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Revenue Committee  
February 18, 2015

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[LB280 LB357 LB419]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 18, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB419, LB280, and LB357. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: None.

SENATOR GLOOR: Good afternoon. If I could have people settle in. Welcome to the Revenue Committee. We will cover the bills today as listed in the back of the room and various other locations around the Capitol. I'm Mike Gloor. I'm the senator from District 35 and Chair the Revenue Committee. We have a few general rules. There are, I think, some well-versed people in the rules but a few people who aren't, so allow me to cover them. First one is, we love the electronic age but, please, either turn your cell phones, smart phones to a silent or an off position so that they're not disruptive to us. We will take the bills, as I said, in a certain order. And as we hear those bills, we will first hear from the introducer of that bill. Then we'll hear from proponents then opponents then those in a neutral capacity and then the presenter will have a chance to close on the bill. We're going to do that for the first bill, but we're probably going to approach things a little different for the second or third depending upon how many people wish to speak. But when we get to that point in time, after we've heard Senator Mello's bill, we'll revisit that issue just a little bit perhaps. Please, when you testify, give us your name and spell your name so that we have it down correctly for the record. That's important for us. If you have copies, we need 11 copies so that we have enough copies to pass around the table for everybody in attendance. If you don't have 11 copies and would like to get 11 copies, now would be a good time to get one of the page's attention so they can help you get those 11 copies that are out there. We ask that you be as concise as possible but we have a five-minute rule and we will use that today and if necessary we may even shorten it a bit. Hopefully it doesn't get to that point. But we want everybody to have a chance to be heard on the three bills we have today. So we'll see how this goes. You have a light system up here. When you start you'll have a green light. When you've got a minute left on your five minutes, it will turn yellow. And when it hits red, you've used up your five minutes and I will be nudging you towards a conclusion. I will do so politely, but respond politely, too, if you would. I put this out here for everybody's edification and that is: It's important to speak into the microphone, that for those of us who are seated up here as well as those of you who are going to be testifying for us today. To my immediate right is committee counsel, Mary Jane Egr Edson. Krissa Delka is the clerk at the end of the table. Kay Bergquist is our research assistant at the far end of the table on my right-hand side. And I will ask the senators to introduce themselves starting with Senator Brasch.

SENATOR BRASCH: Thank you. Senator Lydia Brasch, Legislative District 16, Cuming County, Burt County, and Washington County.

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SENATOR DAVIS: Al Davis, District 43, Cherry, Brown, Keya Paha, Logan, Loup, McPherson, Hooker, Grant, (laughter) Box Butte, Sheridan...

SENATOR GLOOR: Five minutes, Senator. (Laughter)

SENATOR DAVIS: ...and a few others.

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

SENATOR SMITH: I'm Jim Smith, District 14 in Sarpy County.

SENATOR SCHEER: I'm Jim Scheer, District 19, which is Madison and a little bit of Stanton County.

SENATOR GLOOR: We have several other senators who will join us. Senators have busy schedules. They have other bills to introduce. And because of that, people will come and go. And I'm also encouraging the senators today, since we're going to try and run through this nonstop, that if they need to get up to move around, grab a bite to eat or a drink of water, I'm going to encourage them to use their own judgment on when best to be able to do that. Our pages are Colin from Wayne and Donnie from here in Lincoln. And they're here to help you and us. And with that, we'll start with our first hearing, LB419. Welcome, Senator Mello.

SENATOR MELLO: (Exhibits 1, 2) Good afternoon, Chairman Gloor, members of the Revenue Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o, and I represent the 5th Legislative District in south Omaha. I'm here today to introduce LB419 which would amend Section 77-2701 to provide a sales and use tax exemption for Nebraska zoos and aquariums accredited by the Association of Zoos and Aquariums. Currently, there are four zoos in Nebraska that would qualify for this exemption. Over my last six years in the Legislature, both through legislation and through the state budget process, our branch of government has prioritized growing Nebraska's tourism industry as a key economic driver. LB419 represents a logical next step in strengthening our state's tourism efforts by allowing our nationally accredited zoos to reinvest forgone sales taxes into further development of their organizations. As many of this committee already know, Omaha Henry Doorly Zoo has been a major tourism driver across our state. Their recent ranking by TripAdvisor as the world's number one zoo is an achievement for all of our state and further gives Nebraska and the tourism industry unprecedented worldwide attention. The economic impact of this facility alone is over \$115 million annually to the state, welcoming over 1.7 million visitors through its gates annually. Beyond giving Henry Doorly Zoo

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the added ability to hold on to their number one ranking and the global attention that it brings, LB419 will give Nebraska's other accredited zoos, the Riverside Discovery Center in Scottsbluff, the Lincoln Children's Zoo, and the Lee Simmons Conservation Park and Wildlife Safari in Cass County a foundation to build upon the critical education, recreational, and quality-of-life functions that our zoos provide. In addition to the tourism-related economic activity that our zoos foster, LB419 is a long-term investment for the state's efforts on talent development. Testifiers behind me will discuss with you the impact our zoos have on early childhood development, K-12 education, and their use as a recruiting tool to bring in talented workers from across the country. LB419 also sends a powerful message to Nebraska's private and philanthropic community that the state is continuing strategic investments in the tourism-related economic development and the unique quality-of-life enhancement that institutions like zoos bring to our communities. Finally, I'd just like to say thank you and recognize a number of our legislative colleagues who cosponsored LB419 and thank them for their support. I'm pleased to have both Omaha Mayor Jean Stothert and Lincoln Mayor Chris Beutler here today along with leaders of a variety of tourism and economic development related groups in support of LB419. Additionally, you will receive or have received letters of support for LB419 including the national association of accredited zoos, the Omaha Zoological (sic) Foundation, Lancaster and Douglas Counties, the Omaha City Council, the Scottsbluff Chamber of Commerce, and the Lincoln Chamber of Commerce. Thank you for your time and I'd be happy to answer any questions you may have. [LB419]

SENATOR GLOOR: Thank you, Senator Mello. Are there any questions for Senator Mello? Senator Davis. [LB419]

SENATOR DAVIS: Thank you, Senator Gloor. Senator Mello, just a question about the Lee Simmons Park, or can you tell us a little bit about that? [LB419]

SENATOR MELLO: You know, that is, Senator Davis, out of all of the zoos that we've been talking with, that is the one facility that I am probably the least familiar with. I have not visited that facility. It has the least activity of any of the four accredited zoos in the state. I'm sure there is someone behind me who can probably give you much more detail in regards to the annual visitors, the revenue, and the activities they have there. I simply know that it's...it falls in the similar line of one of the four accredited zoos we have under the bill and I'd feel like I would be remiss if I tried to explain anything further that I don't have available to me. [LB419]

SENATOR DAVIS: The reason I ask the question is I had a call from a constituent--or from a lobbyist for a constituent--who may also fit in this category and I just thought I'd flesh that out. So if somebody is here to talk about or can do that, that would be great. [LB419]

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SENATOR GLOOR: Senator Sullivan. [LB419]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Senator Mello. Do these zoos operate as nonprofit entities? [LB419]

SENATOR MELLO: They do, Senator Sullivan. And most--the Lincoln Children's Zoo, the Scottsbluff zoo, and the Omaha Henry Doorly Zoo--are all...essentially I would call a unique public/private partnership. While they operate as a nonprofit, they have a strong relationship with their city governments and in some cases, like the Henry Doorly Zoo, the land is owned by the city of Omaha at the...and arguably is responsible for that land at the end of the day. [LB419]

SENATOR SULLIVAN: Do we offer similar sales tax exemptions to other entities connected to tourism or nonprofits? [LB419]

SENATOR MELLO: We do have sales tax exemptions for nonprofit organizations. And I think, to some extent, the unique component in talking with this legislation with our legislative colleagues and others is the unique, I think, intersection that you see zoos have in our state, primarily those three main zoos, with another governmental entity, that they are...there is a public component to this zoo...these zoos with the cities of Lincoln, Omaha, and Scottsbluff being partners with these nonprofit organizations to run these zoos. The local communities usually obviously provide funding for those zoos as well. It's not out of the ordinary for us as a Legislature, as a state, to create a tax policy such as what you see in LB419 for nonprofit organizations. We've done so judiciously, obviously, over a number of years when it comes to sales tax exemptions. But we do have existing law that gives sales tax exemptions to other nonprofits. [LB419]

SENATOR SULLIVAN: Do you think this opens the door to even more requests for granting exemptions? [LB419]

SENATOR MELLO: Well, Senator Sullivan, I...you know, I took a step back in regards to thinking this legislation through over the interim of whether or not it was something that I could defend to this committee or I could defend to the whole Legislature knowing some of the work we've done through the Tax Modernization Committee over the last couple years. And it...and my general perception is that tax exemption or sales tax exemptions...I think, if anything, we've had a more mindful eye on those sales tax exemptions the last couple of years. We try, I think, if anything, to really see where the policy intersection is behind those sales tax exemptions and what is going to be the public good that would come from them or the economic good that would come from them, so to speak. I don't think this opens the door up any more than...this committee probably has had a number of other sales tax exemption bills you've probably already heard. If

