: Thank you, Mr...any other questions? Yes, Senator Harms. [LR155]

SENATOR HARMS: One thing, Mike, I would tell you that Senator LeRoy Loudon, when he was with us, introduced legislation to begin to address the issue of tourism. We moved the Department of Tourism out from the Department of Economic Development, made it independent. This past year we budgeted a little more money in that particular area. I think in the long term, you will find that we are on course now to do just what you're talking about. We have to...for those of us who could really benefit from tourism--which we could out here, we have a lot of history, as you know--you'll eventually be able to see that. At least we're moving in that direction. [LR155]

MIKE MEISTER: And that's a good thing. [LR155]

SENATOR HADLEY: Okay. Thank you. [LR155]

MIKE MEISTER: Thank you very much. [LR155]

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SENATOR HADLEY: We'll have one more. All right. Is there any other property...sales tax? Thank you for coming, sir. [LR155]

JEFF NICHOLS: Hello. I am Jeff Nichols, N-i-c-h-o-l-s. I am a farmer in northeast Scotts Bluff County. I had a novel idea is, the school portion of the property tax is such a burden. And if we take and shift the school property tax of the school part of the property tax into sales tax and fund the schools stately through the state aid and restructure the state aid formula, reducing property tax that way, it would even out the cost of the schools across the whole populace instead of concentrating it so much on the property owners. It may take a 2.5 percent to 3 percent increase in the sales tax to do this at the current cost of the school districts. But it would be evenly spent across the state to educate the students. This would greatly reduce the property tax. And for manufacturing, agriculture, and other businesses like this, the reduction in property tax would greatly benefit those industries and we'd have economic growth because of it. They would be more willing to replace equipment, build on, add on, because they can reduce that cost that is overhead every year no matter what. And by spreading it over an entire state populace in the sales tax and have the end users paying that cost, everybody shares in the cost of the education of the children. [LR155]

SENATOR HADLEY: Thank you. Questions? Seeing none, thank you. Were you on... [LR155]

JEFF NICHOLS: Sales tax. [LR155]

SENATOR HADLEY: ...sales tax? We'll have one more on sales tax. [LR155]

WYATT SURBER: My name is Wyatt Surber, that's W-y-a-t-t S-u-r-b-e-r. I am with Nebraska Transport, a common carrier here in Scottsbluff, Nebraska, and would like to speak about the sales tax exemption for common carriers, that I know that is one of the exemptions that is being talked about being possibly eliminated. Currently, it's out there

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at 29 states that do have some form of a common carrier exemption. And I guess, not only in the common carrier exemption, but in any other exemption that's being possibly put on the table for elimination, I would hope that we would look to see what other states are doing and especially our neighboring states. There are four states that border Nebraska currently that do have common carrier exemption as well. They are Iowa, Kansas, Missouri, and Wyoming. Not that it seems like it's a big item and stuff but, you know, the...part of that exemption is the repair parts for our vehicles. But the bigger item is actually the purchase of the vehicles themselves. You know, could we purchase those vehicles outside the state of Nebraska? Yes, we could. But we prefer to work with our local vendors here in Scottsbluff and, occasionally, other vendors within the state of Nebraska. But I guess, in terms of equality and stuff, just urge you to look at those exemptions and make sure that we're not putting our existing business at a competitive disadvantage to our neighboring states. [LR155]

SENATOR HADLEY: Thank you, Mr. Surber. Are there other questions? Thank you, appreciate your coming. [LR155]

WYATT SURBER: Thank you. [LR155]

SENATOR HADLEY: Okay, we'll now shift to income taxes, the last one. Are there people who would like to come up and talk about income tax? Again, come up and sit in the front row. [LR155]

JAMES McDERMOTT: (Exhibit 14) Senator Hadley, welcome to be here to Scotts Bluff County. I'm Jim McDermott, M-c-D-e-r-m-o-t-t. And especially Dr. Harms there--see, I always called him "Doctor" because I've known him as a doctor, president of the college, other than a senator, so...and I asked him one time, I said, how would you like me to address you? And he said, just call me John. Okay. I'm here today to deliver testimony in favor of having the Social Security tax removed, completely. As you're probably aware, Nebraska is one of five states that has full...taxes in full of the Social

