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Tax Modernization Committee  
September 26, 2013

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[LR155]

The Committee on Tax Modernization met at 1:30 p.m. on September 26, 2013, at Northeast Community College, Norfolk, 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: Filibuster us and we can leave after about three hours. Thank you for showing up. I'll get my notes ready here and I think we're going to...the Chamber of Norfolk would like to do a little welcome, so I think we'll start...we'll let you start on that.

\_\_\_\_\_: I'll just speak loudly.

SENATOR HADLEY: Okay.

\_\_\_\_\_: Thank you, Senator. Hey, on behalf of the Norfolk Area Chamber of Commerce, the city of Norfolk, (inaudible) right here (recorder malfunction)...

SENATOR HADLEY: (Recorder malfunction)...Northeast Community College for hosting us today. It's great to see a big crowd. We had a chance, a number of us, to tour Nucor Steel this morning to get to see what a viable, great organization up in this area. So we appreciate that very much. We're going to start out with introductions and then try and get the ball moving. My name is Galen Hadley and I represent the 37th District and I'm Chair of the Revenue Committee and the Tax Modernization Committee. I'll have the other senators, starting at that end, if they would, introduce themselves and their district.

SENATOR PIRSCH: Great. Thank you, Chairman. I'm State Senator Pete Pirsch, from Legislative District 4, and that's in Douglas County.

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SENATOR HARR: And my name is Burke Harr and I am from Legislative District 8 in Douglas County as well.

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

SENATOR NORDQUIST: State Senator Jeremy Nordquist from District 7, downtown and south Omaha.

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

SENATOR SULLIVAN: I'm Kate Sullivan of Cedar Rapids, I represent District 41 which is a nine-county area in central Nebraska. I'm also Chairman of the Education Committee.

SENATOR SCHUMACHER: I'm Senator Paul Schumacher, District 22, Platte and parts of Colfax and Stanton County.

SENATOR HANSEN: I'm Tom Hansen from North Platte, I represent all of Lincoln County, District 42.

SENATOR CAMPBELL: I'm Kathy Campbell, state senator from District 25, which is east Lincoln and eastern Lancaster County. And I'm glad to be home. This is my hometown.

SENATOR MELLO: I'm State Senator Heath Mello from District 5 in south Omaha and midtown Omaha.

SENATOR McCOY: Senator Beau McCoy, District 39, Elkhorn and western Douglas County and happy to be back where I went to college.

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SENATOR SCHILZ: Ken Schilz from Ogallala, I represent the 47th District, ten-and-a-half counties in the Panhandle. Thank you.

SENATOR HADLEY: Well, thank you. We do have some other senators in the audience. And if they would stand as I call their name so you'll know that we have other senators that are interested. We have Senator Al Davis; Al's back there. We have Senator Jerry Johnson. We have Senator Lydia Brasch, is here. And Senator Dave Bloomfield is here. Did I miss anybody? Jim Scheer. I missed Jim Scheer way in the back. (Laughter) And Les Seiler. Okay. And we have a couple of former senators. Mayor Beutler from Lincoln is here and former-Senator Loran Schmit is here. So we have a lot of current and former senators here. Just a couple of the ground rules. Green sheets, I believe they're here...they're blue today. We record these hearings. And there will be a transcript. So there is a blue sheet, and we would like you fill that out, hopefully, before you come up. But if not, take it with you and put it in the brown box so we can correlate names and what we hear on the hearing. Also, we'd like you to state and spell your name. Again, this helps us do it with the record. And don't feel bad if I ask you to do it, because a lot of people get started and forget. But I'll gently let you know. If you'd turn off your cell phones...to do it. We are going to use a five-minute rule today. What I'll do is, that after about four minutes, I'll put up one finger. And that's about the time that you might want to try and wrap up what you're saying. It's worked well in Scottsbluff and North Platte. We've gotten through everybody that wanted to speak in both of those places. I will try not to shut you off in the middle of a sentence or anything like that. But when I put up one finger, it's kind of time to get it wrapped up. Again, we're here to listen to you. If it's like the last two, there won't be a lot of questions from the panel because we feel this is our time to hear from you of modernizing the tax system and what you think. This is an outgrowth of LB405 and LB406, that started the process of us looking at the tax system and modernizing the tax system. I can tell you what it is not. It is not a hearing to either raise taxes or to lower overall taxes; like, LB405 and LB406, they were revenue neutral. It is not a hearing to decide where we should put

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more money, nor is it a hearing where we should put less money. It's a hearing to find out how is the average citizen in Nebraska impacted by the tax burden of property taxes, sales taxes, and income taxes, and is there an unfair burden or equity among those. LR155, which is the resolution that we're operating under, has basically these principles. We're to look in terms of fairness, competitiveness, simplicity of compliance, stability, adequacy, and complementary tax systems. Those are the things we're to look at as we examine Nebraska's tax system. The way we'll work it today is, the first hour we will work with property tax; second hour we'll work with sales tax; and the third hour we'll work with income tax. That doesn't mean...if you want to come up and talk on all three taxes at once, you certainly can. We're not going to shut you off but you will have the five-minute time period. With that, if there are no other questions, we would like to start with the first person who wants to come up and testify. I'm glad somebody came up. It would have been tough to come up here all the way to Norfolk and have no one willing to testify. [LR155]

DENNIS HOUSTON: (Exhibit 1) Hello, my name is Dennis Houston, H-o-u-s-t-o-n, from Norfolk. Chairman Hadley, Vice Chairman Schumacher, and distinguished members of the Tax Modernization Committee, I'm the President and CEO of the Norfolk Area Chamber... [LR155]

\_\_\_\_\_: (Member of the audience) Can you turn on the mike? We can't hear back here. [LR155]

\_\_\_\_\_: (Another member of the audience) We can't hear. [LR155]

DENNIS HOUSTON: It's not live? There we go. Chairman Hadley, Vice Chairman Schumacher, and distinguished members of the Tax Modernization Committee, my name is Dennis Houston. I am the president and CEO of the Norfolk Area Chamber of Commerce, proudly recognized one month ago today as the 2013 National Chamber of the Year. On behalf of the Norfolk Area Chamber of Commerce and its more than 675

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member businesses, the 15,000 area residents and jobs they represent, and the 125,000 people in the Norfolk trade area, I would like to welcome you to our community. Thank you for accepting our invitation to hold one of the Tax Modernization Committee statewide hearings here in Norfolk. I'm here before you today to discuss a tax issue that is currently standing in the way of additional economic development and much-needed housing in many parts of the state of Nebraska. Let me share a brief background story with you first. When our family moved from Omaha to Norfolk four years ago, there were 284 homes on the market in the Norfolk area. Today the housing inventory is down more than 50 percent from only four years ago. Why is this a problem? It's a problem because when we recruit new young professionals and families to relocate to Norfolk for a great career opportunity, they have trouble finding a home for their family. When business and industry attempt to bring new managers and staff to town, often their single biggest challenge is finding housing. Sadly, some people have actually accepted a job only to rescind their acceptance later because "we can't find a place to live." You may think that I'm confused and testifying on the wrong subject. Let me assure you that I am not. The housing shortage that is prevalent throughout Nebraska is a direct result of a tax issue that meaningful tax reform can fix. Let me give you a real-life example of what I'm talking about. In today's environment, when a developer develops a new housing division, they may start out with a piece of bare pasture. Then they may build out 40 residential lots to help grow the community. Once the first lot is sold and a home is built on it, the remaining 39 unimproved lots are now fully assessed at the full value. Therein lies the roadblock for many developers around the state of Nebraska. A new housing development may take anywhere from two to ten years to fully build out and to be full of sold lots and homes. The developer is paying a full retail lot value on those unimproved lots for many years in some cases. This creates far too much risk for developers, homebuilders, and lending institutions. The end result, builders and developers oftentimes find themselves sitting on the sidelines when they could be helping to solve our solutions around the state for housing. There are other issues outside of our control affecting the housing shortage, such as the Great Recession over the last two to three years. A more skittish, speculative, new home construction market

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and more conservative banking regulations are controlling new residential mortgages. Having said that, reforming our tax structure to make it easier to do business and to build Nebraska neighborhoods of tomorrow is something that we can control with your leadership. This roadblock to the state's housing shortage and increased economic development can be easily fixed. The Norfolk Area Chamber of Commerce, the Nebraska State Home Builders Association, and the Nebraska Board of Realtors want to partner with Senator Jim Scheer, who represents Madison County and Woodland Park as our District 19 state senator. We want to sit down with all affected parties in the state this fall to develop a solution to make it easier to do business in the state of Nebraska, to build homes, and to build those neighborhoods. We want to partner with the tax...to make the tax environment more pro-job growth and pro-economic development. Our hope is to come before you this January to present our proposed solution to reform taxes and help grow our state at the same time. Commercial development is also stifled for many of the same reasons I just mentioned. Once the first pad site, such as a new restaurant, opens the entire commercial development is taxed at the full assessed value, although much of it may not be much more than undeveloped farmland. This also serves as a roadblock for increased retail growth throughout our state which, in turn, generates more tax dollars for many levels of government throughout Nebraska. Bringing new people to rural Nebraska communities with adequate housing and new neighborhoods would create a strong foundation for a multiphase approach to help us reverse some of the depopulation we have in many parts of rural Nebraska. This is just the first step. A potential Nebraska Neighborhoods Act introduced in the next legislative session is not just about bringing people into our communities; it is about building rural economic development success stories across Nebraska. It's about job creation throughout the state. We urge you to support meaningful tax reform in the coming session. At the end of the day, any meaningful tax reform should be pro-job and pro-agriculture as both areas of focus will grow our state for the next generation. Thank you for your service to Nebraska and thank you for your help to lead the charge in support of meaningful tax reform for the people of Nebraska. Thank you. [LR155]

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SENATOR HADLEY: Any questions? Seeing none, thank you. And we appreciate the welcome to Norfolk. Next? You can drop them right in the box. And also, if you have any handouts, they can go right in the box. And also, before you get started, we have former-Senator Abbie Cornett. Where's Abbie at? Abbie is here. I missed her in the introductions. Okay, if you'd go ahead, sir. [LR155]

DON WISNIESKI: (Exhibit 2) Thank you. Chairman Hadley and Vice President (sic--Chairman) Schumacher, and members of the Tax Modernization Committee, my name is Don Wisnieski, W-i-s-n-i-e-s-k-i. I am the first vice president of the Nebraska State Home Builders Association. We represent residential and light commercial builders across the state of Nebraska. The development and construction industry has long been a catalyst in the health of the economy. As you know, construction contributes billions of dollars to the nation's economy each year. It creates thousands of jobs. And in addition, 100 average single-family homes generates somewhere in the vicinity of \$8.9 million in taxes and revenues for state, local, and federal governments. Anything that we can do as an industry to work with the state of Nebraska to expand the development and construction process and work together to ease the burden of taxation is clearly a win-win for all concerned. Knowing that there is a shortage of lots in several parts of the state, we would be interested in participating in bringing forward solutions that would help the process and enable developers to open new developments, buyers to be able to purchase lots, and builders to be able to build homes. The Nebraska Home Builders Association looks forward to working with...to being at the table this fall to partner with others to draft a tax reform solution. Our primary goal is to get homebuilders and developers back to work and to build Nebraska neighborhoods. And I appreciate your guys' time today. [LR155]

SENATOR HADLEY: Thank you. Are there any questions? Seeing none, thank you, sir. I did...I think I missed another former senator, Senator Peterson. Sorry. Have I missed any other former senators? We almost have enough for a quorum, don't we? (Laughter)

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Do we have an open meetings problem here, at this point in time? Yes, sir. [LR155]

JOHN DINKEL: (Exhibits 3 and 4) Good afternoon. John M. Dinkel, J-o-h-n M. D-i-n-k-e-l. We've been involved since 1952 in a local New Holland Agricultural dealership here in Norfolk, so we obviously talk to a lot of ag people. I do want to echo what they've said. We really appreciate all you senators coming today. And we really appreciate the job you've done, not just today in your committees, but ongoing. Your job is, many times, thankless. And I know you don't do it for the pay, so thank you sincerely for all you do. I'm just going to kind of read through so it's in the record here. My handouts, you have. Again, working in the ag business, we do hear a lot about taxes from our customers when they come in. I will say, I hear a lot more comments about property taxes than any other taxes. That seems to be the predominant thing that they talk about. It's no secret, we've obviously had very huge increases in tax in actual valuations and tax valuations. I assume the tax valuations are still lagging a little bit behind reality so it's only, probably, going to get worse. And a lot of my ag people are saying, wow, what's going to happen in another year or two when we catch up with what real prices are, so. Obviously, the theory, I think, as the valuations go up, the levies should go down. In reality, I don't think that's happening much. So...and I know local spending determines that a lot. But that's been a huge concern as to how many dollars per acre go just towards taxes. And the other thing is, many nonfarm valuations have not gone up near as much as agricultural ground. So as a percentage of the total real estate tax burden, the ag sector is really looking like they're going to continue to be paying a higher percentage of all real estate taxes, at least in rural Nebraska, for darn sure. So I think that's a concern. And, you know, probably right now, candidly, with the last two, three years have been very, very good with high commodity prices, you know, life has been good on the farm. But you know, it's really going to happen, not if, but it's when the farm economy is going to pull back. It always has had ups and downs. And, obviously, commodity prices have fallen a lot already. And livestock prices aren't exactly...the cattle guys aren't getting rich right now, as a lot of you know. I've got one customer right out by you, Galen, actually, the Klutes (phonetic) out there. But anyway,

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what's going to happen then, you know, when things aren't so rosy out on the farm? Then the real estate tax burden is going to really come home to roost. So I'm really glad you're taking a look at it now because now is the time to act and not wait a year or two. And you all know the statistics. Ag economy in Nebraska really drives a good chunk of Nebraska's overall economy so it isn't just a few farmers. You know what percentage it is and multiplier and all that stuff. So as the ag economy goes, pretty well the rest of Nebraska's economy goes, so. Okay, history is...and I want to compliment you on your handout here or your...what you sent out as far as your outline and the topics. I think you have a lot of good, potential solutions in there so thank you for laying that out. And you refer back to some studies back in the '80s and '90s, I think. And I think if you look back, I'm not sure, maybe in the '90s somewhere there was a large increase--senators can probably remember--in income tax and sales tax in an effort to reduce property taxes. And I think it worked for a while, for a few years. And then after a few years, pretty soon you ended up having them both up high. And I just, somehow...I know there have been lids and different attempts to do that. But somehow or other, you just need to take that into account when you craft your solution to this, somehow or other. So it isn't just a temporary relief. Somehow, I'm not sure how, but I have faith in you guys and gals doing that. So anyway, look back in history for a little review before you get to the finish line, maybe. I think that would be helpful. Again, I don't know the answer. Somehow or other you guys and gals are going to come up with it, look at history. Real quick, sales tax, to me, is still a bottom line the fairest tax. I know somehow you need to find a political way to broaden that tax somehow. And I know it's been a hot potato when you raise this or that. But I think, you know, everybody knows that the economy has changed. There's more service oriented, there's a lot more revenue generated by that, so somehow or other you've got to tap into the new economy and broaden the tax base. That's really the way to do it. And in closing, really, whatever you do, you need to grow Nebraska's economy. Do something that will have an aim to grow Nebraska's economy and population. The growth of both population and the economy will cure a lot of problems over time. So thank you, once again, for all your efforts. And I know you're going to come up with a good solution for us. [LR155]