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you haven't, I looked through a general list and I know they're coming to...in front of this committee at some point in time. I think there will always be bills that the...legislators bring regarding sales tax exemptions. I think this committee and the Legislature as a whole in my...in our six years down here, we've just been more judicious in regards to identifying which sales tax exemptions have--and let's just say--a bigger bang for their buck. And I think, obviously, LB419, knowing the unique connection of these public/private partnerships with our cities, our zoos, as well as the philanthropic community has, I think we see a pretty big bang for our buck in our tourism industry with it. [LB419]

SENATOR SULLIVAN: Thank you. [LB419]

SENATOR MELLO: Thank you. [LB419]

SENATOR GLOOR: Senator Scheer. [LB419]

SENATOR SCHEER: Thank you, Senator Gloor. Senator Mello, my questions relate to the accreditation by the Association of Zoos. The bill is mute in relationship...how often do they have to provide that? Who do they provide it to? How is that checked, I'm assuming, on an annual basis? [LB419]

SENATOR MELLO: You know, Senator Scheer, that's a good question. And to some extent, I may have to get back to you on that. The bill didn't spell out, so to speak, that a zoo has to apply for their exemption every year. That's a...traditionally if you get the exemption...if the Department of Revenue, for example, would come to you as an organization if you have an exemption and find out that you're not accredited, I'd assume that they would owe back taxes the way that anyone else in regards to sales tax exemptions operate. It's more incumbent upon the Department of Revenue to investigate when a zoo comes forward and provides that information to ensure that information is accurate moving forward. [LB419]

SENATOR SCHEER: Well, unfortunately though, I mean, time goes on and the same people that are here today are not associated with the zoo, don't realize that, and at some point in time they may lose their accreditation or they change from this accreditation to something else that's not specified in the law. Although they're accredited, it's not this accreditation and, quite frankly, then they go back and they're going to try to pick up 7 percent of all the sales that they've had for the last year--could be, according to this, a pretty good, sizeable chunk--so...might want to think about that in itself. And then the second part of the accreditation, my concern would be, maybe the accreditation changes their rules or regs that you have to have so many restrooms for so many thousands of visitors. Or in one of the smaller facilities in Scottsbluff or Lincoln, they're deficient in one area so they say, well, you can have the accreditation but you have to fix that

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first. Do you think we should have some type of time frame that they're accredited first and if they lose accreditation, they have a 12-month period to regain it so that they're not losing it just on a big bang you're done and... [LB419]

SENATOR MELLO: Senator Scheer, that's a good question. And I would ask you for a little deference in regards to letting me...I may not be able to give you a direct answer right off the spot. I'd like to think that through a little bit. I think to some extent I would defer a little bit maybe to the Revenue Committee's legal counsel in regards to maybe how the Department of Revenue would operate in regards to once a sales tax exemption has been granted by the department, how they go about identifying when an entity needs to come back to continue that exemption or to reauthorize that exemption. Dennis Pate from Omaha Henry Doorly Zoo, who is intricately involved with the National Association of Zoos and Aquariums, will testify after me and he can...he'd maybe be able to speak to you a little bit more about the accreditation process as he's been involved in that at the national level. [LB419]

SENATOR SCHEER: Okay. Thank you, Senator. Thank you, Senator Gloor. [LB419]

SENATOR GLOOR: Any other questions? Seeing none, thank you, Senator Mello. I know you have a couple of bills that are important to you and probably to us if they're important to you. Does that mean you're not going to stay around to close? [LB419]

SENATOR MELLO: And I would be remiss not to thank you, Senator Gloor and the members of this committee, for your flexibility of scheduling this bill. I have two other bills in Health and Human Services right after this right now. And so I'll likely stay for a little bit of the testimony but will waive closing and will have to leave shortly. Thank you. [LB419]

SENATOR GLOOR: Okay. Thank you. Can I see a show of hands of those in any capacity for or against who wish testify on this bill? Okay. Thank you. We'll start with proponents of the bill. Good afternoon. Whenever you're ready. [LB419]

DENNIS PATE: (Exhibits 3, 4, 5, 6, 7, 8, 9) Good afternoon, Chairman Gloor and members of the Revenue Committee. For the record, my name is Dennis Pate, D-e-n-n-i-s P-a-t-e, and I'm the executive director and CEO of Omaha's Henry Doorly Zoo and Aquarium and I'm currently serving as chair of the board of the Association of Zoos and Aquariums. I'm here to testify representing both of these organizations as well as the Omaha Zoo Foundation, the Greater Omaha Convention and Visitors Bureau, the Omaha Chamber of Commerce, and the Nebraska Chamber of Commerce and Industry in support of LB419. Before I begin, I'd like to thank Senator Mello for introducing this important proposal as well as the numerous senators who offered their support by cosponsoring LB419. Furthermore, I am extremely pleased to share the

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podium with such a diverse group of supporters here today including Omaha Mayor Jean Stothert. The city of Omaha continues to be a strong advocate and partner for the work of Omaha's Henry Doorly Zoo and Aquarium. And on behalf of our employees, Zoo Foundation, and thousands of animals, I'd like to thank Mayor Stothert for her leadership and support. We have enjoyed a long history of caring for animals going back to our earliest beginnings in 1894 in what was then Riverview Park. We started getting some attention four years later in 1898 when Buffalo Bill Cody loaned some of the animals from his world-famous traveling show--grizzly bears, deer, and bison--to the zoo. One hundred fifteen years later, we have received significant attention with the TripAdvisor ranking as the world's number one zoo. Those of us who live in Nebraska have known that for a long time. Now, though, the rest of the world knows and we have an incredible opportunity to attract even more visitors to Nebraska. So I'll start my testimony from an impressive place: number one in the world. We are excited about adding the state to our partnership with our generous private community that has invested over \$200 million in the last ten years. Why do people come to Nebraska to visit our zoo? What makes it special or unique? Let's start with the largest desert dome in the world, the largest nocturnal exhibit in the world, the largest aquarium in a zoo in North America, one of the top five zoos in conserving species in the wild, one of the five top largest animal populations at a zoo in North America. Combine these with great Midwestern hospitality and exceptional value and you've got a winning combination. The recent fund-raising push to renew some of the older sections of the zoo into an African Grasslands opens up a grand opportunity to drive tourism to Nebraska to new heights...more about that later. Let's talk about some of the things you may not know about our zoo that adds to its reputation. I like to say the zoo is the largest school in the state. The learning environment is fun, educational, and increasingly interactive. It's why we're so popular with parents and school-aged children. We have a full-time high school serving 90 students from two different school districts now in its 4th year; a kindergarten class from neighboring Bancroft Elementary School now in its 15th year; a federally funded after-school program for over 200 students from two nearby elementary schools; and a new early childhood program for 40 kids that is privately funded. Eighty-six thousand students visit on school field trips and another 101,000 take part in over 1,600 programs that we offer. We provide teacher training and student workshops to 49 Nebraska counties and have a distance learning program that reaches all corners of the state. These programs give students the opportunity to meet the experts, ask the questions, and learn about careers in conservation. Our outreach van also travels the state delivering hands-on interactive experiences in person. Private donors have also funded bus transportation and overnight experiences at the zoo. Schools from McCool Junction, Oxford, Valentine, Culbertson, Wolbach, and Loup City are annual visitors. Our conservation commitment extends well beyond Nebraska's borders covering five disciplines including conservation medicine, conservation genetics, rare plant conservation, comparative animal nutrition, and reproductive sciences. They're staffed with five Ph.D. scientists and five veterinarians. We have one of the most diverse animal populations in any zoo in the United States: 600 species and over 6,000 specimens not including fish and invertebrates. We work hard to grow attendance and educational impact and

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our public/private partnership led by Walter Scott and the Zoo Foundation boards are pleased by our rankings, of course, never satisfied. Unlike most zoos that receive an average of 30 percent of their operating budget from taxpayers, ours is a slim 5.3 percent. Our current project, African Grasslands, promises to push attendance even higher with new "immersive" exhibits for some of the grandest but most endangered animals on earth: elephants, giraffe, rhinos, lions, and more. Along the way, we have offered free days and issued tickets to qualifying nonprofits that totaled 40,000 admissions. Accreditation...accredited zoos in the U.S. attract 180 million guests, more than all the special...the professional sports teams combined. Accreditation signifies excellence in and commitment to veterinary care, ethics, physical facilities, staffing, conservation, education, safety and security, and, in particular, animal management and welfare. Omaha is doing its part on all fronts to ensure that our impact is deep. Thank you for allowing me to...opportunity to share with you many of the great things that our zoo is doing in Omaha, regionally, and internationally. LB419 is truly a catalyst to take Nebraska's tourism industry to the next level. As members of the Revenue Committee, I know that you will be faced with many difficult decisions in the coming days and weeks as you prioritize your committee's agenda. LB419 represents a unique opportunity and a first step forward in growing tourism in Nebraska. I'm proud to call Nebraska my home and believe that Omaha's zoo is truly one of Nebraska's cornerstone attractions. As a state, we are fortunate to have four nationally accredited zoos operating border to border, and I know that LB419 will send a strong message that the state acknowledges the positive impact our facilities have and that it wants to partner to bring new tourism dollars to the state. For these and many other reasons, I would ask you to support LB419. Thank you for being patient with me. (Laugh) [LB419]