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Security. Now some of the other states have a portion or they have all of it. And I feel that this is very unjust in here because all of the surrounding states do not have a tax on it. Missouri and Iowa were the latest two to come up in here to eliminate either a portion or all of it. And there's kind of an interesting story I heard the other day. They were up in the northeastern part of Nebraska. A gentleman moved over to South Dakota. And I was wondering, why did he move to South Dakota? It sure wasn't the weather. You know what it was? No taxes up there. No taxes, income tax in that part in there. And, you know, if we look at it here, most of the taxes were originated by some action in the Legislature. Right? They come up with this one here and then they vote on it and discuss it and all here. But if you did a little studying, which I did here, the tax on Social Security never did go through that process here in Nebraska. It was because of a change in the federal taxes in here. And, you know, this is something we should be looking at part in there. And in most states, you know, they are nowadays, they're trying to figure out some way to attract people. And what are we doing here? We're driving people from Nebraska when they retire. They retire, they go to the other states because they don't have to pay these taxes here on the Social Security in there. And, you know, when these people leave, you know, they're the people that's involved in here and they worked in the communities and all this stuff in here. They're taking all that away. And, you know, you say here that, you know, tax on Social Security is not a lot of money. But you and I know people who exist on income, I mean, Social Security as a sole income. It's awful hard. And you say \$20 or something like that. Well, \$20 to them, a tax, means an awful lot. And we could help those people in there by eliminating the tax on Social Security. You know, we shouldn't really have to do that. And you know, I was just also reading in here that there's a possibility in 2020 that we could lose a Congressional seat because people are moving out of the state. They're moving out of here. You know, why should they stay when they have to pay this tax in here? And also, you know, several people have mentioned this here today about the small communities. They rely upon this here because there's millions and millions of dollars paid in pensions and Social Security here that the people are leaving the state. So in these small communities here, first they lose a grocery store. They lose a bank. And pretty soon, they fold up. So I

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think there's something we need to do to revise this to not only keep the people in Nebraska but attract and bring people back in, the people that are leaving the state. Why can't we do something to bring those people back in here? Let's get this tax off here. Another thing I'd like to... [LR155]

SENATOR HADLEY: One minute left, sir. [LR155]

JAMES McDERMOTT: ...okay, being up here...in here...is that the railroad retirement in here. The railroad retirement, when these people get ready to figure their income tax, they take their tier 1 or tier 2, they subtract it from the adjusted gross, and they pay taxes on that. What do we do? We pay taxes on the whole nine yards. Is that fair? I don't believe it is. So I think what I'd like to have you people do here is to think about this in here to make it fair for the Social Security benefit people and the retired people to have the same equal (inaudible) here. And so let's exempt...now I know you can't exempt all of it here at one time. I know that because I talked to several senators before. But let's set something up gradually. We may have 20 percent this year, 30 percent next year, some way that we can get that tax off of it. And I'd appreciate it if you would look at that. And one other thing before I leave here. After we get this problem solved, let's think about the problem about the taxes on the pension plans that need to be taken. That's another thing that people are leaving the state there. Thank you very much. [LR155]

SENATOR HADLEY: Questions? Seeing none, thank you. Other people with questions on...comments on our income tax system. I thought I was driving everybody away there for a minute. (Laughter) [LR155]

ROBERT GIFFORD: I'm Robert Gifford, R-o-b-e-r-t G-i-f-f-o-r-d, I live out in rural Banner County. I am a commissioner out there. I wasn't going to speak to income tax, necessarily, but I was kind of waiting to make sure everybody was going to cover what needed covered. And I haven't done a lot of homework but when you look at what