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SENATOR HADLEY: Senator Nordquist. [LR155]

SENATOR NORDQUIST: Thank you, Mr. Chairman. And thank you for your testimony, John. [LR155]

JOHN DINKEL: You bet. [LR155]

SENATOR NORDQUIST: I'm going to throw this out to you... [LR155]

JOHN DINKEL: Okay. [LR155]

SENATOR NORDQUIST: ...because I know, from your service on the Investment Council, you're a smart guy. [LR155]

JOHN DINKEL: Oh...(laugh) yeah. [LR155]

SENATOR NORDQUIST: But anyone else that comes up that wants to address it, sure can. If we're talking about property tax relief, we have kind of two ways to go. We can either look at the front end and maybe send more aid down to school districts, to cities and counties--which is a program we eliminated--maybe we could restore that and try to help the pressure on that end; Or we could do something on the back end in terms of a credit, maybe an income tax credit for the property taxes that people pay. Out of those two options, what do you...what direction... [LR155]

JOHN DINKEL: I think, long-term, maybe the credit, if I had to vote for it, I guess. To me, long-term, the credit might be a safer way to go, so. [LR155]

SENATOR NORDQUIST: Um-hum. Okay. Thank you. [LR155]

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SENATOR HADLEY: Thank you. [LR155]

JOHN DINKEL: Okay. Thank you very much. [LR155]

SENATOR HADLEY: We also have former-Senators Doug Cunningham and John Lindsay here. I think it would be easier for just...everybody who isn't a former senator, stand up. And anybody who is left sitting is, you know, is a senator. So, sorry. Have I missed anybody else now? I know somebody's going to say Galen Hadley is a former senator, too, but...and Don Wesely, so. Okay, that's it, no more. Yes, sir. [LR155]

KONRAD HOFER: My name is Konrad Hofer, K-o-n-r-a-d H-o-f-e-r, Antelope County, Nebraska. These real estate taxes are out of control. These school districts have legal thievery going on, and these county commissions have legal thievery going on. My taxes from last year to this year went up \$17,000. I challenge any one of you sitting up there to come up with an extra \$17,000. I don't know where I'm supposed to find it. There's supposed to be a lid on this spending. Well, the valuation doubled. Guess what they did? The taxes doubled. Nobody ever quits. What am I supposed to do to find another \$17,000? And the part where the Governor wanted to put sales tax on everything the farmers buy, it would have cost me another \$25,000 in sales tax for the stuff that I buy. I'm already paying sales tax at the county assessor's office. You have to go down there and report everything you buy and then they charge you 2 percent of it. You've got to get rid of one of them. If I've got to pay \$25,000 in sales tax, I need to pay less property tax or something. It's going to approach \$75,000 to \$100,000 I pay in taxes. That is more than I make. Where can we...where does this money go to? Who spends it? Where am I supposed to get it? That's what I'm wondering. Does anybody have a suggestion, something...and, like you said, an income tax credit. Well, wouldn't you have to make money first to get an income tax credit? You know? It's...I don't want to waste a lot of time, but I'm really mad. And there's 10,000 people behind me that are mad. I don't...somebody come up with a suggestion and I'll buy it. That's all I've got to say. [LR155]

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SENATOR HADLEY: Any questions for Mr. Hofer? Thank you. We appreciate it.  
[LR155]

JON BAILEY: (Exhibit 5) Good afternoon, Senator Hadley and members of the Tax Modernization Committee. My name is Jon Bailey, that's J-o-n B-a-i-l-e-y, and I'm the director of research and analysis at the Center for Rural Affairs in Lyons, Nebraska. So welcome to northeast Nebraska. We'd like to thank the committee for taking on the important task of reviewing our tax system, something that's long overdue. We'd also like to thank the committee for holding this series of public hearings across the state. We have worked and lived in rural Nebraska for 40 years. In fact, this month we celebrated...our organization celebrated our 40th anniversary. We have experience in how the tax system affects farmers, ranchers, small businesses, and rural residents, and have heard from rural people and rural businesses for 40 years about the state's tax system, much as what you just heard from the gentleman before me. So today we wish to offer some general principles that we hope will guide your work and some basic opinions on the options you have presented. By many measures, Nebraska has an outstanding quality of life, the "good life" as we all call it. The committee should focus...I think their primary focus should be on making sure the state has the resources necessary to continue that strong tradition. I'd like to offer some brief comments and recommendations regarding each part of the tax system and the opinions that you have offered for all of us to respond to. First, property taxes. As you've heard already today and on previous stops throughout the state, Nebraska residents appear to be most concerned about their property taxes. Property taxes, for too many, are too high. And local government entities throughout the state are too reliant on property taxes. As you know, Nebraska ranks among the highest of all states in its reliance on property taxes for local governments and among the lowest in its state aid to K through 12 education. This is increasingly apparent in rural areas where increased agricultural land valuations are causing property taxes to explode, as you just heard, where state aid to schools is inconsistent with a formula based, in large part, on enrollment that is declining and

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where residential and commercial property taxes are contributing to abandoned homes and businesses. We've heard concerns about property taxes in rural areas constantly during our 40-year history. The committee now has a mandate to address those concerns. To address those concerns, we would offer two recommendations. Number one, increase state aid to local government entities. This will help reduce property taxes while ensuring a more equitable distribution of resources. We would also recommend reinstating state aid for municipalities and counties. Second, enact targeted property tax assistance through a circuit-breaker system similar to what Senator Nordquist mentioned earlier. We have long supported a circuit-breaker idea as a method to provide property tax assistance, including LB684 that was introduced in 2007. Eighteen other states have used circuit breakers to offset high property taxes. We would urge Nebraska to join these states by providing a new and creative means to offset high property taxes. We suggest the circuit breaker apply to both residential and agricultural property and that it include renters. We would also recommend that the state not expand its current property tax credit program. Briefly, on income tax, we recommend that the committee make no changes to the personal income tax such as cutting rates or adjusting brackets. The personal income tax is the largest source of the state's General Fund revenue and the only progressive part of the current tax system. Keeping a progressive part of the current tax system, I think, is important for middle-class and low-income taxpayers. Cuts to the personal income tax would drain resources from schools, healthcare, communities, and infrastructure, the things that make the good life. Experts you have heard from earlier this summer stated that they see nothing out of line with Nebraska's personal income tax and its rates. We think you should follow that advice. Most Nebraskans would get no benefit from a cut to the personal income tax, with most Nebraskans likely seeing, literally, pennies per day from any income tax cut. Sales tax, we recommend expanding the state sales tax to additional consumer services. The economy and consumer behavior have changed since the state sales tax was created. It's time to bring Nebraska sales tax up to date. Expanding the state sales tax will also help pay for changes in property tax and property tax adjustments. Again, Senators, we thank you very much for what you're doing, what this committee is doing,

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and you listening to the taxpayers of Nebraska. We wish you luck in your work as you go forward. And we stand ready to help you and provide any assistance you may need. Thank you. [LR155]

SENATOR HADLEY: Thank you, Mr. Bailey. Are there any questions? Senator Pirsch. [LR155]

SENATOR PIRSCH: Yes, thanks for your testimony here today, Mr. Bailey. I was just wondering, what you've recommended--and tell me if I'm wrong--is expanding the sales tax to...in some manner. And then, are you saying, utilize that extra revenue for the property tax relief? [LR155]

JON BAILEY: That's a possible source. I know one of the concerns you've had in other hearings and concerns that have been expressed by the committee and, I think, taxpayers in general is, if you provide, for example, property tax assistance, how do you pay for it? And I think expanding the sales tax to more services, which is a realistic expression of what the economy is now and what consumers actually purchase, I think, is one of the routes to help pay for that. [LR155]

SENATOR PIRSCH: Yeah. And toward that kind of recommendation, do you have a developed list of particular services that you'd recommend, or is it just kind of general, conceptual at this time? [LR155]

JON BAILEY: The latter. Yeah, we do not have a list of services. I think that's one of the main challenges you're going to have, politically, what...if you do expand to more services, what services end up on the list. And I think there are probably billions of dollars out there in services that could be taxed. But again, that's a political decision and it's not going to be an easy decision, as you all know. [LR155]

SENATOR HADLEY: Thank you, Mr. Bailey. Next. And we have been joined by Senator

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Janssen from District 17. [LR155]

SENATOR JANSSEN: Fifteen. [LR155]

SENATOR HADLEY: Fifteen. You know, Fremont, Nebraska, Senator Janssen. Thank you. Next. South Sioux City is represented. [LR155]

LANCE HEDQUIST: (Exhibit 6) Thank you, Chairman Hadley, members of the committee. My name is Lance, L-a-n-c-e, Hedquist, H-e-d-q-u-i-s-t, I'm the city administrator of the city of South Sioux City, Nebraska. I also come here, besides for the city of South Sioux City, I come for the city of Dakota City, the South Sioux City school districts, the Dakota County Commissioners, and the South Sioux City Area Chamber of Commerce. We think that the issue at hand is something that deals with all of us and that we do need to work together to find a sound solution to the tax situation in the state of Nebraska. And we offer the following suggestions in this regard is that: Any changes should be implemented for long-range improvements to our policy and provide for consistency for sound planning at local and state levels. Too often in the past, changes have been made that's been very dramatic for various entities, and so we think it's good to have a long-term policy so that we can avoid some of those bumps. Government consolidation and cooperation should be a key component of what we look at here. Nebraska has gone from nearly 8,000 units of local governments in 1952 to today, there's about 2,600. Lots of consolidations that has occurred in the past, and we think this should be an encouragement for people to work together to use the talents of their employees and the scarce tax resources that we have. And we think that there can be some positive steps and positive encouragements in that regard. Property taxes, as noted, is the number-one concern by the local citizenry and should be at the top of any reform by this body. We also believe that past agreements with the cities, counties, school districts for state aid to cities, state aid to counties, TEEOSA, these kind of agreements, county jail reimbursements, those kind of agreements should stay in place and, again, provide consistency to the local units of government. Sales tax, in our

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opinion, should not be raised in terms of the rates. But we do think that there can be some broadening of what's included. We have suggested that the sales tax exemptions be reviewed every six years, that you take a third of them each two years, and so it's not an onerous issue on the Legislature that you take certain exemptions for two years and take other exemptions. So in the end of six years, you'll have them all reviewed. We think that will be a better vetting for the discussions on the sales tax. We also believe in the county...expansion of the county sales tax. As you might know, Dakota County had the only countywide sales tax in the state of Nebraska. And state law does allow that to be used for public safety purposes. We think that that...the ability to use it for other projects should be included in future legislation and that those sales taxes would only impact the rural residents, the sales that occur outside of the city limits of those cities that have sales tax within that...within their county. We believe that property tax reductions, that I think will come out of this, should be assured. And what we don't want to do is to lower property taxes only to see the cities, counties, schools raise those taxes in another form. We think it should be permanent property tax relief for the citizens of our state and our local governments. Property tax shifts should be avoided. I know there's discussion about changing different valuations for different groups in agriculture. When you do that, that shifts who pays those taxes. So if agriculture is reduced, it raises residential costs, commercial costs, industrial costs. And so we really, really want to watch shifts in terms of taxes. We want to see property tax relief. On the income tax...corporate income tax rates, unless you can get to zero reducing those rates, we don't see any benefit. We live next to South Dakota. They have zero corporate income tax and people are going to continue to go to South Dakota; even if ours is 1 percent or 2 percent, cut in half, it won't change that. And so unless you go to zero, we don't see the use in that. Finally, I should just mention is the streamlined sales tax. The Marketplace Fairness Act does look like that has a pretty fair chance of passing. That means, according to the state of Nebraska, \$37 million more will come into the state from sales taxes that people already owe but aren't paying. That increased amount of \$37 million should give you some opportunity to be able to fund some of the programs and provide some of that property tax relief. And so Nebraska was one of the first ones

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to be part of that whole system. And I think that might give you an opportunity to have some meaningful relief without raising existing taxes. [LR155]

SENATOR HADLEY: Thank you, Lance. Are there questions for Lance? Yes, Senator Campbell. [LR155]

SENATOR CAMPBELL: What examples of consolidation do you have between South Sioux and Dakota County? [LR155]

LANCE HEDQUIST: We have...we probably have more interlocal agreements between our entities than anyone else in the state of Nebraska. School buses use our city yards. The school buses dispatch their bus drivers from our city yard. We pile snow on the school grounds within the city. We have a joint arboretum committee. We have numerous projects that we work together. We have a sewer system that serves three state areas. So...and the most recent major consolidations of government, actually, are the natural resource districts. That was an excellent project that reduced many districts across the state. [LR155]

SENATOR NORDQUIST: Mr. Chairman. [LR155]

SENATOR HADLEY: Excuse me, I got a little eye problem. Go ahead. [LR155]

SENATOR NORDQUIST: Thank you. How did Dakota County and South Sioux City handle the elimination of state aid to cities and counties, individually? Was there a levy increase or were you able to absorb it with higher valuations or service reduction? [LR155]

LANCE HEDQUIST: You'll see all those things taking place, is that it was not a dollar-for-dollar increase in terms of what took place. There were reductions in personnel and the reduction of activities of the city governments. And so, clearly, those

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things impact us. And so it's...but it's not just one particular area. [LR155]

SENATOR NORDQUIST: Okay. Thank you. [LR155]

SENATOR HADLEY: Thank you. Thank you, Lance, we appreciate it. Next. [LR155]

JENNIFER WEISS: (Exhibit 7) Good afternoon, Senators. I am Jennifer Weiss, J-e-n-n-i-f-e-r W-e-i-s-s, and I'm with Rawhide Chemoil in Fremont. And I'm also a director on the Nebraska Petroleum and Convenience Store Association Board. First I'd like to thank you for your time you have given for these public hearings and listening to your constituents. Hopefully, they are worthwhile. I am here today to speak about property tax reduction and the possible loss of revenues to counties, city, and school entities and how cities could possibly replace those revenue streams. If these tax changes are to be revenue neutral, taxes are going to be shifted. I don't envy you in trying to figure out what those transfers could be. Our association is concerned that additional occupation taxes could be imposed on alcoholic beverages, cigarettes, and gasoline by cities to make up for lost revenue. Omaha already has done this with the restaurant tax, wheel tax, car rental occupation tax, tobacco occupation dealer tax, telephone and hotel occupation taxes. As alcohol, cigarettes, and gasoline are the majority of the items sold by a convenience store, we feel that additional taxes on these items will create what we call border bleeds--sales lost to other states or even reservations where the cost of these products are less to the consumer. We already see that with Iowa and their motor fuel tax being less than ours by nearly 7 cents per gallon. With uncompetitive gasoline prices, we not only lose the sale of gasoline but, also, the inside sales of other items. Lost sales means less sales tax and income tax revenue for the state--not a win-win situation for us or the state. Additional taxes will make us even less competitive. Alcohol, cigarettes, and fuels are already being taxed at the state level through excise and sales taxes. Gasoline is already so expensive for all income levels that additional taxes on it do create hardships. It is amazing the number of people that come in and just get \$5 of gas at a time or the number of drive-offs that occur as people

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have less disposable income to spend. So in closing, we, as an association, are concerned as property taxes are shifted elsewhere that the possibility of occupation taxes will take its place on items sold at convenience stores, which would not help us or the state in the long run. Thank you. [LR155]

SENATOR HADLEY: Jennifer. Any questions? Thank you very much. Oh, is there a question? [LR155]

SENATOR HARR: Yeah, if I could, just quickly. Thank you for coming to testify today. You talk about the evils of the occupation tax and how no one wants to pay those occupation taxes. And yet, a lot of the previous testifiers I've heard have said, lower my property tax, broaden the sales tax. But if we broaden the sales tax, we'll probably be taxing items that currently aren't taxed right now; seems consistent. Some of those might even affect you and your store. So how do we balance that to broaden the sales tax base? So if we can't do occupation tax, what's the difference between that and creating a whole new tax? I mean, occupation isn't even 5.5 percent. We start taxing something, that's a 5.5 percent increase. How do we deal with that? [LR155]

JENNIFER WEISS: Uh-huh. My concern is, a little bit, is that the cities have control of what that tax rate is, not the Legislature so much. This is just from my personal opinion. Maybe a sales tax on food, maybe not at the current rate of 5.5 percent, maybe a reduced rate would be somewhat more fair. [LR155]

SENATOR HARR: But it's going to be a tax increase for somebody, correct? And you've talked about border bleed. If we raise sales tax, people might go across the border no matter what we raise sales tax on. [LR155]

JENNIFER WEISS: True. [LR155]

SENATOR HARR: Okay. We just have to figure out how to balance that. Thank you.