SENATOR GLOOR: Could I ask you...thank you. Questions for Mr. Pate? Senator Sullivan. [LB419]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you for your testimony, Mr. Pate. [LB419]

DENNIS PATE: You're welcome. [LB419]

SENATOR SULLIVAN: What do other certified or accredited zoos in other states...do they receive a sales tax exemption? [LB419]

DENNIS PATE: Almost all that I can think of do. It mostly extends to all the 501(c) nonprofits in the state. [LB419]



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SENATOR GLOOR: How many states do you try and reach out to whether with the van or with student groups that might come in? I would imagine Iowa also is a heavy visitor and you do some outreach into Iowa. [LB419]

DENNIS PATE: We do some outreach right across the river, not a lot. Most of it's in Nebraska. [LB419]

SENATOR GLOOR: How about Kansas, Missouri, South Dakota? [LB419]

DENNIS PATE: Not so much. [LB419]

SENATOR GLOOR: Okay. [LB419]

DENNIS PATE: It just becomes a distance thing and it's logistically too difficult. [LB419]

SENATOR GLOOR: Okay. Senator Harr. [LB419]

SENATOR HARR: Thank you. Did you say you're a 501(c)(3)? Or what kind of corporation... [LB419]

DENNIS PATE: We are. [LB419]

SENATOR HARR: Okay. Thank you. [LB419]

SENATOR GLOOR: Seeing no other questions, thank you for your testimony. [LB419]

DENNIS PATE: You're welcome. [LB419]

SENATOR GLOOR: Next proponent, please. Welcome, Madam Mayor. [LB419]

JEAN STOTHERT: (Exhibit 10) Thank you. Good afternoon, Senator Gloor and members of the Revenue Committee. I am Omaha Mayor Jean Stothert, J-e-a-n, last name is S-t-o-t-h-e-r-t. And I'm here today to support LB419 allowing a sales tax exemption for zoos and aquariums. I am immensely proud of Omaha's Henry Doorly Zoo and Aquarium and its reputation across the country and around the world. As you know, it is our state's premier tourist attraction. TripAdvisor, as you've already heard several times, has named it the best zoo in the world.

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Visitors call it a must-see. They call it amazing. And they say it's as good as it gets. That's why attendance continues to grow, averaging 1.7 million visitors a year, almost one-third from outside the city of Omaha. The success of the zoo has an economic ripple effect across the city and across the state. In fact, the estimated economic impact to our state is \$111 million a year, but Omaha benefits even more, approximately \$144 million a year. Hotels, restaurants, museums, sports venues, and performing arts centers all benefit when tourists come to Omaha to visit the Omaha original, which is our zoo. The city of Omaha provides financial support for the zoo each year in the amount of \$1.7 million a year. You may ask, why then support an exemption and lose potentially up to \$400,000 worth of revenue a year? I see it as an investment to support expansion, new unique exhibits, research, and education. It's a commitment to growing Omaha as a tourist destination. Research from our own Convention and Visitors Bureau shows the zoo is the top reason people choose Omaha for weekend getaways. It also shows our support for Director Pate and his vision and our gratitude for the zoo's leadership and growth over the last 120 years. A sales tax exemption for Omaha's Henry Doorly Zoo and Aquarium and other nationally accredited zoos in the state should not be measured in what we lose. It should be measured in what we gain. I urge you to support LB419 and the opportunities it will provide to build on this asset which is unique to the state of Nebraska. Thank you all. [LB419]

SENATOR GLOOR: Thank you. Questions? Yes, Senator Scheer. [LB419]

SENATOR SCHEER: Thank you, Senator Gloor. Mayor Stothert, somebody has got to ask, so I'll do it. The zoo is flourishing. [LB419]

JEAN STOTHERT: Yes. [LB419]

SENATOR SCHEER: We're talking about a sales tax exemption. It's flourishing collecting sales tax. So why would it become of the state to waive that when...it would be different if you were coming saying, gee, we're losing sales, we're losing traffic, and we're just sure it's because of the 7 percent sales tax or whatever. What is the rationale when things are going so well for the zoo and your attendance continues to climb each year? You have more and more visitors. You have more and more people staying in hotels and buying products and so forth. But why the exemption? [LB419]

JEAN STOTHERT: Sure. And you know, the reason is because the zoo continues to grow. A great example is the African Grasslands that they are building now and the majority of it funded by private donors. And so as the zoo continues to grow and there's more and more exhibits, their operational expenses continue to grow too. And, you know, looking at what their operational expenses are and looking to what this sales tax exemption will help bring in additional revenue to

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them, that is about...that's the number that they need for additional operational expenses as the zoo continues to grow. [LB419]

SENATOR SCHEER: So what we're really talking about is a governmental subsidization of the entrance fee, I mean, to the extent that if they're charging \$10, they'd like to bump it up to \$11, but we can make it \$11 and we get to keep the whole dollar instead of still sharing the 70 cents or whatever. [LB419]

JEAN STOTHERT: We could keep it what it is but the revenue generated by the sales tax would then become revenue that the zoo could use for their operational expenses. [LB419]

SENATOR SCHEER: Okay. So the...what you're asking is not exemption. We're still going to collect the sales tax and it's just going to be submitted back to the zoo? [LB419]

JEAN STOTHERT: That is my understanding. [LB419]

SENATOR SCHEER: Okay. Thank you. [LB419]

JEAN STOTHERT: You bet. [LB419]

SENATOR GLOOR: Seeing no further questions... [LB419]

SENATOR DAVIS: I've got one question. [LB419]

SENATOR GLOOR: I'm sorry. Senator Davis. [LB419]

SENATOR DAVIS: And maybe, Mayor Stothert, maybe you're not the person to answer the question and I should have asked it earlier. As to the cost of this zoo, the tickets, is it comparable to other zoos across the nation? Do we know that? Or are we below? Are we above? [LB419]

JEAN STOTHERT: You know, I don't have the answer to that. Honestly, I don't. [LB419]

SENATOR DAVIS: Maybe somebody else might know that. [LB419]

JEAN STOTHERT: Somebody, probably. [LB419]

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SENATOR DAVIS: But that would be worth knowing. [LB419]

JEAN STOTHERT: But as I said before, to the city of Omaha, we estimate that what...when the visitors come in and visit it and the revenues that are generated in our hotels and restaurants, we estimate it brings in about \$144 million to the city of Omaha. [LB419]

SENATOR DAVIS: Yeah, tremendous economic driver. [LB419]

JEAN STOTHERT: It certainly is. [LB419]

SENATOR DAVIS: Yes. [LB419]

SENATOR GLOOR: Senator Harr. [LB419]

SENATOR HARR: And I guess that leads to the question of, if LB419 does not become law, is the city still willing to step up and give the zoo \$400,000 a year out of their general funds? [LB419]

JEAN STOTHERT: We'll keep...that hasn't been discussed. But keep in mind, we have a ten-year contract with the zoo right now, the city of Omaha and the zoo. And as I said in my testimony, we give approximately--the city of Omaha right now--\$1.7 million every year and we will continue to do that. So that's within our current contract. So what you're asking is the amount of revenue that we lose is \$400,000. [LB419]

SENATOR HARR: Yeah. [LB419]

JEAN STOTHERT: But the amount of revenue that the zoo gains for their operational expenses is about \$1.7 million. [LB419]

SENATOR HARR: Okay. [LB419]

JEAN STOTHERT: So the question has not been asked, if we don't get this... [LB419]

SENATOR HARR: Yeah. [LB419]

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JEAN STOTHERT: ...will you give us another \$400,000 a year? That question didn't come up. Keep in mind we already give them \$1.7 million. [LB419]

SENATOR HARR: Okay. Thank you. [LB419]

JEAN STOTHERT: You bet. [LB419]

SENATOR GLOOR: Seeing no further questions, thank you, Mayor Stothert. [LB419]

JEAN STOTHERT: Thank you. [LB419]

SENATOR GLOOR: Other proponents. [LB419]

CHRIS BEUTLER: Mr. Chairman, greetings. [LB419]

SENATOR GLOOR: Mr. Mayor. [LB419]