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makes our state unattractive or attractive compared to neighboring states, it's a balancing act between property, sales tax, income tax. If we raise...if we want to do anything with property tax to lower it, we need to get rid of some of our responsibilities on the local level. Property tax is the way local people pay for what we need and what we want. We have no other options. Sales tax and income tax should be what we, as a state, pay for what we, as a state, need for our people. So I'm not against getting rid of some exemptions. I've heard some good arguments against not getting rid of some. And I'm not against raising income tax and I'm not against some of the exemptions that were raised earlier. But if we raise those, we need to have the state fund what is the state's responsibility for its people. And I...Steve Erdman made the comment about law enforcement and when people break state laws. Well, on a county level, that can amount to a lot of percentage of our property tax budget. When I first got on the county commission board, there was talk about the jail reimbursement. And the state was going to reimburse and then they quit. And then all of a sudden, I think, that's just totally disappeared. I haven't heard anything about it. But as a small county, we don't have a lot invested that way. But if we would have a major trial in the court system and go through that, we would be bankrupt as a county because we have not...so few assets and our money is spent elsewhere. So court system, jail systems, all of that could be a responsibility of the state because that's what is the responsibility of the people of the state. One other comment that was made was schools. I agree with the state aid formula with schools being broken. I was on a school board when that one got initiated. And I'm with the mayor of Sidney, it's...if anybody can figure it out, good luck. It needs to be simplified. The money needs to be sent back in a simplified manner or...so that locally we can deal with it; or it needs to be paid for by the state. Community colleges... [LR155]

SENATOR HADLEY: You have about a minute left. [LR155]

ROBERT GIFFORD: Okay. Thank you. Community colleges are more of a region. And that is one aspect that I see that all the dollars could be taken care of for community

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colleges through the state, funded through sales tax, income tax. And I guess I'll...with that, I'll end. []

SENATOR HADLEY: Thank you, Mr. Gifford. Are there questions? Thank you. We appreciate your coming in and we appreciate your service. Thank you. Are there other people who would like to speak on income tax? I'd like to make one comment. It's interesting. I've done this in a lot of other groups and you don't have to raise your hand, but can all of you come within \$200 of what your state income tax liability was last year? Not the amount that you got back or the amount you had to pay but what you actually paid the state over the entire year? A lot of people don't know that. But you ask them what their property taxes were and they could probably get it down to the penny, which tells us the interest that people have. Are there any other comments? I don't want to shut...a gentleman over here? Okay, we have time. [LR155]

BRUCE TROESTER: Yeah. I'd like to comment to property taxes. And I had to go to Target to make a major purchase for this so (inaudible). [LR155]

SENATOR HADLEY: Okay. We need a green sheet filled out. [LR155]

BRUCE TROESTER: Yes, it is. Yeah, my green sheet's there. Yeah. [LR155]

SENATOR HADLEY: It is, okay. Okay, and would you give us your name and... [LR155]

BRUCE TROESTER: My name is Bruce Troester, last name is spelled T-r-o-e-s-t-e-r, and I'd like to address property taxes. And I kind of got a visual aid here. I got some corn candy, if I can get it open without spilling it across the county, and we're going to represent a person in the city and a person in the country and there is their corn candy. It looks like some peanuts, too, but anyway...(Laughter) [LR155]

SENATOR HADLEY: So we've...so you're saying we've helped the city of Scottsbluff

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with this purchase, then. Is that what you're...is that the point you're trying to get across? Okay. [LR155]

BRUCE TROESTER: That's right. Yes, I did. And I did pay sales tax on it, so. All right. And in my county, especially, I mean, the property tax is the big issue. And the schools...we're basically funding schools. And we have two families here. You know, this one has three kids, this one has three kids. This one has a wife that bakes chocolate chip cookies, this one has a wife that bakes chocolate...you know, they're basically equal. Kids are in the same school. And...but this one lives in the country and this one lives in the city and this one pays on a house. And they come along and they say, well, your property valuation is this and this is what you owe in property taxes. And since this guy lives...his incomes are equal, okay? But since he has property in the country or anyway he owns a lot of property, he has to pay, let's say, four times more. Okay. Well, to your question of doubling--you know, your property doubled, mine doubled--yours, in the city, doubled, and so I had to pay...you had to pay twice as much. Okay. But now, instead of paying four, now I had to pay eight over here, so it doubled again. And pretty soon...you see, when it doubled, it didn't affect you. Your income is the same. Over here is, you know, my income is the same but, you know, it's not equal. Your kids are the same as my kids. My kids...you know, it's all equal except that what we're paying in. And you're dealing with a fairness issue and that's what I wanted, you know, to show you is it's a fairness issue. And on the one year...okay, you're out the...okay, if yours was \$2,000, mine was \$10,000--it's worse than that by a lot--but. [LR155]

SENATOR HARR: So are mine. [LR155]