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[LR155]

JENNIFER WEISS: Yep. Thank you. [LR155]

SENATOR HADLEY: Thank you. Thank you, Jennifer. Next. [LR155]

DUANE SCHROEDER: Duane Schroeder, Wayne, Nebraska, D-u-a-n-e S-c-h-r-o-e-d-e-r. And by way of commencement, I, too, would like to echo the people's thanks to you folks for doing the people's business. I know you're making the big bucks but you are to be commended. (Laughter) I'm a retired attorney. I'm representing no one but myself. I just have a few comments to make. As far as property tax is concerned, I own agricultural land up in Knox County, I own my home in Wayne County. And the property tax in both counties has gone up dramatically in the last ten years. I think we're all in agreement, my taxes are too high, someone else should pay it. That's where we're at. But as far as property tax is concerned, with the dramatic increase in ag land values in the last few years, there is probably a problem. And I notice in your position paper, whatever you call this, one of the approaches you take is instead of based on...well, right now, I think it's 70 percent of fair market value, we use a capitalization approach. And that has some merit. What would have to be done, I suspect, is the county assessor would have to assess different categories of land and then there would probably be categories of what the fair rental value for that is and then some agreed-upon capitalization rate. That's probably going to result in lower taxes. And so you have to replace the taxes at the local level. I think local control of taxes is important. Our local officials, they're responsive to us, the local citizenry. To my way of thinking, I think an income tax...a local income tax option would make a lot of sense. Now, I understand, it would increase complexity. For instance, I would...there would probably have to be an addendum to your income tax return for each tax district. I'm sure that, in my case, I'd have at least...I'm in two different tax districts up in Knox County, a different one in Wayne County, but I'm sure that could be handled. I am opposed to an increase of sales tax or, for that matter, a broadening of the tax base. A sales tax is regressive. It

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imposes the burden of the tax on the people least able to pay it. If I'm at the bottom of the socioeconomic ladder, that sales tax is much more burdensome for me than if I'm on one of the higher rungs. So I think sales tax is fine. For one thing, it helps us clip the tourist. But I would caution against over reliance on the sales tax. To my way of thinking, income tax is fair. It's progressive. The more I make the more I pay: To me, that's fair. Concerning the income tax, there's some discussion about exemptions. Now, right now, my wife is a retired school teacher so we get a check from the state of Nebraska every month. And we're both retired, so we get two checks from Uncle Sam. I like to tell people, who couldn't like a place...a country like that. But as far as exempting these things from income taxes, personally, I'd love to see it. But from a policy standpoint, I think it's a lousy idea. We will probably die in Wayne, Nebraska. And we're not going to move but it's not because of the tax structure. And I think with most retirees, the choice to move is based on climate. And we're never going to compete with the Sunbelt states and that's just a given. Unless we can figure out a way to increase the temperature in Wayne, America, by about 35 degrees in January and February, people aren't going to come here to retire. But people that live here will. Now there is one exemption for retirees, I think, makes sense; and I, you know, I don't have any statistics, but military retirement. [LR155]

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

DUANE SCHROEDER: Okay. Military retirement. We have a lot of folks at Offutt and these are high-skilled people, technical skills, management skills. And this isn't necessarily their home, and so that might induce them to stay here. They have the kind of skills we need; so I'd suggest, if we have exemptions, we think about military pensions. Thank you very much. [LR155]

SENATOR HADLEY: Thank you very much, Mr. Schroeder. Any questions? [LR155]

DUANE SCHROEDER: Oh, I'm sorry. [LR155]

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SENATOR HADLEY: Yes, Senator Janssen. [LR155]

SENATOR JANSSEN: Thank you for coming. You're from Wayne, you said? [LR155]

DUANE SCHROEDER: Yes, sir. [LR155]

SENATOR JANSSEN: I went to Wayne State College and I can guarantee you it's not the Sunbelt up there, for certain. [LR155]

DUANE SCHROEDER: That's a fact. [LR155]

SENATOR JANSSEN: I would like to thank you...and it's not really a question. But thank you for bringing up the military retirement exemption policy that you put forward. It wasn't on our... [LR155]

DUANE SCHROEDER: Nope. [LR155]

SENATOR JANSSEN: ...sheet but it's something that I think it's important for the exact same reasons that you brought up. And we're not in 100 percent agreement on your testimony; but on that particular part, I am. [LR155]

DUANE SCHROEDER: Yeah, you and I have disagreed on other things in the past. (Laughter) [LR155]

SENATOR JANSSEN: Yeah, I hear that a little bit. [LR155]

SENATOR HADLEY: Thank you, Mr. Schroeder. Other questions? [LR155]

DUANE SCHROEDER: Thank you. [LR155]

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SENATOR HADLEY: Thank you. Next. [LR155]

SHERYL VOLK: Anyway, I'm Sheryl Volk, S-h-e-r-y-l, Volk, V-o-l-k, from Pierce County. And I just wanted to tell you that Mr. Dinkel said that the farmers have been doing good, maybe, so far. Well, I would like to show you our income tax from last year or from 2013. It's minus something, so. And double that because our son farms with us and it's...he'll have the same loss. But I was just going to say that the property tax is ridiculous, that...(testifier crying) anyway, I just think it's ridiculous that they charge so much to the farmers. And they think they're doing good? Well, they're not. We're...my husband is 66 and he'll probably be working till he's in the 80s. We haven't done as bad as this since the '80s. And...anyway, they want the young kids to stay? It's not going to work if you keep taxing everyone so much, the farmers. That's all I have to say. [LR155]

SENATOR HADLEY: Okay. Thank you, Ms. Volk. We appreciate your coming, thank you. And we'll make sure we get that back to Ms. Volk. [LR155]

SHERYL VOLK: Okay. [LR155]

SENATOR HADLEY: Thank you. Next. [LR155]

DAVID WRIGHT: (Exhibit 8) Hello. What a beautiful fall day for Nebraska. Can you believe this? My name is David Wright, D-a-v-i-d W-r-i-g-h-t. I would like to thank the panel for allowing us to come and visit with you about the tax situation that we have. I am a fourth-generation rancher. My son is the fifth generation living out on the ranch. And I also have the opportunity to own the local newspaper and I own three local newspapers. And when we were kids...well, let me back up a little bit. Justice Holmes says, taxes are what we pay for civilized society. Now when we were kids, we could not have a pot to ourselves. Mom made us share that pot. And I'm telling you, us three kids made sure that one kid didn't get any more than the other kid. Up in Holt County, where

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the ranch is, our tax system is like this for real estate tax. Two-thirds of the taxes are collected by agriculture. A third is collected by the urban. If we put all the burden on agriculture, it's in a pile then and it's like manure: It stinks. When manure is in a pile, it's of no use. It burns the soil. It's just simply destructive. The only way you get advantage out of manure is, you have to spread it and you have to spread it thin. And that way, you can gain a profit out of something that's not, necessarily, profitable. So with that said, civil society...a civilized society...society wants equality and justice just like we did when we were kids, equality and justice. On the ranch, 12 percent of my gross income goes to real estate taxes, 12 percent. Of that, 8.8 percent of my gross income goes to the school system. And when you take the salaries of the school system, which is about 80 percent of the budget, 7 percent of my gross income on the ranch goes to pay the salaries of the school system. Would you tell me what industry or what individual forks over 7 percent of their gross income to pay someone else's salaries? Now, at the newspaper, the newspaper pays .08 percent of its gross income to real estate taxes. So you want to talk about pyramiding, because I'm going to get into sales tax here in a minute. Pyramiding, I sell a calf to pay for everything on the ranch. I pay real estate taxes on that calf, I pay income taxes on that calf if there's any left over, and then I pay sales tax. All of that to help raise that calf to generate revenue so that I can ranch. Real estate taxes is what is depopulating our state. It used to...we should tax...just because I own land and I use equipment, I use those to make my living. That's how I generate wealth, is with land and equipment. The newspaper generates wealth with education because we have a journalism degree, we have business and management degrees. The newspaper generates wealth through sales of advertising. The newspaper generates wealth through ink and through paper. None of those are taxed; none of them. There's no tax on education. I pay personal property tax on equipment. Why don't we expand personal property tax to education? What I have here is I have a research deal that I had Ernie Goss do. And he talks about...I asked him what it would take to get rid of all the taxes in the state. And Ernie did a...and there's copies of it for you over here. Through Ernie's research, he says that at 2.3 percent sales tax--and I'm talking across the board, all the exemptions are gone; everything, every time you lay a dollar

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down, 2.3 percent is taken out--we can get rid of all the real estate tax and all the state income tax. At 2.6 percent, we can get rid of all of the taxes in this state every time you lay a dollar down. Now I don't know if you know who Andy Nelsen, A.C. Nelsen Campers, he's the largest camper dealer in the United States. I was in his front yard one day having this discussion. And he said, Dave, you're going to charge me 2 percent on my campers, on the products I put on my campers? I said, yes, everything has to be on the board. And I pointed at the people going up and down Farnam Street. I said, those people are paying...what is Omaha, 6 percent, 7.5 percent, 7 percent sales tax? They're paying real estate tax on their house whether they rent it or not, and then they're paying income tax taken out of their salary. I said, if you could drive their tax burden down to 2.6 percent...that no more than come out of my mouth and Mr. Nelson said, well, they'd have more money to buy my campers then, wouldn't they? So I think this is the way to go. You've got to get rid of all the exemptions, everything, everything is on the table. I've spoken to a lot of people across the state about it. And when you tell them you can drive their tax burden to 2.6 percent, I have yet to find somebody to say, let's not do it.

[LR155]

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

DAVID WRIGHT: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

RYAN LOSEKE: Senators of the Tax Modernization Committee, I do want to thank you for taking your time. I do know your salary isn't much--but it's all you can eat from about January to May, so. My name is Ryan Loseke, R-y-a-n L-o-s-e-k-e, I'm a farmer and cattle feeder, fifth generation, in Platte County. And I guess it's been painfully obvious our property taxes are too high. And I just had my wife pull this up. In '96, I paid \$18 an acre on irrigated corn and last year was \$44. That being said, some people joke I had a

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lapse in judgment and ran for school board three years ago. I am on the school board north of Columbus and we have been fortunate with that. Our levy in 1996 was 94 cents; we have been able to drop it to 73 cents. That being said, my concern is if we are going to try and...whether it's through income tax or whatever, I'm concerned about allocation of these dollars back to the school districts. If we have some sort of modified TEEOSA formula to bring it back to our school districts, I'm afraid you're going to make our property tax burden worse because, as of now, we're not an equalized district. I think more and more of the rural districts are. I think we're going to see more money move from rural to urban. I think, anytime we try and allocate back to local government, the formula has become so convoluted and confused that nobody really knows what they mean or how to get them back evenly. So, you know, I guess that's about all I have. I don't have a lot of solutions. You know, somebody talked about, as far as property tax relief, maybe an income tax credit is the way to go, where you fund that. You know, income tax is tax based on what you make so maybe that's an opportunity to do it. Briefly, on sales tax exemptions, Mr. Dinkel, I know, talked about it a little bit. Some of this farm equipment, obviously, is getting expensive. If we do remove exemptions on that, I think we need to look at removing it from personal property tax too. I view that as double taxation. But that's kind of my comments, mainly based on the fact if we keep generating revenue back to these local governments is a big concern to me. And I do like our local control. And if your school and townships...and I know it's difficult. If we want services, it takes money to do it. But you guys need to be on the school board members and the county supervisors and those kind of things, as well, too. So thank you. [LR155]

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

JOHN GREER: (Exhibit 9) My name is John Greer, J-o-h-n G-r-e-e-r, I am a retired teacher. In fact, Senator Sullivan, I believe you came and spoke to my government class one time. And as having been a retired teacher and teaching government, like everyone else has said, I appreciate you coming and hearing from the people. I think

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that's very important. I think sometimes that doesn't get done. But I'm here to talk to you about the retirees and the taxes on retirees. We rank in the bottom seven of this nation in favorable tax relief for retirees. Go to South Dakota, no tax on retirees at all, of course. Iowa has...as of 2014, will have no tax on Social Security. And the first \$6,000 of pension is also not taxed. Somebody mentioned the fact that people aren't leaving the state because of retirement. But they are, and it's not always about weather. It's being able to live an affordable life. I've been here for 34 years. And right now, my wife and I are looking at moving to a...maybe South Dakota, maybe Iowa. We can move to Yankton. We still have and can enjoy Nebraska. We can go to Council Bluffs and enjoy Omaha. But unfortunately, we have children here and we're going to have to leave them here. They're adults, of course. And I think that's a shame that we aren't looking more at retirees being taxed, both Social Security and pensions. As far as recommendations, I don't think you have to do it all at once. Iowa had broke it down to a four- or five-year period and finally got to the place, so it doesn't hurt...hit all at once. I hope that you will look at the taxes on retirees. I understand the difficulty farmers have and their equipment. But I think that we need to have a higher sales tax and lower the federal income...state income tax. Not everyone has got themselves in the game because maybe they're low income and they don't pay any state tax. And I think they need to be in there with everyone else. I personally like the fair tax that's been recommended at the federal government or we tax spending, not our income. I hope that you'll look at the retirees and where we rank and come up with some solution. [LR155]

SENATOR HADLEY: Thank you, Mr. Greer. Any questions? Seeing none, thank you. [LR155]

JOHN GREER: Thank you. [LR155]

SENATOR HADLEY: Mayor Beutler. [LR155]

CHRIS BEUTLER: (Exhibits 10-15) Mr. Chairman, Senators, good afternoon. I'm here to