CHRIS BEUTLER: Members of the committee, my name is Chris Beutler, B-e-u-t-l-e-r, and I'm mayor of Lincoln, Nebraska. And mayors love their zoos. Very pleased to be here today in support of this bill and to thank Senator Mello for introducing the bill. I want to focus my short remarks on the city's long-standing partnership with the Lincoln Children's Zoo and the economic impact that it has upon this city. With about 200,000 visitors a year, the Lincoln Children's Zoo is Nebraska's third most visited arts and cultural attraction, providing significant economic benefits to the community. A report by Eric Thompson at the UNL Bureau of Business Research indicates that the zoo attracts \$6.25 million of new spending to Lancaster County every year. The report notes that this impact is three times the zoo's operating budget with as much off-site spending as on-site spending. This translates to a benefit, of course, to the local economy including an increase in both our state and local sales tax dollars as well as lodging tax revenues. This year, the Children's Zoo is celebrating 50 years in our community. It has enjoyed a long partnership with and support by the city. In fact, authority for and establishment of the zoo is uniquely provided for in the Lincoln municipal code and the zoo operates using land and buildings owned by the city. The zoo receives no tax dollars or support for their operations on the other hand. That's supported by donations and admissions, memberships, and grants. But it does provide many public benefits. The facility is a unique community and a regional asset encouraging the public to connect and children to connect with the natural world and giving the children the ability to experience interactive, close-up encounters with many kinds of zoo animals. The zoo also provides considerable science education and is part of numerous Species Survival Plans to save animals for future generations. These public benefits augment our

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outstanding city, park, and recreation system. The city of Lincoln typically does not support legislation that narrows its sales tax base, but the Lincoln Children's Zoo is a unique local and regional attraction that provides significant economic and community benefits. These benefits combined with the assistance that this bill would provide the Lincoln Children's Zoo justify, in our opinion, a departure from the general position. And we are, therefore, pleased to support this bill and we thank you for your time this afternoon and I'd be glad to answer your questions. [LB419]

SENATOR GLOOR: Mayor Beutler... [LB419]

CHRIS BEUTLER: And by the way, our zoo director John Chapo will be up after me in case you wanted to ask very specific zoo questions. [LB419]

SENATOR GLOOR: I think we had some questions about mammals and primates and we'll probably drill him about the... (Laughter) [LB419]

CHRIS BEUTLER: All right. [LB419]

SENATOR GLOOR: I was a biology major in college so you see I'm...what are you looking at in terms of the loss of revenue--tax revenue--do you think? Has there been an estimate that you've run for Lincoln? [LB419]

CHRIS BEUTLER: In terms of the sales tax... [LB419]

SENATOR GLOOR: Exemption, yeah. [LB419]

CHRIS BEUTLER: ...our portion of the sales tax loss, probably \$35,000 to \$45,000, I believe, is the estimate... [LB419]

SENATOR GLOOR: Okay. [LB419]

CHRIS BEUTLER: ...in that neighborhood. [LB419]

SENATOR GLOOR: Okay. Other questions? We'll start with Senator Davis and then Senator Harr. [LB419]

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SENATOR DAVIS: Thank you for coming and thank you, Senator Gloor. So, Mayor Beutler, I just was wondering, do they serve food there at the zoo, do you know, I mean, for people? [LB419]

CHRIS BEUTLER: Pardon me? [LB419]

SENATOR DAVIS: Do they serve meals at the zoo? And the reason I'm asking that question is, and I think Omaha...I should have the question of the mayor of Omaha, but the occupation tax that would be on food, is that going to be exempt also? [LB419]

CHRIS BEUTLER: I don't think the bill affects the occupation tax. I haven't read it carefully, Senator, but it's not my understanding that it does. [LB419]

SENATOR DAVIS: Okay. Thank you. [LB419]

SENATOR GLOOR: Senator Harr. [LB419]

SENATOR HARR: That was my same question. [LB419]

CHRIS BEUTLER: Okay. [LB419]

SENATOR GLOOR: Okay. Senator Schumacher. [LB419]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you, Mayor, for coming before us today. The Omaha zoo has a large percentage of support from philanthropy. Is that the case with the Lincoln zoo? [LB419]

CHRIS BEUTLER: It's most certainly the case with the Lincoln zoo in...with respect to the board that actually runs the operations of the zoo is a board of citizens, not a government board. And all of the day-to-day operations of the zoo are supported almost totally by citizens, volunteers, nonprofits, donations. The city contributes land and buildings. And, in fact, this year, it's been a long time since we've enlarged the zoo to keep up with the growing population. And we're in the process now of turning over to the use of the zoo additional land in what we call the Antelope Park triangle down on 27th and Capital Parkway if you know that neighborhood, Senator. So contributions are constantly benefiting the zoo from both the public and private sector. [LB419]

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SENATOR SCHUMACHER: Thank you. [LB419]

CHRIS BEUTLER: Yeah. [LB419]

SENATOR GLOOR: Other questions? And counsel reminds me that the way we read the bill, it would exempt all sales of those things...all sales tax of those things purchased or sold so that would include food. [LB419]

CHRIS BEUTLER: Okay. Thank you. [LB419]

SENATOR GLOOR: Thank you, Mayor Beutler. [LB419]

CHRIS BEUTLER: Okay. [LB419]

SENATOR GLOOR: Other proponents? [LB419]

JOHN CHAPO: (Exhibits 11, 12, 13) Good afternoon, Chairman Gloor and members of the Revenue Committee. For the record, my name is John Chapo, J-o-h-n, last name C-h-a-p-o. And I'm the president and CEO of the Lincoln Children's Zoo testifying in support of LB419. I have submitted letters of support also for the Lincoln Chamber of Commerce, Lincoln Convention and Visitors Bureau, and the Lancaster County Board of Commissioners. Before I begin, I'd like to thank Senator Mello for introducing this important proposal as well as the numerous senators who have offered their support by cosponsoring LB419. Furthermore, I'm extremely grateful to such a great group of supporters here today including our own Lincoln mayor, Chris Beutler. Both the leadership of the city of Lincoln and Lancaster County continue to be strong advocates and partners for the work of the Lincoln Children's Zoo. And on behalf of our zoo team and the hundreds of thousands of children and families who enjoy and experience the zoo, I'd like to thank Mayor Beutler for his leadership and support. Senators, you have a one-page synopsis of the zoo in your packet of information, so I'm not going to read through all that for you. Simply stated, for 50 years the Lincoln Children's Zoo has served kids and critters. We connect children up close and nose to nose with wonderful animals from around the world. Families spend many hours at the zoo growing stronger as a family as they learn and have fun together in a natural and green setting. The Children's Zoo is truly and indeed a sylvan retreat. And the zoo collaborates with 30-plus human service agencies in providing thousands of low-income families free passes and free memberships on an annual basis. We estimate that value at about \$250,000 each year of free admissions to low-income families. The zoo has received national recognition from the White House with the First Lady to national media coverage and animal welfare awards. Education is in our institutional DNA. From preschool children accompanied by their parents or



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grandparents to university interns, the Lincoln Children's Zoo excels in providing the highest quality educational experiences. And the zoo is an active member of the Association of Zoos and Aquariums, collaboratively working together to save animals from extinction. And the Lincoln Children's Zoo operates 100 percent without any tax dollars. Thank you for allowing me to be here today to share with you the fact that the Lincoln Children's Zoo is great for children, families, animals, tourism, and the Nebraska economy. Very few nonprofits can make that statement. We appreciate your leadership in serving as senators of this great state, and I simply ask you to join with these many wonderful advocates for our zoos. And I ask you to please support LB419. Thank you. [LB419]

SENATOR GLOOR: Mr. Chapo, is the Lincoln Children's Zoo defined as the area behind the fences, behind the gates, or does it involve any of the green space that would be to the west or some of the garden areas to the north and whatnot? [LB419]

JOHN CHAPO: According to the...with the current relationship with the city and the legislation, the zoo is within the perimeter fence. [LB419]

SENATOR GLOOR: Okay. [LB419]

JOHN CHAPO: The parking lot that the zoo shares with the park and the trail system is governed by...fully by the city of Lincoln. [LB419]

SENATOR GLOOR: By the city, okay. [LB419]

JOHN CHAPO: Yes, sir. [LB419]

SENATOR GLOOR: Senator Brasch. [LB419]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Chapo for your excellent testimony and work with the zoo. I'm curious. The attendance on the...at your gates, is it consistent? Is it increasing? What direction is it going? Are you... [LB419]

JOHN CHAPO: It's a good question, Senator. As a matter of fact, we have recognized an 8 percent increase annually for the last three years, so our increase...we are increasing. [LB419]

SENATOR BRASCH: And in your budgetary process, the gate admissions or the philanthropy, you're seeing shortfalls? Is there a shortfall there or the need for the exemption is... [LB419]

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JOHN CHAPO: As a former board member used to say, we're nonprofit. That's our status. That's not our way of operating. And because we don't receive any tax dollars, we can only pay the bills with what we take in. And what we...how we have been operating the last several years, though, is cash positive. [LB419]

SENATOR BRASCH: Is cash positive. [LB419]

JOHN CHAPO: Yes, ma'am. [LB419]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB419]

JOHN CHAPO: Thank you, Senator. [LB419]

SENATOR GLOOR: Seeing no other questions, thank you for your testimony, Mr. Chapo. [LB419]

JOHN CHAPO: Thank you. [LB419]

SENATOR GLOOR: Other proponents? Good afternoon. [LB419]