BRUCE TROESTER: Yeah, yours is probably more than that too. But anyway, it just gravitates worse. And then after a while, you see, this pile keeps getting smaller and this pile gets smaller, too, but not as fast. And pretty soon, you also decreased his wealth. In other words, your wealth that you didn't pay in property taxes, you had left to

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buy mutual funds or to make a...you know, you still had that wealth for a 401(k), for retirement, for whatever you wanted to use it for. []

SENATOR HARR: Running for the Legislature. [LR155]

BRUCE TROESTER: Yeah, that. Well, you're not...that's your fault. [LR155]

SENATOR HADLEY: For a well? (Laughter) [LR155]

BRUCE TROESTER: But anyway, after a while you also decreased wealth. And so, you know, that's...and...because nobody ever accuses you guys of being too bright after...you know, you'll need a study to see why we don't have kids coming back to rural America. You taxed them off. The wealth went away. [LR155]

SENATOR HADLEY: You've got about a minute left, sir. [LR155]

BRUCE TROESTER: Man, I'm good, so. And I tried to bribe you with corn candy but I don't think it'd work anyway, so. [LR155]

SENATOR HADLEY: Okay. Thank you for your explanation. And you get to walk away with something for supper tonight, right? [LR155]

BRUCE TROESTER: Yeah. We'll try that. [LR155]

SENATOR HADLEY: Are there anyone else who would like to come up? Okay. [LR155]

JAN FITTS: Hello. I'm Jan Fitts, that's J-a-n, and the last name is F-i-t-t-s. I'm the executive director for Community Action Partnership of Western Nebraska. And I would like to just speak briefly about income taxes as they affect the low-income population. Our agency does a lot of work with people who live with low incomes and who are

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working very hard to make it. But it becomes very difficult when they experience a great deal of tax burden differently than the wealthy. And one of my concerns is that low-income families are already paying that higher percentage of their income in state and local taxes compared to the wealthiest Nebraskans. I know it's a difficult issue to deal with, the whole tax situation. But I think Nebraskans have spoken last session that they oppose the elimination of the income tax. And what I think is incumbent upon this committee to do is to work with each other to find a stable tax system that balances the burden between the income, property, and sales tax. I know with low-income people who have to pay sales tax, that is a difficult burden. But as you heard in testimony today, they have the options of purchasing things or not. And I think one of the things that needs to be addressed is how to equalize some of the tax burden. There are special interest tax loopholes that could be examined that could be, perhaps, eliminated that drain the resources from schools and communities that could support the burden better than those of the low-income. Questions? [LR155]

SENATOR HADLEY: Thank you, Ms. Fitts. Thank you. We appreciate your coming in and visiting with us today. Thank you. Next. [LR155]

GARY FISHER: I'll give it a try again. [LR155]

SENATOR HADLEY: Okay. Okay, come right in, sir. [LR155]

GARY FISHER: (Exhibit 15) I'm Gary Fisher, G-a-r-y F-i-s-h-e-r, from south of Crawford. I have served eight years as a county commissioner and stepped down voluntarily. I wasn't booted out. (Laughter) Anyway, I'm going to discuss the issue with property tax and, specific, the valuation system that Nebraska uses on arriving at the valuations that we use on ag land. I guess to make it very blunt and very simple, I think it's archaic, it's broken, it's being used for special purposes. And I think when you talk to the International Association of Assessing Officers--which is a guru of valuations--they do not recommend the market approach to valuing ag land. They recommend, basically,