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prove that, indeed, old senators never die, they just pop up again, by and by. (Laughter) And I feel a little remorseful being here in a couple of ways, at least. First of all, you're going to be in Lincoln and I do...I am the mayor of Lincoln, as you know. But I'm also the current-year president of the Nebraska League of Municipalities. And we wanted to be sure that you knew that...and the public knew that, indeed, we are concerned about the state of the municipalities and we do want to speak up for them on all occasions where that's possible and appropriate. You all have been very good about listening to us so I'm going to be very short because you've already heard from several of the kinds of people that you came here to hear and who deserve to be heard. Having said that, I understand your process at this set of hearings is not to have exhibits distributed to you. So I would ask you to take a look at the exhibits that have been given to your committee clerk. They are extensive and I think you would find many things in them of interest to you in your work. The first exhibit has to do with history, with the history of the categorical state aid formulas as they apply to municipalities. It gives you dates. It gives you reasons why they went up and down and what you all have seen fit to do with them through your various fiscal crises. I think a fair summary of the whole thing in the end is that it all started in the early 1970s when the question of appropriate exemptions came up big time, not in the area of sales tax but in the area of property tax. And huge, huge exemptions were made, probably for the right reasons. Everybody can argue right reasons and wrong reasons. But huge exemptions were made to the property tax system. Those exemptions, of course, hurt all of the governing agencies that operated with those revenues and, first and foremost, all of your local political subdivisions. That money was never restored to anywhere near the amount of money that was taken away. Some money was restored. Through time, it ended up in four different state aid formulas. To make a long story short, you've ended the MIRF Infrastructure Fund. You have ended aid to education in it's per-capita form. You've ended MEF rollover funding. And only one municipal aid fund remains. That's an equalization fund, a small equalization fund. That fund does not benefit Lincoln or Omaha or a large number of cities in this state because it is an equalization formula. So, in essence, you have cut off all of the categorical state aid programs for municipalities for a great many cities in the

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state. That's the history that's laid out to you in greater detail. And that's the background against which I would argue on behalf of the municipalities, not for new aid before the restoration of some of that which has been taken away. The second story that is laid out in the exhibits, is more a story of the city of Lincoln and some information pertinent to the city of Lincoln and how we've dealt with things since the financial crisis and the cutbacks and, to some extent, a bit of a history of the city of Lincoln. And then the third item, which is not marked as an exhibit but which is something that is my favorite performance indicator of all time which is made up by your Fiscal Analyst's Office, and this has been...this was the document I lived by in the Legislature. And it tells you two things, in my opinion. And I hope you'll take a good look at it. It tells you, in terms of state and local taxes altogether as a percentage of personal income, how much that's changed over the last half century. And you know, if people think you're not doing well on taxes, you're not doing any worse than we did 50 years ago. It's been fairly constant over time and in the most meaningful way you can describe that. The second thing, more pertinent to my testimony today, has to do with what it tells you about property taxes as a component of those state and local taxes. And it will show you, for example, that back in 1981, '82...or '67, '68, that property taxes were 6.8 percent of the 11.5 percent that government took for taxing overall for state and local. If you go all the way down to the bottom of the chart, it's 4.1 percent, indicating that the Legislatures over the last half century have had some significant success in reducing property taxes as a proportion of total state and local taxes levied. Whether you've had enough success, I'm sure you're going to hear an earful about that. Somehow it astounds me but...and I can understand it much more in an agricultural area, of course. But I can give you personal testimony, anecdotally, myself, that the property taxes remains far and away the most disliked tax in Nebraska. You know, having said those things, let me simply indicate that the situation with regard to a large number of our communities, speaking on behalf of the League, I speak on behalf of villages and second-class cities across this state. Many, many, many of those, into the hundreds, are at the top of their levy. They're also at the top, many of them, of their annual budget increases and are not able to even take advantage of that rule. So they're in a hard way. And their array of usable taxes are not

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great so that when you reduce state aid to them, as you have, it's an even more meaningful thing than it is to the mayor of Lincoln, Nebraska. So I hope you will be cognizant of those things. I hope you understand that the League, itself, and myself, personally, stand ready to meet with you any time for as long as you want, and to gather whatever information could be useful to you, as I hope you believe we have done in the past and as we will do in the future. I wish you luck in all this. I did this at least once, myself, and it's hard, hard work. Thank you. [LR155]

SENATOR HADLEY: Thank you, Mayor Beutler, we appreciate it. Any questions? Seeing none, thank you for coming up. I'm sorry, Heath. [LR155]

SENATOR MELLO: That's fine. That's fine. I want one question, if I could. Thank you, Chairman Hadley. Thank you, Mayor. Real quick, could you provide a little background? I know from the documents and from our legislative history, we eliminated...the Legislature voted to eliminate aid to cities in 2011. Have you seen any changes or challenges in regards to reductions in your public safety work force and/or reductions in public safety budgets due to the loss? I know, Omaha and Lincoln, obviously, are a little different than other municipalities. But could you maybe speak from an urban perspective of challenges that you maybe have or have not had to deal with in regards to public safety because of that elimination of aid? [LR155]

CHRIS BEUTLER: Yeah. Let me describe the expectation on us and how a reduction in aid may affect that area and, in fact, probably does affect that area because safety and security, police, fire, and 911 are, far and away, the number-one thing that the citizens of Lincoln want from their government. And I know that because we've done surveys. We do scientific and nonscientific surveys. I feel like I have a pretty good feeling for what the people want. Over the last six years that I've been in office, during that period of recession, the number of public safety officers in the city of Lincoln has increased by .5 percent, four officers in those ten years or so. That's in a city that's grown, peoplewise, by 10 percent or 11 percent; areawise, by an equal or greater percentage.

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And so...and where we've cut...added police officers in only very few numbers, all of the other departments of city government have far fewer employees than they had six years ago, in the six figures. So my point is, when you lose \$1 million of state aid, for example, that's another ten officers and their equipment that could be on the street for us. It's a subject of discussion with our community based on our performance standards, where we would apply that money. But if you...but pressure on public safety is very real these days. [LR155]

SENATOR MELLO: Okay, thank you. [LR155]

SENATOR HADLEY: Thank you, Mayor. We've got seven people left still, I assume, on...eight people, on property tax. Is that right? [LR155]

\_\_\_\_\_: Well, just income tax. [LR155]

SENATOR HADLEY: Okay. But there's nothing wrong with saying you agree with previous speakers also. Okay? (Laughter) Nothing wrong with...and after we get done with these eight, then we are going to switch to sales tax and... [LR155]

SHELLEY SAHLING-ZART: I think maybe I should wait because I'm on sales tax and I was trying to start you an on-deck chair here, so. [LR155]

SENATOR HADLEY: No, you're up. Well, no. We...I told you...you know, we're not going to send you to the woodshed because you're speaking...this is all about taxes. But I just want to get people who do want to talk about sales tax and income tax a chance to speak. So, okay, yeah. [LR155]

SHELLEY SAHLING-ZART: I tried to start an on-deck chair, but you need about ten of them, so. [LR155]

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SENATOR HADLEY: Okay. [LR155]

SHELLEY SAHLING-ZART: (Exhibit 16) Good afternoon. My name is Shelley Sahling-Zart, S-h-e-l-l-e-y, Sahling-Zart is S-a-h-l-i-n-g-hyphen-Z-a-r-t, I'm vice president and general counsel for Lincoln Electric System, the municipal utility in Lincoln, Nebraska. But I'm here today representing the Nebraska Power Association, which is a voluntary association representing all of Nebraska's publicly owned...what's that? [LR155]

SENATOR HADLEY: The lights just went out. [LR155]

SHELLEY SAHLING-ZART: Yeah. That's appropriate, isn't it? [LR155]

SENATOR HADLEY: What power she has, huh? Just sending us a little message there, huh? [LR155]

SHELLEY SAHLING-ZART: That would not happen in Lincoln. Senator Campbell is on my board. That would not happen in Lincoln. Anyway, the NPA represents all of Nebraska's publicly owned electric utility systems, public power districts, municipalities, rural public power districts, irrigation districts, and co-ops. So I'm here today on behalf of all of them. You've heard a lot...first of all, thank you for doing this. This is a tremendous commitment on your behalf to travel across the state listening to people, and we certainly applaud that effort. You have a large task ahead of you. You've heard a lot today so far about kind of general tax policy, and I'm going to zero you down to a very specific--I'm sorry--sales tax exemption. And first of all, on general terms on sales tax exemptions, I think it's absolutely appropriate that you do a review of those and take a look of those. I think that's incredibly appropriate. We have no problem with that and looking at the rationale behind them and why certain sales exemptions...sales tax exemptions were put in place and whether that rationale is still valid today. The one I'm going to talk about is the sales tax exemption for fuel used in the generation of

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electricity and electricity used in the ag processing and manufacturing areas. First of all, with fuel used in the generation of electricity, it's an input. It's a raw material going into the production of a product. As a general rule, those inputs are typically not taxed because the end-use product is taxed. I think that's true in most, if not all, states. So that's what we believe is the rationale for that tax. The ultimate electricity to the consumer, sales tax is applied to that. Therefore, we believe the sales tax exemption for the fuel used to generate the electricity is a proper sales tax exemption. And why do we care? I mean, at the end of the day, we're publicly owned utilities. We have one source of revenue, it's our rates. And Senator Hadley, you and I discussed once, everything flows through. We pass everything through. Our costs go through. We don't earn income as public utilities. Well, the reason it matters is because all those things go into our rates. And our rates are a huge factor when it comes to economic development and attracting new businesses to our state and getting the Nucor Steels of the world and the Goodyears, now Veyance Technologies, getting them to expand and stay in Nebraska. So people look at our base electric rates and it's important that we try to stay competitive. I'm happy to say we have electric rates in this state that are among the lowest in the country. We've seen some other states start to catch up; that's a fact. But we still have really low electric rates and we want to keep them that way. So if you were to remove this exemption and, thereby, cause a bump in our rates compared to other states, well, we have automatically kind of put ourselves at a disadvantage in comparison to the other states because they're not having that same tax. So from our standpoint, it's a double taxation on the fuel if you eliminate the exemption. And we'd like to see that exemption remain. With regard to the exemption for electricity used in agriculture processing and manufacturing, again, that doesn't go directly to us. But it does go to competitors. We need those businesses here. Those businesses are huge in our electric systems. They're good consumers of electricity. They're one of those loads we really like to have because they're on all the time, they're a very efficient load, and it creates jobs for our communities. So from that standpoint, they also are looking at that as an input to what ultimately becomes the product that they sell or the service they provide that is also taxed. So we would like you to see those exemptions remain,

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particularly the one on fuel used in the generation of electricity. So I zeroed in fairly specifically but I'd be happy to answer any questions. [LR155]

SENATOR HADLEY: Shelley, I have a question. You started out with the idea of looking at the sales and use tax exemptions. And, you know, I certainly agree with that. But I wonder how often or how we should go about doing this because...let me give you an example. Let's say a huge company was willing to come to Lincoln, LES, and it was a huge user of electricity as an ingredient in a manufacturing process. And right now, that would be exempt. Right? [LR155]

SHELLEY SAHLING-ZART: Right. [LR155]

SENATOR HADLEY: And we tell them, you know, the Legislature every three or four years is going to look at that policy and decide whether that policy continues. Do you think that might be an input to whether that company would come here or not? [LR155]

SHELLEY SAHLING-ZART: Yeah, that's a great question. And I know we heard that at the hearings earlier this spring is that that uncertainty is a question mark. I don't know. In some areas you might be able to set down a policy that just says, I'm recommending this because it impacts me. The inputs, you're not going to tax inputs. And that, you provide some certainty on. You know, there are so many, as you know, sales tax exemptions out there that could be categorized differently. And maybe if there's a way to categorize them and group them. But to say, you know, some of these we aren't going to touch. Some of these may, you know, have a good, rational basis and good tax policy. Beyond that, you're absolutely right. That will be a question mark for some people. [LR155]

SENATOR HADLEY: Right. And the only reason I bring this up, this is our third hearing and we've heard a lot about property taxes. And I sometimes wonder whether, especially the ag people, wouldn't trade a little more certainty for the system we have

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now of knowing, you know, that their property taxes aren't going to go up 30 percent or 40 percent in one year. But you... [LR155]

SHELLEY SAHLING-ZART: The problem that I have is, at my rate hearing, are people going to understand that they're paying more in their electric rate because they're going to pay less on their property tax bill? [LR155]

SENATOR HADLEY: Yeah. That's...I... [LR155]

SHELLEY SAHLING-ZART: They're not going to know that when they testify at the microphone at my hearing, I don't expect. I mean, and it still goes back to that competitiveness in the region from a rate standpoint. And that's a huge concern. [LR155]

SENATOR HADLEY: Okay, Shelley. Thank you. Appreciate it. [LR155]

SHELLEY SAHLING-ZART: You bet. Thank you. [LR155]

SENATOR HADLEY: Next. Thank you, sir. Come on up and visit with us. [LR155]

FRANCIS ROHRICH: Okay, thank you. Senator Hadley and members of the committee, I am Francis Rohrich, F-r-a-n-c-i-s R-o-h-r-i-c-h. I'm here to testify in hopes that we can get the income tax eliminated on Social Security. This is not only fair for Social Security recipients, it's also in line with what all but five states do regarding Social Security income. Nebraska is just one of five states in the nation that tax the Social Security benefits to the full extent allowed by federal law. Tax policy in Nebraska is made by passing laws that tax various sorts of income. When those laws are being formulated, there's typically a study done to determine how much revenue the tax will generate so that the taxation rate will be appropriate. That is the normal process but that process was not followed when Nebraska started taxing Social Security benefits. There has

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never been a formal policy to tax Social Security in Nebraska. No law providing for state taxation of Social Security benefits was ever passed by the Legislature. Nebraska's tax on Social Security benefits just happened because of a change in federal income tax policy. In the 1980s, there was considerable debate about how to change the Social Security system to ensure that the program would be able to pay the promised benefits to the baby boomer generation that would retire in the next 30 years or so. In 1984, a compromise was cut that would tax some Social Security benefits at the federal level and that additional new federal income tax revenue would be placed in the Social Security Trust Fund. The federal tax on Social Security was increased in 1993 with the additional tax revenues going into the Medicare Trust Fund to help keep that program solvent well into the future. At that time, Nebraska's income tax was calculated as a percentage of the federal income tax liability. So Nebraska got a windfall benefit in tax revenue. Nebraska's windfall tax benefit was not the result of a policy decision to tax Social Security benefits. The new revenue stream was never anticipated by Nebraska. And the new tax increase for the state was never subject to public debate. When the federal government started using...started taxing Social Security benefits, many states acted to remove Social Security benefits from the state income tax. Nebraska did not. Social Security income helps keep elderly and disabled citizens out of poverty. Iowa and Missouri are in the process of eliminating their state income tax on Social Security benefits for that very reason. The governor of Missouri has stated that Social Security benefits are intended to keep the elderly and disabled citizens out of poverty. It was never intended that Social Security become a revenue source for the state. Railroad retirement... [LR155]

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

FRANCIS ROHRICH: One minute? Okay, thank you. Railroad retirement and Social Security retirement incomes are both intended to keep the disabled and elderly citizens out of poverty. Both programs are vital to the individuals who receive those benefit payments. But the two sets of benefits are treated very differently by Nebraska tax

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policy. Railroad tier 1 and tier 2 benefits are subtracted from the adjusted gross income for the individual before applying the Nebraska income tax tables. It's not only fair to all retirees...it is only fair to all retirees that Social Security benefits have that same kind of preferential treatment. Thank you. [LR155]

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

MARK BEJOT: (Exhibit 17) Good afternoon, Senator Hadley, Senator Schumacher, Senator Sullivan. I'm Mark Bejot, I'm superintendent of schools at Wakefield Community School. And one of the things that I've listened to today and I've thought about... [LR155]

SENATOR HADLEY: If you would spell your first and last name, sir. [LR155]