ANNE JAMES: (Exhibits 14, 15, 16, 17, 18, 19) Good afternoon, Chairman Gloor and committee members. My name is Anne James, A-n-n-e J-a-m-e-s. I'm the executive director at the Riverside Discovery Center in Scottsbluff and I am also representing the Scotts Bluff National Monument, the Scotts Bluff County Commissioners, the city of Scottsbluff, the city of Gering, the city of Terrytown, the Scottsbluff/Gering United Chamber of Commerce, and the Gering Visitors Bureau and Convention center. Riverside Discovery Center is the smallest Association of Zoos and Aquariums accredited zoo in Nebraska and we are one of the very smallest AZA accredited zoos in the nation. But this means that we meet the same standards as the large zoos like Henry Doorly Zoo and the Lincoln Children's Zoo but we have to do that from a much smaller financial base. Our population base in Scotts Bluff County totals 37,700 persons. We have few large corporations and very few millionaires to tap into for financial support. Thus, LB419 represents a very important relief for us as a small zoo to make our institution more sustainable. The Riverside Discovery Center is the second largest tourist attraction in Scotts Bluff County, second only to Scotts Bluff National Monument. As such, I estimate that we are responsible for approximately \$1 million of annual tourism revenue for our county. In addition, the majority of our \$650,000 annual operating budget is spent locally, adding to the economic benefit of the RDC. The Riverside Discovery Center is the largest nonformal educator in the entire Panhandle of Nebraska. We educated 13,862 persons last year while the

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entire Nebraska Panhandle student population is only 15,000. We are the only zoo from Lincoln until you go west to Denver, Colorado, and the only tourist attraction within the city of Scottsbluff. Our realm of educational impact stretches 240 miles in any direction into Colorado and Wyoming as well. Being the only zoo in this region makes our facility a magnet for tourists, schools, and families while drawing essential dollars into the community. The zoo exhibits 16 groups of Species Survival Plan animals. These are rare and endangered species which most of our residents will only see at our zoo as the student population in Scottsbluff is made up 46.6 percent of students that qualify for low and reduced-income lunches. That means that we educate a large percentage of an underserved population and are a cost-effective family destination. We are constantly working to improve the zoo which was a city zoo from 1950 until 2010 when the Riverside Zoological Foundation assumed management of the facility. We are also adding to our educational impact by featuring nature discovery areas within the zoo and looking forward to adding a natural history museum and children's museum to draw in more tourists and enhance the community benefit we provide. By being tax exempt, we could use those tax dollars to improve our facility and increase our economic impact even more for Nebraska. I asked eight groups from Scotts Bluff County to support this legislation and they all felt it was important enough to offer letters of support for this bill which will enhance tourism and stimulate economic development for our state. I would urge you to support this initiative and I thank you for your time today and for your service to our fine state. If you have questions, I'd be glad to answer them. [LB419]

SENATOR GLOOR: Thank you, Ms. James. Any questions? Senator Scheer. [LB419]

SENATOR SCHEER: I'll ask you the same question that I had asked previously, because the way I see it, it's the...tax exempt does not mean collected and returned. So it's really a one-year reprieve that you can raise your rates without really raising your rates. I mean, at...so from that point forward you're going to have to increase your costs. Will you be able to benefit that much from the one-year reprieve? [LB419]

ANNE JAMES: Well, we estimated that last year we spent \$53,000 on state and local sales tax on all the capital construction we did, on all of the new taxes we collected and those that we purchased. And if we could save \$53,000 that would make a huge difference in my bottom line. We could use that money to make needed improvements in the facility, be able to pay our bills in the winter when people don't come through the door because the weather is bad. So it would make a huge impact to our zoo. [LB419]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB419]

SENATOR GLOOR: Senator Harr. [LB419]

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SENATOR HARR: Thank you. Thank you for coming. You talked that you're one of the smallest accredited zoos by the Association of Zoos and Aquariums. What goes into being accredited? [LB419]

ANNE JAMES: It is an awful lot of hard work. It takes us probably two to three years to plan for that. They look at everything. It's a very rigorous standard. They're the only association in the nation that accredits zoos. They're very highly regarded either from the federal government on down. They look at financial stability. They look at animal care. They look at the quality of education you provide. They look at safety. They look at everything that goes on in the zoo from A to Z. They look at everything. They are there for, in our case, two or three days. They visit with our veterinarian. They meet with our board of directors. They meet with the city representatives because they help support the zoo financially. It is a city-owned facility, but they do give us some money annually. It's very, very rigorous, and it is very important for zoos to be accredited. [LB419]

SENATOR HARR: And how is this organization funded? [LB419]

ANNE JAMES: The Association of Zoos and Aquariums? [LB419]

SENATOR HARR: Yeah. [LB419]

ANNE JAMES: Dennis Pate could probably answer that easier than I could since he's more intimately, you know, connected with them. It is funded through membership dollars and they may...you know, I don't know beyond that so, yeah. [LB419]

SENATOR HARR: Okay. Do you pay to belong to this organization? [LB419]

ANNE JAMES: Yes, we do. Um-hum. [LB419]

SENATOR HARR: Okay. [LB419]

ANNE JAMES: And you pay for the accreditation team to come inspect you as well. We...all zoos are also inspected by the USDA so it isn't just the AZA that comes in. [LB419]

SENATOR HARR: Okay. Thank you. [LB419]

ANNE JAMES: Sure. [LB419]

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SENATOR GLOOR: Seeing no further questions, thank you for making the long drive and say hello to our friend John Harms. [LB419]

ANNE JAMES: Thank you. I will do so. (Laugh) [LB419]

SENATOR GLOOR: Other proponents? [LB419]

BRENDA LEISY: (Exhibits 20, 21) Good afternoon, Chairman Gloor and the members of the Revenue Committee. My name is Brenda Leisy, that's B-r-e-n-d-a L-e-i-s-y. And I am the director of the Scotts Bluff Area Visitors Bureau. And I am here representing the Nebraska Travel Association and also the Scotts Bluff Area Visitors Bureau in support of LB419. And thank you for allowing me to testify today. As you are aware, tourism is the third largest industry in the state of Nebraska. And as a member of the Nebraska Travel Association legislative committee, we firmly believe as a group that any bill or anything affecting the tourism industry is something that we will support and especially when it comes to our attractions. The state tourism statistics are very impressive. Travelers spend over \$3.7 billion annually in Nebraska on travel. And due to the tourism industry, approximately 40,000 jobs are created for Nebraskans. For Scotts Bluff County, stakeholders have the same general idea as the folks at NETA. We want to support all of our attractions as they are very important to what we do. And we have formed several local groups to help cross promote each other and show support for each other's events and attractions. Riverside Discovery Center is important to Scotts Bluff County because it is the only attraction that fully focuses on children and providing them with entertainment and education. Scottsbluff/Gering are the hub of western Nebraska. If you take a drive through our rural community, you will notice license plates from Sioux, Dawes, Sheridan, Box Butte, Morrill, Cheyenne, Kimball, and Banner Counties from Nebraska and of course also several counties in Wyoming. Folks drive from neighboring communities to shop and enjoy the zoo's animals and the splash pad to provide fun for their children during the summer months. A tax-exempt status would allow the Riverside Discovery Center to continue to make improvements and become a more attractive tourist attraction. So this means that all of our local dollars then would stay in the community instead of traveling outside to Wyoming and Colorado as it's very easy for folks to leave our state. Currently, we have only one zoo from Denver clear to Lincoln which means that the Riverside Discovery Center provides a very important educational piece to school-aged children. RDC is very important to Scotts Bluff County and the \$52,000 that they do pay annually in taxes could help them make the capital improvements necessary to improve their attraction and to also help pay their bills on the shoulder months. For Scotts Bluff County, our total contribution into Nebraska tourism market is \$33 million annually. And the total state and local tax revenues from tourism expenditures is \$2.5 million. And tourism generates 620 jobs in Scotts Bluff County. And that is all I really have to share with you today and I thank you for your time and would answer any questions if I can at this time. [LB419]

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SENATOR GLOOR: Thank you. Questions for Ms. Leisy? Senator Sullivan. [LB419]

SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you, Ms. Leisy. You mentioned something about a feature out at the Discovery Center, a splash something? What... [LB419]

BRENDA LEISY: Splash pad. [LB419]

SENATOR SULLIVAN: What is that? [LB419]

BRENDA LEISY: You know, it is neat structures that are...there's flowers and animals and water sprays through them so that the kids can run around in the sun and it's just kind of like playing in a big, huge, gigantic sprinkler but kind of a lot more fun. And they run around out there and play. [LB419]

SENATOR SULLIVAN: So the Discovery Center is more than just having animals out there. [LB419]

BRENDA LEISY: Absolutely. They've added a lot of water features and, of course, that's huge for us in the summer months in Nebraska as warm as it gets out there. And the kids love it. They love to splash around out there. They love to play in the new sandboxes and all of the new pumps so that they're also learning, of course, how other water mechanisms work as well. [LB419]

SENATOR SULLIVAN: Thank you. [LB419]

BRENDA LEISY: Um-hum. [LB419]

SENATOR GLOOR: Since I'll be headed out west sometimes this summer, is the splash pad just for children? (Laughter) [LB419]

BRENDA LEISY: You know, no. Absolutely not. I have fun in it myself. [LB419]

SENATOR GLOOR: I'll bring Senator Harr along. (Laughter) [LB419]