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that we use the income approach. At least 43 other states now use the income approach on their figuring their ag land values. We keep talking about other states are doing it this way, they're doing it this way, we do this for income tax. Well, when we got 43 other states doing it with the income approach, I think that's a clear statement that we're behind someplace and I think it's high time we make that change. I've thought this started probably close to 20 years when some of us started fighting the valuation system in this state. One attorney told us, you might as well forget it because anytime you get one problem solved, the lobbyists are going to be there in front of the Legislature and doing an end run around you. So there's no use you spending a lot of money taking it to court. Well, we don't always do what we're told. (Laughter) I have in my handouts, I have a set of charts and stuff from the IAAO so you can study them at your own leisure. The majority of their earned income no longer is in the hands of the ag producer. However, they bear the majority of the burden of the property tax. My wife and I own a little ranch up in Dawes County, about 1,800 acres, which is average size in the county. And we had one son that would like to come back and we agreed...he agreed that there was no future for him to be coming back. He's in North Platte. He said, I can't afford to come any farther west than North Platte because everything drops off too significantly when I get west. He was looking at Ogallala and he said, I can't even afford to move to Ogallala. My gross farm income...I sold the cows when I become a county commissioner and we just take cattle in right now. I'm not going to use 2012 because we got burned up in 2012 so that's not a fair comparison. We burned 90 percent of the place. In 2012, our gross farm income was \$26,176. Our total farm expense without property tax was \$15,434. And property tax was \$8,498 out of that. What did I live on if I had a total profit of \$2,244? And I can answer that question on how much income tax I paid on that. I lived on \$700 worth of Social Security. Things was a little better in 2011. I...we had a gross income of \$38,450. Was no profit though. We spent \$16,431 and my property tax was \$8,803. We made \$13,000 that year, supposedly. But there was a little problem. We changed operations. We took in a guy's horses from Colorado. There was a loss involved in that because I haven't got all my money out of him. His horses are gone but his money just hasn't come back. And back

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to the valuation system. There's one example in Dawes County last year when the property tax decided that...in Dawes County, we got four market areas, one, two, three, and four. One being in the north which is the poorest producing; four being in the south which is the highest production ground. It's got water. The ground up north all has to have piped water. And the Property Tax Administrator, Ruth Sorensen, decided, when I compared Dawes County to Sioux County and Sheridan County, the grassland in market area one was too low. So we decided we were going to raise that one. And then she decided, you know, we raised it 15 percent--I believe it was--and to take the shock off of what's going to happen next year, let's raise it another 15 percent. Well, at that time, our county assessor got a little upset and said, no, we don't think we ought to do that. And then some of us decided we'd like to have a show cause hearing. So when the show cause hearing come about at the courthouse, the county assessor was there and there were some of us there. I did a study on all the sales in the two adjoining counties and our own. Well, when I started looking at the sales that she had decided to borrow because she said we didn't have enough sales in market area one, we had eight sales but we didn't have any in the last year so, therefore, we had to borrow some new sales. When she borrowed these new sales, I got to looking at them and I said, there's problems with these sales because Sheridan County has no market areas. But the sale we pulled in out of Sheridan County was timber ground. Well, we got timber ground in Dawes County but it's in market area three. Well, we're not talking about market area three, we're talking about market area one. [LR155]

SENATOR HADLEY: I'm going to have to have you kind of finish up, if you would.  
[LR155]

GARY FISHER: Okay. But to make a long story short then, when the TERC board heard the show cause hearing, they turned her down on the additional 15 percent because four of the sales she used out of four of the sales, I say, three of the four was illegal...was not good sales that should have been throwed out. And they was throwed out of the county rosters later on. But in the southern part of the county, she had no

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problem with three sales but the valuation in Dawes County was higher than the two adjoining counties so we didn't even want to look at that one. So we pick and choose what we want to raise value because grassland in the northern part was going to bring in more money easier than what the south end was. And it's not fair and equitable anymore. It's kind of like the state aid formula. I think...if it were to be taken to court, I think it would be found to be unconstitutional. [LR155]

SENATOR HADLEY: Thank you. We appreciate your input, Mr. Fisher. Are there questions? Thank you. Appreciate it. [LR155]

GARY FISHER: Thank you. Thanks for coming out. [LR155]

SENATOR HADLEY: We're happy to come out to Scottsbluff; beautiful drive out. Are there...anyone else? [LR155]

ALAN SOESTER: I'm Alan Soester, first name, A-l-a-n, last name, S-o-e-s-t-e-r, and I live in Dawes County east of Crawford. [LR155]

SENATOR HADLEY: And have you filled out a... [LR155]

ALAN SOESTER: Yes, it's here. They come and got it. [LR155]

SENATOR HADLEY: Okay. It's in there, okay. [LR155]

ALAN SOESTER: And I was going to testify on the property tax. I've been in business 40 years in Dawes County and it's a big burden to us today. And our grassland in area one in Dawes County, I pay about 30 percent of my income in property tax and that's like \$45-50 per calf on the 16-17 acres to run a cow/calf for the summer. I think it's just too much burden on us. We need to switch some of this to a sales tax, maybe tax some bonds or something. And an example of that is, I have to pay the property tax...like last