MARK BEJOT: B-e-j-o-t...is that throughout our history, we sought independence from England because of tax. And we tax revolted in 1776. I've never met a single constituent that's told me, hey, I like to pay taxes and, yet, we like the services that many of our taxes support. This is my third year in Nebraska. I come in from Kansas as an administrator. I am a Nebraska native. And one of the things that I learned down there, very painfully, in the recession in Kansas was that it's important to keep all legs of your tax structure together. Kansas sought to go with sales tax, because that was a soft tax, and eliminate the property taxes in the state. And when crisis hit, the state, suddenly, was \$850 million in the hole. And then everybody was struggling, as well as the legislature, to figure out how to even address the problem because it was so massive in under a year's time. And so I would encourage you as you look at your tax structure, that you keep all legs of your stool together, you know. And I know you've got a tough task assigned to you to look at taxing. As a school official, I realize that property taxes are used at the county and local levels. And I do believe that some type of realignment is needed. Lowering local dependence on property taxes and finding more equitable distribution of tax responsibility is your committee's focus. When I looked at your data

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over an 11-year period, the tax rate changes only changed seven-tenths of a percentage point over a 12-year period of time. However, your valuation doubled in the state. And so, yeah, it's created a problem within the taxes. As a school district, the problem that we face is the fact that the federal government...with sequestration and its process of bringing monies back down and how that plays out. I know with my migrant funds this last year from the federal government, with just one sequestration cut, I went from \$83,000 to \$19,000. And it appears to be that everybody funds until it gets to the bottom end and then you get what's left over of the asking. The problem is, is that those kids still exist and still need to be educated. And so where does a school entity go to make up those losses? My losses last year, as a small school, totaled a little over \$400,000 in a \$5 million budget. So you're going to come back and look at property tax. Did we lower our tax rate asking? Yes, we did, by 2 cents this year. We lowered it the previous year as well. So it's not that we're not sensitive to the tax need. But the problem is, somebody has got to pay some of the bills. And one of the things that I would tell you that is, as you look at TEEOSA--which isn't your issue--you need to look at the funding, whatever you do to fund education. If you want to keep your work force base strong, you've got to somehow educate the kids. Now we can debate which thing you want to do and not want to do all day long. Some things that I always ask as a superintendent, if you're going to come to me with a problem, bring a solution. And one of the things that I would propose to you is to take a look at your property taxes and put them together in a use-base system. In other words, I'm saying, if your tax is based on the crop that you're producing or if it's range ground, if it's recreational, if it's business, if it's tax based on its use, you know, the ground in and of itself doesn't generate income. However, I have seen that, as our economy seems to work, property...land is a real hot item, not only for farmers but for investors. And maybe there needs to be a rate adjustment--if the land is purchased for investment purposes, that there's a tax associated with that. Another suggestion that I would say is consider lowering the percentage of valuation and bring more districts back into equalization. And you've heard that previously brought up, that equalization... [LR155]

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

MARK BEJOT: And I know that you've got...you're challenged with sweeping changes in the Nebraska tax structure. I would ask the committee to make sure that you adequately fund Nebraska schools. I urge you to be bold, to examine your data, and do what's best for all Nebraskans, whether they're taxpayers or they're little guys. Before finalizing your recommendations, please also consider meeting with the Education Committee to discuss the impact of the recommended changes that would occur to schools. Thank you. [LR155]

SENATOR HADLEY: Thank you. Senator Sullivan, you might want to take just a quick minute. The Education Committee is also on a parallel path with this group. You want to take a minute and explain? [LR155]

SENATOR SULLIVAN: Sure. I'd be glad to because along with you, Superintendent, at every hearing we've had, and it's clear and it's true here today, that funding for our public schools is directly tied to these conversations we're having on taxation. And this last legislative session, the whole body charged the Education Committee with taking a very close and in-depth look at what TEEOSA looks like right now but, even more broadly, seeing if we could come up with a different approach to this funding mechanism. So that's exactly what the Education Committee has been doing now. We've met several times. We've come up with some ideas but we're a long way from coming up with any recommendations. What we are starting to do next week, though, is starting our series of public hearings. I think we'll be out toward western Nebraska next week. The following week, I think the one closest to you will be in Macy, Nebraska. But we did send a press release out and my office also has the full schedule. So anyone here who feels that they have more to say about the school funding formula, we certainly welcome your comments and hope that you'll attend the hearings. Thank you. [LR155]

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SENATOR HADLEY: Thank you. Next. [LR155]

BROOK CURTISS: Good afternoon. My name is Brook Curtiss, B-r-o-o-k C-u-r-t-i-s-s, I'm from Plainview. I came today not to give you a long rundown of what I think about taxes but as a first-generation journalist and a first-generation business owner and a first-generation homeowner in my own family. My perspective is, perhaps, a little bit different than a lot of testimony that you've heard already. I can only tell you what I see. I'm a journalist by trade so I sit year after year through budget hearing after budget hearing after budget hearing with no public participation in them. So I'm super excited to see so many people attend this today. I think you should be proud of that. The question...the way that I gather my information is by asking questions and then taking those answers and either reviewing those answers to see if they're sufficient or calling someone else that might know better. And so what I want to do today is encourage you to create a self-sustaining tax system that rewards self-sufficiency. In Plainview, Nebraska, we have a very low--what I consider a very low--property tax levy for our school. Our school is, essentially, self-sufficient at the moment because of the land prices that we have. I believe that that type of work to get your tax district to being self-sufficient should be rewarded. So instead of coming and telling you a bunch of negative...(recorder malfunction)...about taxes, I would like to encourage you to find a way to make the tax system not such a burden and not such a dirty word for everyone when they come into that season. The property owners in a district that is self-sufficient should be proud of that. They should be happy that they're self-reliant on themselves to provide a good education for their children without having to rely on anyone else to do it. And so what I would encourage you to do is, to try to consider a fair system. And by fair, I think I mean the difference between agriculture and commercial land is very different: agricultural land being valued at...or being taxed at 75 percent of its value; commercial land, 100 percent. Commercial versus homes, even in my case, an acreage versus a home. I purchased an acreage five miles south of Plainview a number of years ago. And in those five or six years, my valuation has gone up more than twice the value that it started at. It started at about \$60,000 or \$70,000 and now we're close to \$120,000 so

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just for the simple fact that it's an acreage, not because it's a farm, not because it has any sort of land value attached to it other than just being an acreage. So I would encourage you to do what a former president once encouraged us to do, which was increase the base and lower the rate. I came today with a number of suggestions on how to do that. I realize that I am, perhaps, younger than a lot of people in the room and so some of these suggestions may sound a little crazy. But if you don't consider all of the possibilities, I don't think you can find a new and inventive solution, which is what I think you're after. So in cases of Nebraska, most of our property taxes are dependent on, obviously, rural areas. So perhaps it would be time to create a system for rural property taxes and a system for urban property taxes that are totally different and separate from each other. Obviously, an urban district is going to have more needs in terms of, like, your sales tax idea where a school district could enact a sales tax. In a rural area, that's not going to mean a whole lot. In an urban area, that would mean a great deal, I would assume, because their property taxes are very low. I may not totally agree with that. Oh, my. Okay. Some of those other ideas would be, like the previous speaker said, a tariff on out-of-state owners of land to encourage local owners, local taxes, and local ownership. I would like to encourage you to eliminate taxing subsidies which include paying taxes on taxes or paying taxes...for instance, I pay taxes to my educational service unit which buys products at a subsidized large rate. They buy a huge amount of something and then they turn around and sell it to our school district at a subsidized rate. I sell office supplies, as well, but I can't compete with the price. And so eliminate taxing subsidies and also taxing taxes. As one of the previous speakers said, taxing Social Security taxes is ridiculous. You're handing someone money back and then taking part of that back again. I would like to encourage you to eliminate relief and "robbing Peter to pay Paul" situations. The income tax system of returns, tax returns, has always fascinated me that you can receive more money back than you ever paid in because of tax credits and things like that. That's an automatic loser for the state's accounting system. I think, since I run a newspaper and I'm involved in educating the public, the education of taxpayers is an incredibly important thing. Hearing people come and make testimony that is either not totally correct or somewhat incorrect, has to

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be frustrating. But the education of those taxpayers as to where their taxes come from, how they're made, why they're charged...you know, one of the previous speakers said something about taxing land at different values. That's already being done. We have that system in Nebraska already where agricultural land is priced differently by the assessor than wasteland like...so... [LR155]

SENATOR HADLEY: I think you kind of reached the end of... [LR155]

BROOK CURTISS: Very good. All right. So as a young Nebraskan, I would like to encourage you to find a reasonable, responsible way to adjust our tax system and make it rewarding for those districts that are self-sufficient. Sorry, thank you. [LR155]

SENATOR HADLEY: Thank you so much. Thank you. Next. [LR155]

DICK ERICKSON: (Exhibit 18) My name is Dick Erickson, it's D-i-c-k E-r-i-c-k-s-o-n. Thank you for having me today. I've been in property tax almost 18 years, first as the assessor in Rock County for five years and then as the state appraiser for Dakota County for about nine years and the state assessment manager in Dakota County for two years. When Dakota County went back to being a county office, I was appointed assessor by the Dakota County Board of Commissioners. I retired from that job June 30 of this year and I'm still working as an appraiser for Dakota County. I can state, without hesitation, that none of you on this committee have faced as many mad property taxpayers as I have. (Laughter) In reality, our residential property are not that...our taxes on residential property are not that different from those across the river in Sioux City, Iowa. The big issue in Dakota County is the ag land taxes. These have been applied according to current requirements and have skyrocketed over the last six years. We have two market areas in Dakota County. One is the flat bottom ground between the Missouri River and the bluffs. The area two is the hill ground from the bluffs to the county line. In the past six years, the area one taxes have increased over 220 percent on ag land. The area two taxes on ag land have increased over 400 percent. These tax

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amounts per acre are far above those of Iowa just across the river. I know you're all aware of the situation, that's why you're here today. In my estimation, the issue is very simple. Local subdivisions are too dependent on property tax and some other source of funding needs to be created. You cannot expect property owners to pay all the bills. When I was in Rock County in 1999, I did my own study. In Rock County, 15 percent of the people paid 85 percent of the bills. I applaud your position of a revenue-neutral manner. I think this is imperative for the state to take action that will not result in a shift of property taxes from one property taxpayer to another. Overall, we must see a reduction in property tax burden to support local subdivisions. Overall, that shift needs to be from property tax owners to other sources of revenue. The issue I see with agricultural land (inaudible) is, it only shifts the tax burden to other real property, whether it be by reduction of a percentage of the market value it is currently valued at or by adopting an income approach. I served on Senator Coordsen's committee in 1999 and it became very apparent that, by reducing the ag land valuation tax process, we were just shifting those dollars to another piece of property tax, whether it be personal or real. Agriculture is the only industry I'm aware of that is willing to operate on a 3.5 percent to 4 percent cap rate. Any other business, whether it be retail, rental property, or service business demands 10 percent to 15 percent return on the investment. If you look at the percentage of property tax to net operating income, the percentage will be two to three times higher than in other industries...will be two to three times higher in other industries. As you are aware, Nebraska ag land pays a much higher tax per acre than any other. Local government and property taxes: It is absolutely a fact that local government is too reliant on property tax. I sincerely believe property tax relief by increasing state aid funding from sales and income tax is a good idea. One of the major problems I see is, the untethered ability of a village, town, or city to create... [LR155]

SENATOR HADLEY: You've got one minute left. [LR155]

DICK ERICKSON: Okay. One of the major problems I see is the untethered ability of a village, town, or city to create increment tax financing. The problem here is, this diverts

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15 years of property tax from the county, the schools, the community college, and so forth. As an example, in South Sioux, it...South Sioux has created several TIFs in recent years. The 2013 values total approximately \$38,616,000. This brings approximately \$855,000 into...when using the 2012 levies. South Sioux gets \$529,000 of that money. All the rest of the subdivisions get \$326,000. This could amount to, over a 15-year period, \$5,595,000. That's a lot of money. All right. I'm going to move right back here real quick and I know I'm running out of time, so bear with me. [LR155]

SENATOR HADLEY: Yep. It's ticking down. [LR155]

DICK ERICKSON: I know it. You guys are always in a hurry. It took me a week to put this together and I got two minutes to say it. [LR155]

SENATOR HADLEY: (Laugh) Just...I won't count this against your time, but anybody that has written testimony, all you have to do is send it to us also or that we...yeah. [LR155]

DICK ERICKSON: I did, all six pages, sir. [LR155]

SENATOR HADLEY: Yeah. Okay. So...okay. That's absolutely fine. No problem. [LR155]

DICK ERICKSON: All right. Suggested new forms of revenue: Internet sales tax, I do like the idea of sales tax on Internet sales. The dollars spent on the Internet are staggering and that revenue should be coming to the state. The revenue would be a big help in supplying funds for property tax relief. One of the things I believe would be a tremendous help to Dakota County is a county-specific income tax. An example: In Dakota County we have 110 employees of the county. Thirty of those people live out of the county. Those people give absolutely nothing to the county through property tax. If you go to Tyson, our big meat-packing plant, they have 4,500 employees. And if you

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count the license plates in the parking lot--which I have done--about 50 percent live out of the county. Those people contribute absolutely nothing to the county. [LR155]

SENATOR HADLEY: I think we have to wrap it up. [LR155]

DICK ERICKSON: I'm wearing it out. [LR155]

SENATOR HADLEY: Yeah, you kind of have to...about ten more seconds to wrap it up. [LR155]

DICK ERICKSON: I would encourage each of you to read this completely. [LR155]

SENATOR HADLEY: We appreciate your... [LR155]

DICK ERICKSON: And the other thing I would like to talk about was legalizing gaming but, obviously, I didn't get to it. And that is a huge source of income that we're not tapping. Read this. [LR155]

SENATOR HADLEY: Okay. Thank you. Thank you, Mr. Erickson. Next. [LR155]

GEORGE PICK: Members of the committee, Mr. Chairman, George Pick, P-i-c-k, Hartington, Nebraska, Cedar County. I did some homework and I've got some proposals and, also, some suggestions here for research to...we can correct some of the mistakes I feel have been made. I would like to see Nebraska have an equalization and universal physical depreciation schedule. I have seen \$40,000 homes, 20 percent deduction the first year; \$300,000 homes, 20 percent deduction. I pulled the card files where a 90-year home gets 65 percent. This is not equalization. What we need is a universal law, treat everybody alike. And in my opinion, it should be the first deduction should be the first five years, 0 percent to 5 percent. The next ten years it should be no more than 10 percent. And the Legislature is going to have to do it. It's got to be universal. And it's

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everybody paying their share. My proposal is, I want to see everybody pay their share. Don't forget, we took our furniture off also. But lo and behold, we put a tax on farm sales. Now the simple solution to putting the furniture tax back on, if you've got a \$300,000 home, you just add a surcharge of \$30 because everybody has got furniture--simple. If it's a \$500,000 home, you add \$50--simple. Keep it simple. I noticed in your proposal here about ag land...my solution is very simple. You go ahead and take the sales but leave the neighbors alone. Nobody has a problem with that. But I live in a county that's got 36 miles of river frontage and we've had the National Park Service buy up land, the Game and Parks Commission, and we've lost \$60,000 in revenue that, if it was owned by a private individual, would be paid. We need legislation that if...they should pay, in lieu of taxes, the same amount if that was owned by a private individual. Simple, pay your share. Okay? You know, when I look at valuing this farmland every time somebody buys a farm at a huge price, it bothers me because I represented Ak-Sar-Ben for 40 years as an ambassador. I gave out a lot of Pioneer Farm Awards. And when a farm is five generations in a family, they have no intention of selling it, how do you put a value on that? It's not for sale. I know, myself, I had a terrific offer. I said, it's not for sale. And I really question how they can mandatory move everybody else's up. I have an extreme problem with that. And I'll tell you, if you'd go sales, leave the neighbors alone--simple. And I told you about...the homestead exemption, as far as I'm concerned, must go. This is nothing but legislation, politicalwise--correct?--from a standpoint of taxation, bad legislation. How many people realize this homestead exemption isn't even on net worth? And I know of millionaires that qualified for that homestead exemption because the federal government changed the law. If you put in irrigation or bought a expensive tractor or a combine, you qualified. That's wrong, people. Get away with it. If you own a home, pay your tax like everybody else. Let's get everybody to pay their share. I'm going to really get to the good stuff. [LR155]