BRENDA LEISY: Please do. [LB419]

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SENATOR GLOOR: Thank you for your testimony. Other proponents? Good afternoon.  
[LB419]

KATHY MCKILLIP: (Exhibits 22, 23) Good afternoon. Chairman Gloor and members of the Revenue Committee, I am Kathy McKillip, that's K-a-t-h-y M-c-K-i-l-l-i-p and the executive director with the Nebraska Tourism Commission. Thank you for the opportunity to testify this afternoon before all of you regarding LB419. Why does this matter? Tourism supports existing companies and stimulates new business development statewide. It is a source of immediate revenue for Nebraska's communities and to our state: in 2012, visitor spending of more than \$4.4 billion on state travel through the state. This is a higher visitor spending than what South Dakota and Wyoming receive. What that means is when the visitor experiences what Nebraska has to offer, they spend at a higher level. Direct jobs generated by domestic and international travels to our state equate to 44,300. And the tax revenues generated by domestic and international travels for that amount in that same time/year was \$612 million. How we succeed depends greatly upon the relationships we develop and the partnerships we entrust. Our partnerships are statewide and include private businesses, manufacturing, agriculture, corporate Nebraska, the government sector, and nonprofits. Nebraska Tourism has partnered with all of the entities and represented they are in LB419. The private sector has invested more than \$200 million in our state's nationally accredited zoos. We need to strengthen and support the private/public partnerships we have developed to grow this industry throughout the twenty-first century and to grow this, the state. LB419 sends a strong and positive message to the private sector and it encourages them to invest even more and continue to grow our partnerships. Nebraska Tourism partners with the Omaha Henry Doorly Zoo and Aquarium by staffing a designated visitor center for tourism that enhances our reach to engage the more than 1.7 million visitors to the zoo and sharing additional information about Nebraska's attractions, events, and lodging options while they're in Nebraska. In 2014, Nebraska Tourism conducted more than one-on-one 118,823 itinerary building moments with guests at the visitor center located at the Omaha Henry Doorly Zoo and Aquarium. This is located within the zoo. In addition, Nebraska Tourism has placed an interactive educational kiosk about other Nebraska sites, events, and attractions within the IMAX Theater that provides images and videos and additional web information about what they can explore while in Nebraska. And I handed out here as just an example of the signage--that's the second piece that you have--of our space there, not the greatest pictures, but it gives you an idea of what our space is within the zoo facility. Nebraska Tourism partnered also with the Lincoln Children's Zoo as a host for our international and national travel writers media tours. This partnership has garnered national acclaim for not only Lincoln but also the zoo itself. In featured publications such as Midwest Living, Parents magazine, Smithsonian, Harper's Bazaar, and also with the Kansas City paper. The Riverside Discovery Center has been a Nebraska Tourism Passport Program participant. This unknown gem is a favorite for so many families. While they may have experienced one of the above-mentioned zoos, when they see this facility in western Nebraska, they are pleasantly surprised by the attraction while getting to know more about our

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western heritage and other historic classics within the same area. Cass County's Lee Simmons Safari Park has also participated on our Passport Program receiving much success. In addition, it is a wonderful additional opportunity for visitors staying at the state parks within the area to experience something truly unique and outside of our state park system. In 2014, the attendance was roughly 116,000. I believe there was a question earlier about that number. These thoughts are important to share because of the way we correlate and weave into our targeted demographics. We've talked a lot about families. Nebraska Tourism's targeted demographics are families and boomers. However, we are allocating resources and making a concentrated effort in addition to include millennials who are finding the unique opportunities to reconnect with these attractions. Boomers are setting the trend for reinventing the experiential travel. They want to learn more, share more, and revisit attractions that offer classes, outdoor courses, and engagement with nature. Boomers are also wanting to reconnect on a volunteer level with these types of facilities. Nearly eight in ten, or 79 percent, of leisure trips were by car in 2014 compared to less than half of that were on business trips. When visitors travel by car, they stay longer, they see more, and they spend more. Leisure travelers are older than business travelers. The average age of a leisure traveler is at 47.5 years of age. These are the demographics that also enjoy exactly what our state has to offer. These attractions serve our demographics well and the zoos well. Exempting the sales tax on sales and purchases by nationally accredited zoos is a way for the state to participate and partner in the success of our nationally accredited zoos. Tourism is a key segment of our state's, Nebraska's, economic base. It provides the quality-of-life component for which residents and visitors alike seek to enjoy the experiences that we offer and to embrace them. As the second lowest funded tourism office in the nation, this can help Nebraska Tourism compete with other states and their investments that they already provide for tourism. At this time, the Nebraska Tourism Commission offers its support for LB419 and we would like to thank Senator Mello and the following senators that supported the LB419 bill. I would be happy to address any questions if I can. [LB419]

SENATOR GLOOR: Thank you. [LB419]

KATHY McKILLIP: Thank you. [LB419]

SENATOR GLOOR: Questions for Ms. McKillip? Senator Brasch. [LB419]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you, Ms. McKillip, for your testimony. I am wondering, is the Lincoln Children's Museum or children's museums across the state...do they pay sales tax? Are they exempt? They're also for children and families. [LB419]

KATHY McKILLIP: Sure. To my knowledge, Senator, they do, to my knowledge. [LB419]



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SENATOR BRASCH: And would there be a reason why they're not asking for this exemption? [LB419]

KATHY McKILLIP: You know, I can't speak to the reason why they would not be asking for something like this or to introduce something like this. I think what it, to me, comes down to is for this industry, is that in a lot of different ways, we provide a lot of tax incentives for a lot of businesses. And this industry has kind of been underestimated. However, we provide immediate, cold, hard cash to counties, communities, and attractions. We essentially make money for the state. And so when it comes to looking at those different types of opportunities, we've provided all kinds of state incentives to bring Yahoo! and other attractions to this state for businesses. This is an industry that tries to grow and retain the businesses that we currently have. So I would say that I would not know what they would perceive to want to do in the future, Senator. [LB419]

SENATOR BRASCH: The tax exemptions that you're mentioning are to attract new business and keep businesses from leaving. Are we worried about our zoos leaving this state and traveling to another state? [LB419]

KATHY McKILLIP: Oh, I would certainly hope... [LB419]

SENATOR BRASCH: Are they at risk of... [LB419]

KATHY McKILLIP: I would certainly hope not, Senator. I'm just implying that when it comes to moving this industry forward, we probably need to look at some methods and some opportunities to where these businesses can grow and expand upon and continue to be the facilities and attractions that they're nationally recognized for. It's going to be very hard to compete nationally at that level if we don't. I understand the business sector, coming from the economic developer world, and those types of incentive packages. I'm just saying that when it... [LB419]

SENATOR BRASCH: I don't see them being similar. And that's why I asked that question if they're... [LB419]

KATHY McKILLIP: Right. No, they're not similar, but recognizing tourism as an industry that needs to grow, and the state needs to start considering those opportunities of how we can grow it, and should that come in the form of LB419, that is an opportunity we would support. [LB419]

SENATOR BRASCH: Another concern that I do have is that last year, and I believe it was the year before that, too, but last year the municipalities all came and asked for an increase in their

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local sales tax, that the sales taxes at that point weren't meeting their needs and expenses for...and so by cutting back... [LB419]

KATHY McKILLIP: Right. [LB419]

SENATOR BRASCH: ...another area, are we hurting those municipalities which we're trying to help, that I believe there's a purpose for our sales tax. And your thoughts... [LB419]

KATHY McKILLIP: Oh, certainly, Senator. Certainly. I would not disagree with you on some of those components. [LB419]

SENATOR BRASCH: Okay. [LB419]

KATHY McKILLIP: I can only say that I can't speak for the counties and what their budgets and what their needs are except for the fact that the visitor comes in and generates a lot of that sales tax that they are benefiting from, and our job is to promote the state and to circulate the dollar and to get the people traveling to experience those opportunities and attractions. [LB419]

SENATOR BRASCH: I appreciate your testimony. Thank you. [LB419]

KATHY McKILLIP: Um-hum. Thank you. Thanks for your questions. [LB419]

SENATOR GLOOR: Senator Davis then Senator Harr. [LB419]

SENATOR DAVIS: Thank you, Senator Gloor. Kathy, good to see you. [LB419]

KATHY McKILLIP: Hi, Senator Davis. [LB419]

SENATOR DAVIS: First of all, you talked...I just have a question that's really not relevant to the bill, but you say that we spend more money...or more money is spent in Nebraska per capita than in South Dakota and Wyoming. Can you give us any reason for that? [LB419]

KATHY McKILLIP: The number that that comes from was from the U.S. Travel Association. And what they do is they look into the departments of revenues of each state and they do an analysis and we have research that we work with them and they conduct for us as a member. And what they balance that against is, when a visitor comes to a state, what do they spend when they're there, while they're there. When they come to Wyoming and they go to South Dakota,