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year. We've had dry years here. Last year burned a lot of our place so we took most of our cows to Wyoming this year. And we had that whole expense. I still have to pay all the property tax. You know, if it was something else that I could control, wouldn't be such a burden, so. That's all I have. [LR155]

SENATOR HADLEY: Thank you. Questions? [LR155]

ALAN SOESTER: Thank you. [LR155]

SENATOR HADLEY: Thank you. I see no one else coming forward. Thank you so much for coming forward. As I said, we want to hear from the citizens what their concerns are and both plus and minuses. I think...oh, I'm sorry. [LR155]

KENNETH RAMSAY: Well, I was going to chicken out but Robin is chewing me out if I don't get up, so. [LR155]

SENATOR HADLEY: Okay. Okay. Robin will probably chew me out the next time I see her, but...the cattlemen, so. [LR155]

KENNETH RAMSAY: I apologize. I don't mean to waste any time. [LR155]

SENATOR HADLEY: I've sat at her table before, so I know. [LR155]

KENNETH RAMSAY: Yeah, I mean, that's a little scary. No, I'm just...Kenneth Ramsay, I go by "Chip." It's K-e-n-n-e-t-h R-a-m-s-a-y, Grant County. I'm here as a...I manage a ranch that's in four different counties in Grant, Garden, Sheridan, and Hooker Counties. And I work for a company that's got ranches across the nation. And what has already been testified here, property taxes are exorbitant compared to the other properties and what they produce and I have that data. I don't have it with me. But nevertheless, we're still ranching in Nebraska. I mean, that's a question that's got to be answered...it's...you

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know. So...but it is...and the testimonies before are correct, it's a big portion of our calf cost. I wanted to make a couple of points. Two questions I wanted to ask. Has anybody ever really dreamed and said, forget what we've got, what could we do? I mean, Nebraska is not such a big state and it's full of reasonable people that's been up here testifying. You know, what could we do? If we took all the lawyers out of the room, what could we do? (Laughter) You could leave one in there; it's only two that get you in trouble. I'm sure there's lawyers up here. One of you would be reasonable. If it's two, then we can't get anything done. So what if we ask that question? What do we need and what does it take to pay for it and how is a fair way to pay for it? Now I've got...let's say, I've got ten mobile homes that I've pulled together because my family grew over the years and I added one every time I had a...all right. Now, my kids are gone so things have changed. I've got to modernize things. What am I going to do? Am I going to pull the walls out of each one of those trailers and try to frame it up? What? No, I'm going to burn that crap down and I'm going to build me something that's right. Nebraska has a chance...and I know it's probably impossible. I know this is probably totally unreasonable. But why can't we dream? Why can't we make something that will be representative to the rest of the nation of how to do things? No other state has a better chance of doing that. No other state has as many reasonable, well-grounded people in it. Nobody else has a chance to do that like we do. The point about, if we lose...and I don't like losing local control. I don't want your money. I don't want the state aid, if that's what you call it, even though it came from out here. I thought that was a great point. In Grant County, it don't...Hyannis High School, it don't make a bit of difference whether they get anything from the state or not. And I love it that way. I'll pay all those property taxes to keep from having to...because I think, locally, we can get it done right here. I really appreciated what was said. Now, if we...and I'm about out of time, I'm betting.  
[LR155]

SENATOR HADLEY: Getting close. [LR155]

KENNETH RAMSAY: All right. So the point about it, if the money goes...if the money

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comes in, then that's where all the control ought to come from. So if I'm paying it, then I ought to have control. I have a problem in one of our counties where we pay a lot in and they take the services away and use it in that end of the county and they take our services away. So the control of what happens, the money ought to follow where the...you know, the control ought to follow the money because they're the ones paying the bill. I'm done. [LR155]

SENATOR HADLEY: Any questions? Very good. Thank you, Chip. [LR155]

KENNETH RAMSAY: I don't have any answers, so...(laughter). [LR155]

SENATOR HADLEY: Yeah. Okay. I appreciate your coming out. We are trying hard. We are trying to get input. We're spending a lot of time and effort on this. As I think has been said, it's not an easy issue, it's a complicated issue. Is...any members of the committee like to make a comment? With that, I will close this hearing. We appreciate your inviting us to Scottsbluff. [LR155]