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

GEORGE PICK: Pardon me? Oh, God, come on. I've got...amen. Okay. I got a problem

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with this. We got a national holiday, and we got national budget problems, we got state problems, city problems, we all got problems. But whoever started this, you get paid holidays? I mean, you're not at work, why should you be paid? Let's give everybody to pay their shot. You notice, I'm not being prejudiced here. I've already hit the homeowners, hit the elderly, and now I'm at the workers. My view is, simply, they're not at work. Let them have the holiday but let's do it without pay. Do you realize how that would save on the federal level, the state level, the county level, and etcetera? Think about it. Okay? And education: I'd like to know on education, what did our forefathers mean when they said everybody is entitled to a public education? What were they talking about, reading, writing, arithmetic, math, and science? Or were they talking about golf, softball, and soccer? What were they talking about? My proposal is this, and you may think it's off the wall, but I'm going to ask the research people to do some looking into this. You know, why don't we allow just two sports during the school year, which is simple, boys and girls basketball, football, and volleyball? Now we took care of Title IX. Okay? Now, the rest, what are we going to do with them? We're going to run those during the summer. You know, the truth we got with education, the students are not in the classroom. That's the problem. Asian countries don't have this, Europeans don't, and we're way down the list in educating our students. You take a look. We'll have the students in the classroom. Now what are we going to do about all these summer activities? I'll give you the answer. We got track and field, we got golf, we got soccer, we got softball, we got baseball. Taxpayers should not have to pay for those activities. Who's going to pay for them? The coaching, the officials, and the transportation should be done through the free enterprise system. Who's the free enterprise system? That's mom and dad. But wait a minute. We're going to hear, oh, the poor kids don't get to play. I've got an answer to that. It's time the news media and the rest of us spoke up. What is Reebok, Nike, Adidas, Spalding, Wilson paying all these athletes' endorsements, Tiger Woods, \$40 million; Serena Williams, \$20 million? Why don't they pay for this program? They're the ones that made the money off the kids. They're making the money, they should pay the bill, not the taxpayer. [LR155]

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SENATOR HADLEY: Thank you, sir. [LR155]

GEORGE PICK: Well, I've got a lot more here. You're going to get to the good stuff.  
[LR155]

SENATOR HADLEY: Well, I know. But, you know, we've kind of run out of time, sir.  
[LR155]

GEORGE PICK: I know, but I'm going to hit on an area which nobody else has hit on.  
[LR155]

SENATOR HADLEY: Well, we've run out of time and we've got six or eight people  
waiting. [LR155]

GEORGE PICK: I'm sure he'd yield his time... [LR155]

SENATOR HADLEY: Well, we really do. (Laughter) We've got seven or eight people,  
so. We appreciate it. Thank you. [LR155]

GEORGE PICK: Yeah, but I'm going to tell you something nobody else has talked  
about. I'd like to hit on these checkoffs. You're looking at the guy that founded the Pork  
Producers. And the checkoff started with George Hormel and Company. And they  
agreed to match whatever the producer agreed to...5 cents a head. It started there and  
right here in Norfolk, the Norfolk sale barn, (inaudible) pitched in. And it got so well, the  
government decided, that looks pretty good, and it got to be mandatory. And my  
position is this: Agriculture, again, is paying the whole bill, corporate America is paying  
nothing. And I'd like to have the chance to go into that because I can explain it. [LR155]

SENATOR HADLEY: Mr. Pick, you've given us more ideas; we have a plateful of your  
ideas. Thank you. [LR155]

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GEORGE PICK: Okay. I knew you didn't want to hear the real stuff. [LR155]

SENATOR HADLEY: Well, we do. But we have a lot of other people. Thank you for coming. Now you want to follow that? (Laughter) [LR155]

DARYLE URWILER: I'll try to save a few minutes here. My name is Daryle Urwiler, D-a-r-y-l-e U-r-w-i-l-e-r, I'm a retired school teacher of 50 years and a current farmer. And I'm still doing that after 53 years. And I just have a couple of thoughts I wanted to share with you and you can put it into any order that you want. But I think the problem with a lot of the real estate value is, that we all get...the value of the real estate that we own keeps going up because some neighbors are competing against the ground that's for sale and are now counting the prices up to \$10,000, \$12,000 an acre. Then they raise everybody's valuation. And this, of course, supposedly, gives the schools and the counties and so forth a chance to lower their tax levy. I served on the school board for four years after I retired. And I thought...I didn't go on the board for any agenda but I went on the board because I was interested. And I found out there is a lot of money that's spent because you have to spend it. For example, teachers' salary. During the recession, when people were getting a 1-percent raise, we had to give the teachers 5-percent raise, mandatory. If you didn't, you went to the Court of Industrial Relations. So, you know, things like that need to be changed too. And you know, we look at this valuation of the farmland and every time it goes up, the taxes go up. The landlords raise the rent. Who can afford to pay the rent? Who can afford to pay the \$10,000, \$12,000? Only the people that are getting the big government payments already during the current farm program. Now think a little bit about the young people. Look at the crowd that's here today. I'll bet there's a lot of farmers in this room and you don't see anybody here in their 20s. It's almost impossible for somebody to start farming today. I've got a 22-year-old grandson that would love to farm. And unless I die, he's not going to have a chance because he can't pay the rent--only the big megafarmers can pay the \$500 an acre cash rent--and he can't afford to buy the ground at \$10,000 or \$12,000. So who's

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going to be our farmers 15 years from now? Only those that are so wealthy today that they can afford to pay that price. And so we're cutting all the young people right out. And I'd like you to kind of consider that when you're looking at some of these tax issues too. You know, personally, I'm not complaining about my taxes. I'm like the other gentleman, I've got teachers' retirement, I've got Social Security, and I even have a farm income so I'm okay. But the young people aren't okay. They're the ones we have to look out for. And having said that, I'll give up my seat, unless there's any questions. [LR155]

SENATOR HADLEY: Thank you, Mr. Urwiler. Thank you. Thank you. Next. [LR155]

RANDY GATES: Good afternoon. I'm Randy Gates, finance officer for the city of Norfolk, G-a-t-e-s. I'm going to shorten up my testimony and not repeat a lot of what everybody else has said. But I wanted to give some...a few Norfolk-specific examples about what you've heard here of people not liking property tax. They'd rather have some other form of tax than property tax to pay for the services. People want services, they know they've got to pay for them, but I think most people would rather pay for them with something besides property tax. Norfolk has had several ballot issues over the years that, I think, show that. Citizens approved a 1-percent sales tax in 1984 which went all for property tax relief. They approved another half cent in 2002, half of which was for property tax relief. And then on the general election ballot in 2010, there was a \$16.4 million recreation bond issue. That passed and I think it passed because it wasn't being paid for with property tax. We used occupation taxes on food and beverage and on lodging. We had an earlier recreation bond issue--and I'll give you the fact that that wasn't an identical bond issue, by any means, but similar--and that was to be paid for with property tax and that failed. I think the main...the big...one of the big differences and one of the big reasons why it passed was a different revenue source to pay for it, so. And Norfolk voters, I think, have shown clearly at the ballot box, they prefer some sort of tax other than property tax to pay for their services. And I fully support Mayor Beutler's recommendation that state aid be restored. In fiscal year 1994, which is the farthest back I could grab numbers easily, Norfolk had state aid of about \$318,000, we

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had MIRF of \$73,000. That totals about \$392,000. If we'd adjust that for inflation, we'd be talking about \$626,000 in today's dollars. Equating that into property tax, it would be about a 5.5 cent levy rate in Norfolk or \$55 property tax on a hypothetical \$100,000 home. I think Norfolk voters would welcome that kind of a property tax decrease. While discussing state aid, I think I'd be remiss--especially when we're in Norfolk--if I didn't mention Municipal Equalization Funding, or "MEF." This kind of goes back to LB1114 that the Legislature passed back in 2012. MEF was put in place to equalize the ability to levy property taxes between cities. The idea was that municipalities that had a low assessed value per capita would get some additional state aid to help offset their lower ability to fund their services with property tax. Norfolk has a low assessed valuation per capita and we should be getting significant MEF funding. However, because you reduced MEF funding 20 percent for each fraction of a cent the nonbond levy raised below the state average, we were getting nothing until LB1114 in 2012. And what that does is, it penalizes the cities who fund their services with nonproperty tax revenue or if they provide their citizens a lower level of service. If their particular citizens don't want a water park, their particular citizens aren't paying for that, they may have lower property tax. [LR155]

SENATOR HADLEY: One minute left. [LR155]

RANDY GATES: All right, I'll wrap this up. So we're now getting \$110,000 in that, and that's a real welcome addition. But it's only a fifth of what we'd receive based on our low assessed value per capita and I think our citizens are being penalized because of that. I'll quickly summarize my observations. I think citizens don't like property tax. And I feel the committee recommendation should not do anything to put more pressure on property tax. Instead, I think, citizens would generally welcome reduced pressure on property tax. Restoring state aid to municipalities would help with that. I also feel penalizing low property tax cities in the MEF formula is counter to that. I think citizens desire alternatives to property tax and I hope the committee doesn't recommend any reductions in funding options municipalities currently have. And I'd be happy to answer

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any questions. [LR155]

SENATOR HADLEY: I think Senator Hansen has a question. [LR155]

SENATOR HANSEN: I do. Mr. Gates, are you saying that the recreation issue that you had and you couldn't pass anything if you (inaudible) back the property taxes, but this recreation item you did get passed by calling it occupation tax. But, actually, it was a sales tax that your visitors who come to Norfolk are going to pay through restaurant and motel taxes. Is that right? It's a sale...occupation... [LR155]

RANDY GATES: What I said is, it was an occupation tax which is different than a sales tax. [LR155]

SENATOR HANSEN: Because somebody else pays it other than the residents? [LR155]

RANDY GATES: Well, that's an advantage to sales tax. [LR155]

SENATOR HANSEN: My town does the same thing too. [LR155]

RANDY GATES: It's an advantage to occupation tax. But when you have citizens come in...other citizens coming into your community, they're using your city services. They're using your streets, they're usually going to your library, your parks, or taking advantage of police protection, your fire protection, your ambulance services. They're using a lot of city services. And, yeah, if they go to the restaurant and eat out, they're paying 2 percent added to their restaurant bill. But that helps pay for those city services. But, yeah, a tax somebody else pays is the best kind of tax. [LR155]

SENATOR HANSEN: That's the best kind of tax. Thank you. [LR155]

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SENATOR HADLEY: Thank you, Randy. Next. [LR155]

MARLENE JOHNSON: Good afternoon. I hope to keep this short and sweet and I hope to not repeat anything that anyone else has said. Senator Hadley and members of the Tax Modernization Committee, thank you so much for being so very patient and so alert and continuing to look lively and bushy tailed and listening to us. My name is Marlene Johnson, M-a-r-l-e-n-e, Johnson, s-o-n. I want to thank you for having us here today. For the past 15 years, I have served as mayor of the city of West Point so I've experienced many, many changes in the budget process and in how to fund things and finding ways to do the services that our citizens want and expect. In 1995, the city of West Point's mill levy was .7153. After the Legislature passed the lid on the levy limit, we were required to reduce our levy to .45 and we had to do that within three years. So we had to...they, at that time, then they offered us aid to offset the difference between what was...what we previously had and to offset this lowering of the mill levy. So it forced us to make a lot of decisions on projects that we could afford, things that we felt we could do. And a lot of repair and maintenance projects were put off, like street repairs and that type of thing, because we, frankly, didn't have the money in the budget to do that. We have a lot of fixed costs that we can't control. Some instances are health insurance, the liability insurance, snow removal, which nobody ever thinks of, but the citizens become irate if you don't clean the streets at 4:00 o'clock in the morning on the day after it snows. So we have also cut back on staff. We have reduced one police officer. We have not replaced two people in our street department. We are cross-training people, our employees, so that they can work in more than one department and that they can trade back and forth and help each other out. So we have done some things to reduce staff. If we try to reduce it any further, actually, all of our city services would be seriously curtailed and it would be a real problem. One of the things that has helped us is that our valuation has increased some almost every year. It doesn't increase a lot but it has continued to increase so that has helped us to acquire a few extra dollars to add to our budget. In 2008, we felt it was necessary to ask the voters to support a 1-percent sales tax. So this was after all the reductions and all of the

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aid was taken away, we then looked at sales tax. We had not had it before. And the voters passed that issue, the 1 percent. And so we were able to do a lot of projects in West Point that we had been putting off. And then in 2012, we again went back to the voters and they passed an additional half-cent sales tax. One-quarter percent of that now goes for an LB840 economic development program, money that we did not have in the budget to help with economic development. And most businesses and industries and so forth that come to you, they always ask, what can you do to help us? What can you do that would cause us to come to your community to be a part of your community? And so now, since we have the LB840, that allows us to have money that we can probably...that we do loan to a business. They pay it back to us and we, then, turn that over again and loan it to another business to help get started or to help expand. We're great in expanding businesses that we have so that they will stay with us. So, you know, and we don't do occupation tax. We have some franchise taxes, which I know are the same thing, on a couple of items. But we don't really get into occupation taxes because, in a community of 3,600 people, you can't generate enough funds to make a difference in your budget, you know, to add a lot of money to your dollars. So it's...we've tried...we've even done some interlocal agreements with the county and with...right now, we're working on...the four communities in our county are working on getting together and accumulating all of the, like, street repairs that we each need to make. And we're looking at getting together and having one engineer come in, engineer all of those street repairs and then going out for bids for all four communities, one bidder to do all four communities, and then let them come in and do it as they have time to fit it in, in their schedule. And so we're working on that right now and, hopefully, we can get that accomplished, you know, in the very near future for next year's construction season. So I just want to thank you for giving your time. I don't have any magic answers. I wish I could say I do. I know this is something that's probably going to take a lot more time than we think it's going to take because you can't just change it over night. And so it's a situation that is going to have to be worked out for quite a while. The only other thing that I wish someone would come up with a magic bullet is to get young people to move to our state so that we've got people to work in the jobs because in our local paper

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we've got three pages of jobs available and we don't have any people to fill them. So thank you very much for your time. [LR155]

SENATOR HADLEY: Marlene, thank you very much for coming. Any questions? Thank you, Marlene. [LR155]

MARLENE JOHNSON: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

CLAYTON FISCHER: My name is Clayton Fischer, I live west of Pierce, Nebraska, in Pierce County. I'm here to talk on the property tax. Thank you for your time. My taxes have gone... [LR155]

SENATOR HADLEY: Would you...could we have you spell your first and last name, sir? [LR155]

CLAYTON FISCHER: Clayton, C-l-a-y-t-o-n, Fischer, F-i-s-c-h-e-r. [LR155]

SENATOR HADLEY: Okay. [LR155]