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when they're in Wyoming they spend an average of \$3.20-some there. In South Dakota it's less. It's \$2.80. In Nebraska, we're...they're right about \$7.90. It doesn't seem like a lot but for those two states who have budgets that are two to three/four times more than ours, it's interesting because they're marketing a lot heavier but yet when the visitor gets there, they're not really spending as much as what they're permitting to market. So we're doing a really good job about getting the visitor to stay longer, spend a little bit more, and embrace the spending opportunity that they have in Nebraska. [LB419]

SENATOR DAVIS: Well, that's really an interesting statistic I think. [LB419]

KATHY McKILLIP: It is interesting. [LB419]

SENATOR DAVIS: Are there other zoos that aren't accredited in the state of Nebraska that you know of? [LB419]

KATHY McKILLIP: Not that I'm aware of. [LB419]

SENATOR DAVIS: So the only four zoos...the only zoos that we have are all accredited? Is that...would that be right? [LB419]

KATHY McKILLIP: We're...are the ones that are before you with LB419. [LB419]

SENATOR DAVIS: And that's the...there are no other...I'm just trying to think about the ramifications of maybe other zoos stepping up and... [LB419]

KATHY McKILLIP: Not that I'm aware of. Now there should be...there could be some creative businesses out there that I don't know anything about. But as far as accredited, no. [LB419]

SENATOR DAVIS: A llama farm incentive, for example? [LB419]

KATHY McKILLIP: Yeah, Senator Davis, well, I don't know. [LB419]

SENATOR DAVIS: (Laugh) Thank you. [LB419]

SENATOR GLOOR: Senator Harr. [LB419]

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SENATOR HARR: Thank you, Chairman Gloor. Ms. McKillip, I have a question. I support LB419 but, you know, you keep talking about tourism, tourism, tourism. How am I as a policymaker--and maybe this is as much making a record--to follow up on Senator Brasch's question, how do we say, zoos get this exemption, children's museums don't? [LB419]

KATHY MCKILLIP: Senator Harr, thank you for the question. And I don't envy your position or your jobs here. You have lots of things to discuss and consider and hard decisions to make. It's a good question, and I don't know if I can actually give you a proper answer for it. I think that what needs to happen is, as we are moving forward with this industry, when the Lincoln Children's Zoo says that they have jumped their membership in three years, you know, I'd love to say it's from the marketing efforts of the state. But it's a collective partnership that we're all doing and sharing and promoting each other. I can't say that you're not going to have some of those issues before you, because I think that that's how fluid and how important this industry has become. It's being talked about a great deal and there's a great deal of opportunity for communities and counties to utilize their attractions and their resources to make money. [LB419]

SENATOR HARR: Do you think we're setting up precedents by doing this? [LB419]

KATHY MCKILLIP: I don't think that whenever you have dialogue and discussion you're setting precedents. I think that that's the beginning of good policy. So I think that as you look at some of these issues and you decide where the best fit is, at the end of the day, my goal is to better and grow Nebraska. And so we're going to have to look at a lot of these different issues to see where the best fit is. Do children's museums have a place in our industry? Absolutely. Absolutely. Do they provide an opportunity? Do they have...are they nonprofits? Are they supported by the private sector? Certainly. How we go about moving this process forward is what's going to happen in the discussions. [LB419]

SENATOR HARR: Okay. So we need to find a process. So the Durham Museum, do they fit in there? [LB419]

KATHY MCKILLIP: The Durham Museum? [LB419]

SENATOR HARR: Yeah, let's go specific, yeah. [LB419]

KATHY MCKILLIP: Well, you know, we certainly are broadening it, aren't we, Senator? Now we're at the children's and the Durham. [LB419]

SENATOR HARR: Yeah, I mean... [LB419]

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KATHY MCKILLIP: And I understand where you're going. I think that there probably needs to be some discussions overall for this industry about how we can assist attractions in growing. One of the issues when we have visitors that come to our state is to not have the same thing over and over. And we're not looking to build a Six Flags over Nebraska, at least not today. We're just looking to see how we can make these attractions that are nationally recognized move to that next level and maintain and compete at an international and national level. And in my opinion, LB419 assists with that. [LB419]

SENATOR HARR: Okay. Thank you. [LB419]

SENATOR GLOOR: Senator Schumacher. [LB419]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. This particular proposal is about \$2.5 million a year. Whether it comes out as a tax break or as a grant, it affects the bottom line about the same. But it only goes to four communities. What kind of tax breaks should we be thinking about giving to the other 500 communities who are not included in this tax break? [LB419]

KATHY MCKILLIP: Well, Senator Schumacher, that's a good question and I'm sure one that might be raised. I would think that there's a lot of ways that we have the discussions of how we grow this industry. I mean, when we grow it--and if we're not only looking at...you're saying that it's just going to be tax rebates or discussions or, you know, whatever incentives--there's other ways we can grow it, too, to where those counties can benefit. When we have events that are successful and we should all be very, very proud of like the U.S. Olympic swim trials in Omaha, the rest of Nebraska benefits. When we have 30,000-plus room nights that are booked for such an event for ten days at a time, those cash funds or lodging tax dollars go into our marketing efforts that help promote at the National Western Stock Show which promotes a section of an area/region of our state. It also helps to go focus on enhancing and getting regional exposure for our State Fair. We use those dollars to market in other areas where maybe they don't have an accredited facility such as the caliber that we're talking about today. But the discussion no doubt does need to occur how we grow this industry, because this industry is about making money. And the last I checked, there's nothing wrong with making money, not whether it's the communities, the counties, or the state. So I think we will need to have those discussions and no doubt those questions will be asked. [LB419]

SENATOR SCHUMACHER: Just one quick follow-up. This is about \$2.5 million a year public investment in basically what amounts to tourism and public entertainment, but we're being asked to make this investment at a time when there are some elements of the public saying, look, no

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more public investments. Cut back on this public roll, let it roll with the private sector. If we take that approach, where do you get more private money for your activities? [LB419]

KATHY McKILLIP: Well, I think some of the works that the commission has been doing that we're very pleased with with the private sector is, one, showing how we're a benefit to the quality-of-life component with their employees. We had ten Nebraska, we like to say, based, original Fortune 500 companies that came on board this year with our Passport Program. They came on board to say, we didn't know about this, how can we partner with this? And without us going into their corporate culture and saying, oh, well, you must do this--because that's not our job and that's their corporate culture--we said, possibly this could be part of your wellness plan. Possibly you could just provide an incentive and have competition between your divisions to go out and see who could get so many stops. The most important thing is to generate interest in what all Nebraska has to offer, not just the four accredited zoos or facilities we're talking about today, but getting Nebraskans to believe in Nebraska's product. And as easy as that says and sounds, it's not that easy, because Nebraskans still are not going out and visiting their state and appreciating what we have to offer. So corporate Nebraska was willing to partner with us without any financial contributions at that moment. The better and stronger we build these relationships, the more, I think, private sector support we're going to have or we're going to be able to move forward with. So I don't know what that looks like in the future. But I know that for our perspective, we are working very hard with corporate Nebraska. Behlen Manufacturing provided the stock tank for us at National Western. We were the number one booth. People actually ran around the National Western Stock Show wanting to know where they get their photo taken in a stock tank. It was us. Behlen Manufacturing sent the tank out there for us. It was a partnership that was unbeknownst that we could pull off. So there's people having their picture taken with the backdrop of the Loup River with the oars provided by Cabela's, the tank provided by Behlen. Yes, Behlen was very proud to have Behlen across the front of it because, of course, it went all over social media. But that's a partnership. So as we grow those partnerships, I think there's room for a great deal of discussion and opportunity. [LB419]

SENATOR SCHUMACHER: Thank you. [LB419]

KATHY McKILLIP: You're welcome, Senator Schumacher. [LB419]

SENATOR GLOOR: Senator Scheer. [LB419]

SENATOR SCHEER: Thank you, Senator Gloor. You're in charge of all the tourism. So as I'm looking at this, this is a pretty isolated, small, distinct group that we're providing some relief to. But aren't we sort of opening the bag then that Kearney could come and say, gee, we're the only arch in the state of Nebraska. We're very hard pressed. You know, they've already had a lot of

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financial problems. This would help us at least stay alive and so forth. So how do we continue to pick and choose and, really, within an industry, you know, who are the winners and who are the losers on that? If it... [LB419]

KATHY McKILLIP: Good question, Senator Scheer. I think that when it comes to the arch there's a lot of different ways that we can partner and we can provide incentives that may not necessarily reflect what LB419 is about. And it's always that word that we're always talking about which is the tax word. So there's a lot of incentives. One of the ways that we bring additional revenue in for the Kearney Archway is that it's also a designated visitor center for us. We provide staffing there. We also have it be a base in that region to help come in and talk about other areas. Everything is a win-win in Nebraska in my opinion. I can't run the Omaha Zoo even though I greatly admire Dennis Pate for running it. When we needed something for a social media blast for Omaha, Omaha, Omaha, the Omaha zoo immediately partnered with us where we had more than \$680 million of in-kind promotion on ESPN, CNN, the United Kingdom about Peyton the Penguin and very open to that. So I don't think that we're leaving anybody out. I think what's unique about our industry is that everybody fits into very, very interesting niches and it's our job to promote those different niches in different levels. [LB419]