CLAYTON FISCHER: My tax valuations went up 29.3 percent this year. Now I farm with two boys, my sons, and I'm trying to get them into the farming business. And it's one thing for the valuation to go up, but our school district is totally out of control on their spending. And when you talk to our school board about it, they go, well, the senators down state set that. We got a set number. We got to give our teachers an increase every year. You talk to our county assessor. Well, we got to leave our valuation levels up high, otherwise the TERC board is going to come down on me. You talk to other people: Talk to your senators. You talk to your senators: The commissioners set the levies. Seventy percent of my taxes go to our school district and there's no control on

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the spending. They got rid of four teachers, I believe, two or three years ago. This year, they lowered the mill levy 2 cents, \$100,000-some, \$130,000-some off of their budget. The gentlemen sitting next to me at the meeting the other day were just appalled. How could you do that? That's only \$34 for one quarter. And farmers are rich, they got irrigated land. That's not...it was \$34 off of a \$1,800 increase per quarter on my land. That's almost...on 160 acres, it's over \$10 an acre, like \$12.50 a acre. So there is no communication between rural...urban people and rural people. People living on an acreage are paying \$1,800 for their acreage, working in Norfolk, sending their kids to Pierce, Nebraska. It's great. Eighteen hundred bucks, their kids get an education. It cost me \$12,000 more this year in taxes. What's the big savings for me? Okay? I got to make my ends meet on my deal. Going back to the teachers, we had a school board meeting and the school board said, this is our budget. We lowered the mill levy 2 cents, \$134,000. Nobody mentioned that the increase was \$900,000-and-some to the school district. All right? So they lowered it 2 cents down to \$800,000-some-odd. Wow, that's great. And what did they lower it...why did they do that? So now we've got a reserve. I'm paying over 5 percent interest to operate my farm. They're putting on savings for, what, 1 percent, 2 percent? I don't know what you can get. But they're taxing a farmer at 5 percent. The money has got to be borrowed at 5 percent to run the business. And they're putting on a reserve. The whole meeting was over with. There was teachers in the crowd, I'm assuming, supporting the ad that was in the paper. But not once did they say they were going to hire another teacher. And the president of the school board said, we did hire one more teacher. Nobody in our area is against hiring teachers. Education is important, I think everybody agrees with that. But it's ridiculous at how money is being spent and taken from taxpayers with no need, no real need. And that reserve is ridiculous. Everything I buy is taxed. There's a...in here under sales tax options, there's a statement here: Nebraska exempts farm machinery and equipment but not repair or replacement parts. That's not a true statement. I pay personal property tax on any piece of equipment I buy or I pay the sales tax. There's one or the other. You're not...you don't get away from it. I don't have any real solution. But I went to school in South Dakota, South Dakota State, and I think Mr. Gates here brought up a good point. They could not

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pass that recreation thing in Norfolk here with property tax. But you put the tax someplace else and people will do it. [LR155]

SENATOR HADLEY: One minute left. [LR155]

CLAYTON FISCHER: Thank you. I would like you people to look at putting a tax on food just to fund the school. South Dakota taxes food. Mr. Gates taxes people that are staying in motels and eat in restaurants. I don't think it has slowed the business in Norfolk. I think we should try something different. I don't know why people are afraid to do that. Thank you for your time. [LR155]

SENATOR HADLEY: Thank you, Mr. Fischer. Questions? Seeing none, thank you for coming. We appreciate it. Next. [LR155]

JEFFREY SCHERER: Good afternoon. My name is Jeffrey Scherer, J-e-f-f-r-e-y S-c-h-e-r-e-r. I want to thank you, Chairman Hadley, and the rest of the Revenue Committee for doing something that I think is a novel concept today in politics: for politicians to actually come out and listen to their constituents and see what's on their minds. I wish we could get that to happen on a national scale. I was the 2011 chairman of the Nebraska Chamber of Commerce and Industry and the 2012 president of the Nebraska Diplomats. And I don't have a prepared speech. I don't have...I'm not here to talk about property taxes, so I'm sure you're all pleased to hear those two things. But I do want to talk about some observations with the Chamber, the Diplomats, and with my real job as the chief financial officer of Smeal Fire Apparatus in Snyder and Neligh, Nebraska, and primarily income tax and sales tax. And in regards to income tax, I do urge you to look at the current income tax brackets and consider adding brackets and broadening those brackets. I don't...I'm all in favor of a progressive tax system. I'm not practicing public accounting but I have a certificate from the Nebraska Board of Public Accountancy, certificate number 4504, so I do know a little bit about this subject as I did practice public accounting many years ago. But the fact is that we start taxing people in

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Nebraska at the highest top rate way too soon. And as you know, with the State Chamber, we've made a lot of progress in making Nebraska a business-friendly state. We've moved up the ranks on national polls in many regards. Taxation is really the final frontier with that. And when it comes to Nebraska's ranking in regards to taxation, we're in the bottom half and we know we could do better than that. And I don't think it takes a complete overhaul of the income tax system. Just reducing those top rates a small amount and, as I mentioned, adding brackets and broadening that base, I think, would go a long ways. There's been a lot of talk today about exemptions for retirees. I think that has a lot of merit. I don't think Warren Buffett should be...have his Social Security benefits exempt. I think there should be limits on that. But I think there could be reasonable limits with a certain AGI level that makes sense for most people in Nebraska at retirement age to have those benefits exempted. I also agree with the exemption on military retirees. In fact, one of the things I want to talk about are incentives. And I think...I would challenge all of you to consider an incentive for anybody coming out of the military, whether they're 25, 55, or 65. And think about offering them something, an uncomplicated incentive, maybe three years of no tax provided that you stay an additional three years, and that tax could be forgiven over the course of those next three years. They're not really costing us anything to have them here for those next three years but, at the same time, we're increasing our population. I think that's really the key that's going to be necessary to spreading the base and helping solve a lot of the income tax, sales tax and, certainly, property tax issues. One of the other things that I feel compelled to mention is incentives. There's a lot of discussion about incentives today and a lot of people don't think incentives work. I feel completely opposite. I feel incentives give Nebraska a competitive advantage over Iowa and other states, South Dakota, states that are hard to compete with in a lot of ways. But if we don't offer these incentives, we're pretty much locking ourselves out of the market. I can guarantee you that anybody here that would want to take the time after this to drive up to our plant in Neligh, Nebraska, just 35 miles away from here, and talk with Mayor Jeri Anderson, she could give you a firsthand account of how important those incentives are and what those 25 jobs that we provide to Neligh mean. The last thing I'm going to discuss is

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sales tax exemptions. As many of you know, we build fire trucks. The biggest single component of a fire truck is the chassis. Most of the chassis we buy are custom chassis in excess of \$200,000 each. We work in a very competitive market. All our trucks are subject to specifications and bids. We have to be competitive at the bid table. If we add 5.5 percent to the cost of that chassis, we either go negative on our margins or we are uncompetitive at the bid table and we don't sell trucks. Either way, we're out of business. So taxing inputs, I don't feel, is realistic for any manufacturers, I don't think it's realistic for farmers, and I think it's going to provide a further uncompetitive disadvantage for Nebraska business. And certainly, many of you had the opportunity today to tour Nucor Steel. Nucor Steel is a gem for northeast Nebraska. They're not only...northeast Nebraska is one of their largest employers but one of the best corporate citizens you're going to find anywhere across the state. I guarantee you that if you start taxing energy costs, that Nucor will not be in Nebraska, they'll be elsewhere. And with that, I want to thank you all for my opportunity. [LR155]

SENATOR HADLEY: Thank you. Appreciate it. Any questions? Seeing none, thank you for coming out. We appreciate it and we appreciate all you do for Nebraska. Next. [LR155]

DOYLE HOPPER: Good to see you guys again and thank you. My name is Doyle Hopper, D-o-y-l-e H-o-p-p-e-r, I'm the vice president and general manager of Nucor Vulcraft, Nucor Cold Finish, and our Nucor Detailing Center. And it's a lot better testifying right now than it was back about six months ago because I think it was 12:45 in the morning. You're going to hear some things from my counterpart, Dirk, here in just a few moments about inputs and about the cost, the numbers. I wanted to start out a little bit different today. I wanted to open, of course, my brief comments with an article from September 24, 1964. It's amazing that I found that newspaper. And I'm going to read this. This is directly out of the newspaper September 24, 1964: Proof that Nebraskans can harvest more than just corn from cornfields was apparent Thursday at the official opening of Norfolk's new Vulcraft plant. On hand for the official opening of

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the steel joist plant were Nuclear Corporation officials--at that time we went by Nuclear, not Nucor--and a Governor plugging for more industrial expansion in the state of Nebraska and many delighted city officials. One year ago this was a cornfield, said Ken Iverson, Nuclear Corporation vice president, as he opened the ceremonies. Today--not speaking of today but at that date--there is an 80,000 square foot plant with a \$500,000 payroll which will exceed \$1 million in one year--which would be 1965--and a brand new partnership between Nucor and Nebraska, Mr. Iverson commented. Behind all of this was an industrial action committee rated the finest we have ever seen and have ever noted, stated Nucor president, David Thomas. Governor Frank Morrison in a brief speech told 50 people present that Nebraska is overlooked too many times for industrial expansion. Our state, he said, has unlimited potential for industrial activity. President David Thomas also said, we are very proud of our Nebraska comrades and we feel this will be a very happy association for many years to come. And that was in the Norfolk Daily News 49 years ago this week. Now this is not from the paper, this is from me: Forty-nine years ago this week, Nucor Vulcraft was opened, and it would be the catalyst that would launch the greatest steel company ever to be seen. Eight years later, because of the great partnership between Nucor, the state, the city, and the county, Nucor Nebraska, the second steel mill of Nucor, would be built here. And it would redefine the steel industry in the high-quality SBQ grades. Thirty teammates started that day in 1964, 30 folks right here in Norfolk. Today we are pushing 1,100 teammates in the city of Norfolk, Nebraska, and that's just Nucor teammates. This growth would not stop for Nucor or for Nebraska. A steel deck plant would later be built adjacent to the joist plant. Also, the largest cold-finish bar facility in North America would be built only a few years later. Because of this possible partnership and this great partnership between all of the local officials and the state, Norfolk, Nebraska, would become one of the largest centers for Nucor facilities and employees--or teammates, as we call them--in the country. I ask you today to not let this growth be handicapped. As you'll hear from Dirk in a moment, we are looking at expanding. We are expanding. We have expanded since 1964. And don't let this be handicapped or severely impact our ability to compete and grow right here in Nebraska. Also, one thing, not just what we're talking about with

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inputs but just the uncertainty, just the discussions of, "we will maybe discuss this every four or five or six years," that uncertainty is a huge thing. With that uncertainty, we are uncertain at how we are going to grow, how we are going to expand. Thank you very much for your time and your services for the great state. And really, thank you for all that you've done so far in coming out here and listening to the community and it was great seeing you guys today. [LR155]

SENATOR HADLEY: Thank you. Appreciate it. Dirk. [LR155]

DIRK PETERSEN: Good afternoon. My name is Dirk Petersen, D-i-r-k, Petersen is spelled s-e-n, not s-o-n. I'm the vice president and general manager for Nucor Corporation, Nucor Steel here in Norfolk, Nebraska. First off, Nucor would like to thank the Revenue Committee for meeting here in Norfolk and listening to input on our tax structure. Nebraska is a great state to live and work and, partially, due to the efforts of our elected officials who listen to concerns of our citizens and strive to do the right thing in governing our state. It's hugely important that we keep our state business friendly. Our tax structure is extremely key in whether new businesses will come to our state and if current businesses will remain or expand in our state. We realize that, for every revenue decrease, that there must be revenue increase somewhere else in the tax structure. When Nucor decided to build the Vulcraft plant in 1964 followed by a steel mill in 1972, we decided to build in Nebraska for a number of reasons. The business climate was friendly and we have hardworking people in this state that want to make a good, honest living. This has not changed and it is important that it doesn't so we can continue to thrive and provide jobs to nearly 1,100 people in Norfolk, as Doyle was saying, at our four facilities, and continue to provide a payroll of over \$70 million annually with jobs...with pay averaging over \$75,000 a year. At Nucor, it is vital that we continue to get sales tax exemptions on our inputs to make steel. These inputs include scrap, electricity, and natural gas, consumables like tools and dies and manufacturing machinery. As you recall in LB405 and LB406, these exemptions were all going to be eliminated. That would have been devastating to Nucor and would have caused us not

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to spend over \$215 million in capital improvements and create 60 new jobs at our mill. And we would have chosen to spend this money and create those jobs at our facility in Memphis, Tennessee, rather than here in Norfolk. And that's what I told you when I...if you recall, in my testimony in February. But the good news is, with the tabling of LB405 and LB406, we decided to proceed with the capital improvements. I told some of you and others that we decided to move forward because we have faith in our great state and our elected officials in making the right decisions to keep our state business friendly. I'm very happy to say that we moved ahead and the \$215 million worth of capital improvements with a reconstruction project of one of our rolling mills and also in our melt shop. This will increase our capacity by nearly 25 percent and improve our quality as we continue to move up the quality food chain. In addition, we have added over 60 jobs to support our increased capacity. One thing we always focus on is bringing in more business partners, too. When we have an opportunity to bring in more business that uses our products, it is hugely important that our state and community is viewed as business friendly. It is important for existing businesses in the state of Nebraska to be confident that the business climate will remain friendly in the long haul. Likewise, new businesses thinking about locating here need to feel the same way. This includes uncertainty regarding sales tax exemptions. Businesses must be confident that the situation today does not change drastically in the future. This impacts existing businesses' choices of where they're going to spend their money, just like we chose here based on what happened in February, and also new businesses that want to look at putting facilities here in Nebraska. Also, Nucor supports incentives so businesses are compelled to expand and for new businesses to come into the state. So with that, I appreciate the work you're doing to make sure businesses like ourselves can continue to do well in this state. Thank you very much. [LR155]

SENATOR HADLEY: Thank you, Dirk. Are there questions? Thank you and thank you, again, for the wonderful tour of your facilities today. Thank you. [LR155]

DIRK PETERSEN: Appreciate you all coming. [LR155]

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SENATOR HADLEY: Next. [LR155]

ART TANDERUP: Good afternoon, Mr. Chair and members of the committee. My name is Art Tanderup, A-r-t T-a-n-d-e-r-u-p, I live near Neligh. A lot of things have been said about all kinds of taxes today and, like many have said before me today, the best tax is one that I don't have to pay. Well, there's one thing that Nebraska can do, I think, to help with the tax situation. That is, we need more people paying the taxes. The gentleman a few minutes ago alluded to that same fact. So we need to keep our good, strong educational systems that we have. And granted, they cost a lot of money. I, too, as a landowner, looked at my tax evaluation and told the wife to call the ambulance--27 percent increase in tax evaluation. And I know most of it goes to the school, but we have to have good, quality schools in this state so that we can have good, productive citizens. And once we have those citizens, we need to keep them here in Nebraska. And I think that's one of the toughest things that we have to do is, we have to keep those young kids here. We have to offer them the jobs. The lady from West Point said they have all kinds of jobs just waiting. We need those kids in those jobs so that we have good, taxpaying citizens. And on the other end of the spectrum, we need to look at the people that are getting on the elderly side of the scale. And we have heard earlier today that Nebraska is not very competitive with surrounding states with Social Security income. Social Security recipients have already paid tax on their Social Security and now they are having to pay tax to recover those contributions. It's kind of a double-taxation system. We know that retirees leave the state about the time they retire in fairly large number. And the exodus hits the rural areas as well. We all know, here in northeast Nebraska, the favorite place to go is South Dakota, whether it be Yankton, Vermillion, or if they can afford a home in Dakota Dunes or maybe a little further up in Jefferson. The people flock over there tremendously. There's not much difference in the quality of life between Nebraska and South Dakota but there's a difference in what they're being taxed on. And, you know, maybe \$30 a month doesn't mean a lot to a lot of people; but to many, it does. And the retirees spend the money at the local

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communities. Social Security income is one of the largest sources of revenue from an outside source that is spent in local communities. Local wages come from local spending. And Social Security is not a local revenue stream. Keeping more retirees in the state will help the local economies, especially out in our rural areas. And I mentioned, South Dakota is a great destination for many people. And I'm sure probably everybody in this room knows somebody who has moved to South Dakota at retirement age. We need to find a way to retain our citizens so that we don't lose our...one of our three U.S. Congressional seats. The other states are growing in population. We need to grow as well. We need to keep those young people. We need to keep our retirees. And if we don't do that, one of these years, we're going to be down to two, so that is important. And I just want to say one thing about sales tax, quickly. You know, the sales tax...this countywide sales tax might have some merit as you look at that. One of the things that I've always been frustrated with is, this town has half a cent, this town has a cent, and, you know, all of those of us out in the rural communities, we come into towns like Norfolk. We pay their sales tax and not a penny of it comes back to us in our community. So devising some type of system so that that tax can come back to help pay for our goods and services. Thank you very much. [LR155]

SENATOR HADLEY: Thank you, sir. We appreciate it. Questions? Seeing none, thank you. Next. [LR155]

LUMIR JEDLICKA: Good afternoon. It's getting to be a long one. My name is Lumir Jedlicka, I'm a board member at the Schuyler Community Schools and a farmer. My name is spelled L-u-m-i-r, Jedlicka is J-e-d-l-i-c-k-a. I agree with a lot of testimony we've had previous to this. And I'm not going to read all mine, I'm just going to read the last paragraph. And I feel that our tax system isn't really totally out of whack. But what you're going to be doing may weaken the legs on the stool like one of the superintendents previously talked about. Without a real emphasis on expanding resources, any attempt to modernize our tax system is simply a shift that creates winners and losers. I encourage you, as a study committee, to really study our current tax structure and

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expand the revenue sources currently not taxed in order to avoid creating an unfair tax shift. I'm also going to encourage you to determine the obligation and the benefits of each system to provide those services to the citizens of Nebraska. Comparing Nebraska to other states may provide one measure of fairness, but we are Nebraska; population is different, business climate is different. You know, tourism isn't our key, oil isn't our key; you know, things like this really are a big situation in our state. Our children's future depends on your collective wisdom, as it does my decisions back on my farm. We have...the property tax is the biggest situation for us farmers. But we also have a pride in that school system and we do want it to be, you know, our best industry in Nebraska because we want to bring those citizens back here. Thank you for your commitment. [LR155]

SENATOR HADLEY: Thank you so much. We appreciate your coming and sharing your views with us. Next. [LR155]

LOREN AMMON: Good afternoon, Senators, and I thank you for this opportunity. My name is Loren Ammon, L-o-r-e-n A-m-m-o-n. I'm a businessman if you want to call a rancher a businessman. But in this case, I would say I run a business so we have a profit and loss, mostly loss. But just some quick points. I'm from Newport, Nebraska, Rock County, and some of the things that I read in your options here are good. I think we need to look at that. One of the things, according to property tax, the different categories bothers me. Part of the northern part of Rock County is considered recreation. From an agriculture standpoint, that part that is considered recreation is the worst possible ag producing land. You couldn't run too many cows on that land, simply because there's a lot of trees in some of those canyons. We had neighboring counties, last year, as you are well aware of, that burned up a lot of that recreational land. And, as the crow flies, I was probably about five miles away from some of that fire. Again, that land should be considered wasteland, really, because of the producing ability up on it. But yet, it was the highest priced valuation in the county. The other thing that I want to bring to your attention is a lot of the points in the...that you have here in the sales tax

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and income tax fit right along with the fair tax. I think you really need to take an objective look at the fair tax. Get all the information you can. That, to me, is the fairest tax there is. Again, I don't like to pay any tax. It's always better, as Senator Hansen mentioned here a little bit ago, that...if somebody else pays the tax, that's the best kind of tax. But we're looking at a fair tax. We're looking at fair for everybody. And I think, in my opinion, that is a fair tax. Thank you for your time. [LR155]

SENATOR HADLEY: Thank you. We appreciate your making the trip. Next. [LR155]

LARRY DINKEL: For a bit I thought I was going to be last. (Laugh) My name is Larry Dinkel, L-a-r-r-y D-i-n-k-e-l. Senator Hadley, I thank you and the committee members for your time and efforts to make Nebraska a better place to live. I come before you today to talk about exempting agricultural machinery and equipment repairs and replacement parts. A little change off the property tax, I guess. In the last legislative session, Senator Dubas and Senator Hansen prioritized LB96 to accomplish this relief--and, hopefully, reintroduced in the 2014 session. Dinkel's is an implement dealer here in Norfolk. We compete with South Dakota in-line dealers on a regular basis. I'm sure Nebraska dealers that are closer to South Dakota and other surrounding states have a more competitive challenge. I can recall many years of low agriculture commodity prices. And if we didn't have the parts and service business that we've had at that time, many of us would probably be out of business entirely. That kept us going. Most of you probably are aware of Ernie Goss's research into the economic impact of exempting farm equipment repairs and replacement parts from the Nebraska sales tax. I've included a copy of the abstract which you probably already have, but I include it in my forms for you. The results of that is only positive for the economy in Nebraska. It increases overall economic activity, gives a large boost to wages and salaries, keeps jobs in Nebraska, and increases state and local tax collections. I thank you for your time and contributions to make Nebraska a state where the people want to raise their families, do their business, enjoy the good life. The only other thing, I think, maybe somebody else talked about, and that is cut spending. [LR155]

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SENATOR HADLEY: Okay. Thank you. Appreciate that, sir. Any questions? [LR155]

LARRY DINKEL: Thank you. Any questions? [LR155]

SENATOR HARR: I have a question. [LR155]

SENATOR HADLEY: Oh, a question. Yes, Senator Harr. [LR155]

LARRY DINKEL: Okay. [LR155]

SENATOR HARR: Thank you. Thank you, Mr. Dinkel, for coming to testify. As you stated, Senator Dubas did introduce that bill. It's a good bill and I think it will pass next year. [LR155]

LARRY DINKEL: That's wonderful to hear. [LR155]

SENATOR HARR: But you are contrarian to everybody who has come to testify. Everyone else has told us lower property taxes, broaden the sales tax base. And you come in--and I will concede--with a very good argument as to why we should exempt you. My question is, how do we...what should we do when everyone else who we turn around and now not give a tax break to but start taxing come in and say, well, there's a valid reason why we have a sales tax exemption? [LR155]

LARRY DINKEL: Well, this is going to be an economic generator. [LR155]

SENATOR HARR: Well, if they say they're an economic generator, do we then not tax it? [LR155]

LARRY DINKEL: So if you don't tax it, it creates more revenue by Ernie's Goss's

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research. [LR155]

SENATOR HARR: Okay. So then we shouldn't broaden the sales tax? [LR155]

LARRY DINKEL: So there's more money to help offset the property taxes. [LR155]

SENATOR HARR: So we shouldn't broaden the sales tax, then? [LR155]

LARRY DINKEL: I'm not against broadening the sales tax. [LR155]

SENATOR HARR: Except yours. [LR155]

LARRY DINKEL: I think the more people that pay sales tax, the better. [LR155]

SENATOR HARR: Okay. But do you understand what I'm saying, though? It's easy for you to come in and say, I don't want to pay sales tax. And nobody does. My question is, what greater policy should we look to when we go to increase taxes, which is, in essence, what we're doing to lower property...if we decide to lower property and/or income tax by broadening the sales tax base, we will be increasing taxes on those items. What policy should we look to in broadening that sales tax? [LR155]

LARRY DINKEL: Well, I guess I'm not sure what policy you should have. And I probably am very happy that I'm not a state senator at this time. (Laughter) [LR155]

SENATOR HARR: Well,... [LR155]

SENATOR HADLEY: Thank you. We appreciate it, Mr. Dinkel. [LR155]

SENATOR HARR: Thank you, Mr. Dinkel. [LR155]

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SENATOR HADLEY: Next. [LR155]

LARRY DINKEL: Thank you. [LR155]

JERRY MICEK: I should be short and sweet. My name is Jerry Micek, M-i-c-e-k. I'm here for myself and also as a representative, as the chairman of the Platte County Board of Supervisors. From the Platte County Board of Supervisors, we feel that...I know you have allowed a 1.5 percent sales tax that could be part in the county and part in the cities. In our case, the city of Columbus has a 1.5 percent sales tax already and I wish that they would have followed Norfolk's example and reduce some of the property tax instead of spending \$4.5 million putting in a water park or a quarter of a million dollars in a football scoreboard. With that said, the county feels that the Legislature, if they would, would allow the counties a .5 percent sales tax, by a vote of the people, countywide, including the cities that have a sales tax. So in other words, a vote in Platte County would be voted on also by the people in Columbus because they are also county residents. And if it passed, the people in Columbus would be paying 2 percent and the people in the county would be paying .5 percent. Now upon, like, our city people--and, by the way, I served on a city council for 25 years--any money that we would get from a sales tax, as long as we could use it for what we wanted to, would be a direct reduction of property tax because in the county government, all of our money--except for a few grants--is property tax. Our highways are paid by property tax. Everything we do is property tax, as you all know in your own counties. So that's our request for you to look at. We have, since 1997, have lost about \$1,300,000 in state aid. That has not helped us any. We've had to...we haven't cut any services but we have increased our property tax of the people. We are below our lid. We do have \$6 million in our inheritance fund that we are probably going to use up, most of it now, for a road project that's going to cost \$4 million to \$5 million. Otherwise, it would all be property tax. The thing, personally...I think I've covered what the county would like me to cover. [LR155]

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

JERRY MICEK: Thank you. I'll finish this in one minute. This really, in a way, has a direct bearing on people's property tax and it initiated at the state Legislature. It's my opinion that the Court of Industrial Relations should be abolished. Everybody that works, whether it's school, city, county, whatever, it really doesn't do you any good to evaluate your people because then you have to go and they say, well, we're going to compare you to Grand Island, Norfolk, so on. And so you all just get these increases. That's my opinion. I know the school boards wouldn't like it or the school teachers, but I'm sorry. Omaha can probably know what's going on with all their pensions and things that are going on in the fire department and so on and so forth, and it's all because of the Court of Industrial Relations. The other thing is--and my friend from NACO and probably League of Municipalities--I think that people, like myself, that's an elected official should be treated just like you legislators. I don't think we should be allowed to give ourselves pay increases. I don't believe we should be allowed to have the same benefits that the employees have. And I really, when I got elected, I couldn't believe that I was getting a retirement from the state. All that has a direct bearing on the people that are paying property tax. Every county, every city, those people are paying this. I don't feel that's right. I don't feel that the electrical board of directors should be allowed to have free health insurance for their families and go on when they retire. It's just a point of information that I would like the Legislature to look at. I visited with several of you senators on this issue. And... [LR155]

SENATOR HADLEY: Well, we appreciate that and we appreciate your ideas and we appreciate your service. Thank you very much. [LR155]

JERRY MICEK: Thank you for your time. [LR155]

SENATOR HADLEY: Oh, we have a question? Yes. [LR155]

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SENATOR NORDQUIST: Just a quick question. Sorry, I know you may be the last testifier. [LR155]

JERRY MICEK: Yes, sir. [LR155]

SENATOR NORDQUIST: I've been trying to, as we go around the state, to try and make sure I get down how different counties handled adjusting to the elimination of state aid to counties. You're saying that Platte County did raise their levy to make up for that reduction of funds? [LR155]

JERRY MICEK: Yes. Yeah, we didn't want to cut services because, unfortunately,... [LR155]

SENATOR NORDQUIST: Some of those services are very necessary. [LR155]

JERRY MICEK: That's right. [LR155]

SENATOR NORDQUIST: Thank you. [LR155]

JERRY MICEK: Thank you, Mr. Nordquist. [LR155]

SENATOR HADLEY: Yes. We have a... [LR155]

JERRY MICEK: Yes, Ms. Campbell. [LR155]

SENATOR CAMPBELL: I just want to follow that up with Senator Nordquist. Are you at your levy limit? [LR155]

JERRY MICEK: No. [LR155]

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SENATOR CAMPBELL: Are you quite a ways from it? [LR155]

JERRY MICEK: We're in fairly good shape. We're pretty conservative. [LR155]

SENATOR CAMPBELL: I know you are. [LR155]

JERRY MICEK: Thank you for your time. [LR155]

SENATOR HADLEY: All right. We've got about five minutes left. Senator Schmit.  
[LR155]

LORAN SCHMIT: Mr. Chairman and members of the committee, I will not read my testimony. You've heard me up here before. My name is Loran Schmit, L-o-r-a-n S-c-h-m-i-t, and I'm here today on behalf of the Association of Nebraska Ethanol Producers. I've testified before relative to the property tax. But the ethanol plants are frequently the largest taxpayer in the county in which they are located. They pay large amounts of property tax, both real and personal. So they are impacted by the property tax and are as vulnerable to the tax levies as are anyone else. I just want to say this, that we appreciate this opportunity to testify. We hope that you will read this testimony at your leisure, which I'm sure you have plenty of. And if you have any questions, which I'm sure you will not, I would then answer them. Thank you very much. [LR155]

SENATOR HADLEY: Thank you, Senator. I think that ends the hearing. I want to thank...this is our third hearing outstate this week. And the...I appreciate the ability to hear from people. They've been very civil hearings. I appreciate your sitting here for three hours to listen. There's been a lot of good talk and comments made. I can assure you that we have not yet heard the silver bullet that can solve all of our problems at this point in time. But we've certainly heard that there are some concerns of people which I think is very important. [LR155]

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\_\_\_\_\_: Got one more. [LR155]

SENATOR HADLEY: Another testifier? [LR155]

ALLEN SIEVERTSEN: It took me a while to work up the nerve. [LR155]

SENATOR HADLEY: Well, you've got about...you need to come up (coughing). You can fill that out later. [LR155]

ALLEN SIEVERTSEN: Okay, I'll do that. Thank you, Revenue Committee. I...my name is Allen Sievertsen, I'm a resident of Norfolk. I'm going to testify... [LR155]

SENATOR HADLEY: Would you spell your name? [LR155]

ALLEN SIEVERTSEN: Allen is A-I-I-e-n, Sievertsen is S-i-e-v-e-r-t-s-e-n. And I want to give my comments as a citizen of Norfolk, although, I'm the manager for Louis Dreyfus Commodities here in Norfolk, which is a large ethanol plant. And my comment is that taxing inputs for our business would be very, very harmful, not only for, like, the corn but also the energy. I know Dirk Petersen with Nucor also mentioned that. I just wanted to emphasize that and reinforce it. That's all I have. [LR155]

SENATOR HADLEY: Thank you. We appreciate that. That's a good principle. That was very well put and reinforces what, I think, the committee believes. Again, thank you so much. We appreciate (inaudible) people from up here. With that, I'll declare the hearing closed. [LR155]