SENATOR SCHEER: Well, that may be, but I think your client base maybe have...take exception to that, because we are favoring one over the other. We are giving exclusive tax benefits to one segment over the other. So, I mean, that is a different question than, yes, we can support and I can do this here, I maybe do that there, but this bill is exclusive to four facilities in the state of Nebraska. All of them are within the tourism industry, but as you've noted, that tourism industry is a much larger group than those four items. And I'll grant you that the Omaha zoo is probably without question the best that we have, perhaps, in the world. And it is a large attraction for the Omaha metro area. But having said that, we still have the rest of the state that we have to worry about. And it just seems like we're being awfully narrow in our selectivity as far as providing tax relief to certain facilities. [LB419]

KATHY McKILLIP: I appreciate that. And I don't know if I disagree with what you're saying at all, Senator Scheer, except that for this industry to move forward, we all have to grow and go together. I mean, we can all be different, but we need to be together. And so when you have the Scottsbluff/Gering and you have nine letters of support out there for a region, they're comfortable with that movement moving forward. Granted, we may not have a zoo in what you would consider the I-80 corridor between the metro region and Kimball. However, as this industry does move forward, I believe that you will find entities out there that say, if we can move and make more money and enhance attractions, when they are here at these facilities, even though this is very...this is very exciting for tourism, LB419, that we're even discussing about this. It really is. If we could move this forward with just the entities that you're referring to, we have the opportunity to capture those visitors when they're here to where others will benefit from it. So it's

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a different type of market. It would be like, why do we favor the Winery and Grapegrowers Association but we don't with the breweries? It's an agri/ecotourism product. So when we support the wineries and the winery industries with our promotional efforts because the breweries...it's nonetheless less important to our industry, because it's not our job to tell the visitor what they're here to go see. It's their job to be so captivated by what we have to offer that they want to see as much as they can. So it's a spillover effect in my opinion. But no doubt someone will ask that question, I'm sure. It is difficult. [LB419]

SENATOR SCHEER: Thank you, Senator Gloor. [LB419]

SENATOR GLOOR: Thank you, Kathy. Appreciate your testimony. [LB419]

KATHY McKILLIP: There are still a couple of you left. Should I wait? (Laughter) [LB419]

SENATOR GLOOR: I think in the interest of time, no. But we appreciate it. Thank you. [LB419]

KATHY McKILLIP: Thank you very much. Thank you, Chairman Gloor, for releasing me. [LB419]

SENATOR GLOOR: Can I see a show of hands of how many people are here to testify in opposition? Okay, thank you. Welcome. [LB419]

TIM DARBY: (Exhibit 24) Good afternoon. Good afternoon, Mr. Chairman, members of the Revenue Committee. My name is Tim Darby, spelled T-i-m D-a-r-b-y. I'm the general manager of the Magnolia Hotel located in downtown Omaha. I'm here today representing the Nebraska Hotel and Motel Association to express our organization's support for LB419. The tourism industry, which ranks as the third largest generator of income outside of the state behind agriculture and manufacturing, is a major driver of our state's economy and tax base. Nebraska has a solid base of tourism venues but we should always look at...for expanded opportunities. Our state should continue to seek new ways to provide support, enhance our attractions and destinations for out-of-state visitors and local residents. The economic and social impact that zoos and aquariums have on a local area and the state as a whole has been well documented. A goal of any community is to grow and increase the quality of life for its residents. Zoos' investments back into local area through employment, purchases, and cultural provide benefits far beyond the economic impact. These facilities also provide an educational experience for students and adults that is not always...or that is not available in any other setting while providing an excellent family activity. Our association is committed to increasing and expanding tourism which provides benefits to all related hospitality services. Studies show that in the



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summer months over 60 percent of our nonresidents visiting Nebraska stay in hotels and motels. Many of these properties are very dependent on tourism dollars. On a personal observation, our facility provides lodging to many guests throughout the year that are in town to visit the Henry Doorly Zoo. Most of these families are from out of state and many stay for multiple nights. The attractions provide the flow of tourists that are important to me and the other hotels in the area. As stated by several testifiers here today, the number of visitors across the state ranging from Omaha to Scottsbluff are part of the economic success that we have experienced in the past few years. Hotels, transportation, and food services not only are the primary providers for visitors, studies show that when tourism increases, communities experience an increase in retail shopping and other related services. The Nebraska Hotel and Motel Association would ask the committee to advance LB419. I would like to thank the committee for their time today and would be happy to answer any questions you may have. [LB419]

SENATOR GLOOR: Thank you. Are there questions for Mr. Darby? Seeing none, thank you for your testimony. [LB419]

TIM DARBY: Thank you. [LB419]

SENATOR GLOOR: Other proponents for LB419? I'd ask for opponents. I didn't see anybody but we'll ask one more time. We do have an...somebody who is an opponent. [LB419]

MARY JANE TRUEMPER: Mary Jane Truemper, T-r-u-e-m-p-e-r from Omaha. I wasn't going to get up and speak against this bill, but since nobody else is, I will. I'm a taxpayer in Omaha and this is all about picking winners and losers and I think that was alluded to up here. And in my opinion...in my humble opinion, I don't think that that's right. And I think, as taxpayers, we had \$2 million that were...was given to us in property tax relief last year by the mayor and that was for 400,000-plus people. And now we're talking about exemptions for the zoo who...the zoo is incredibly successful, has a lot of philanthropic money that is given to it, and who's to say the zoo versus me? You know, frankly, I would like an exemption from some income tax and sales tax and everything else, too. So I'm not going to belabor the point, but I just want to say that there is somebody here that is against this, and I think that there's other taxpayers that feel the same way. Thank you. [LB419]

SENATOR GLOOR: Hang on just a second. Let's see if there are any questions. [LB419]

MARY JANE TRUEMPER: Certainly. [LB419]

SENATOR GLOOR: There are not. Thank you, Ms. Truemper. [LB419]

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MARY JANE TRUEMPER: Thank you. [LB419]

SENATOR GLOOR: Anyone else in opposition? Anyone in a neutral capacity? Seeing none, Senator Mello waived closing and so we will close the hearing on LB419 and will move on to Senator Davis' LB280. Senator Davis. Whenever you're ready, Senator Davis. [LB419]

SENATOR DAVIS: (Exhibits 1, 2, 3, 4, 5) Good afternoon, Senator Gloor and members of the Revenue Committee. I am Senator Al Davis, D-a-v-i-s, and I represent Legislative District 43. I'm appearing before you today to introduce LB280. Nebraskans are strong supporters of good schools. We have a long tradition of providing excellent education for our students who perform very highly. But despite Nebraska's strong interest in education, the state has never played a significant role in funding our schools. Compared to other states, Nebraska ranks 49th of 50 in state support for local schools with a heavy reliance on property taxes as the local level to educate our children. In the past, the state has attempted to fix this problem of overreliance on property taxes to fund schools. LB1059 in 1990 was a significant effort to reform the process by increasing state income and sales taxes to provide equalization and equity. This was TEEOSA, the Tax Equity and Educational Opportunities Support Act, and for a few years it did provide both equity and opportunity--no longer. The basic TEEOSA formula is relatively simple: needs minus resources equals aid. When the formula was put in place in the early 1990s, only about 25 school districts did not receive equalization aid at a time when Nebraska had many more school districts than it has today. That number has declined every year for the past decade, yet today, two-thirds of all school districts in Nebraska receive no TEEOSA aid and must rely completely on taxes assessed on local property owners to meet the needs of the district. In many ways, we have gone backwards in offering support for K-12 education, especially since the 2008 Great Recession. Partly as a result of this overdependence, Nebraska's property tax rates are exorbitant when compared to our neighboring states. This is particularly true in agricultural districts where there is little commercial or residential property. I've handed out a series of property tax statements from four Nebraska property owners who own comparable contiguous land that crosses state boundaries to show the dramatic variation in property tax assessment compared with our neighboring states. To further demonstrate the disproportionate property tax burden being felt by rural Nebraskans, I have selected an individual case from my own district. Margaret is a retired teacher who, with her sister, shares a life estate and 4,000 acres of ranchland. Margaret cannot sell this parcel and is responsible for the upkeep of buildings, wells, fences, shelterbelts on the ranch. Margaret's share of proceeds from the lease of the ranch were \$26,000 in both 2011 and 2012. She paid property taxes of \$10,658 in 2012 and the other expenses on the ranch absorbed all but \$3,800, which was her taxable income in 2012. This is only one of many of these kinds of stories we have all heard over the past year. These aren't wealthy landowners. We're talking about rural retirees just trying to hold on. Efforts to try to fix the growing property tax burden have been ongoing in the Legislature for years. Agricultural land is now assessed at 75 percent of its actual valuation across the state, but that has not brought relief the vast majority

of school districts simply because their base valuation is agricultural or connected to agriculture. In a heavily agricultural district, dropping the valuation of ag land without providing additional aid only forces the local governing body to increase their levy. And the few residential or commercial properties in those districts will see a significant increase in their property taxes with no offsetting benefit for agriculture. Our current situation not only creates a crushing burden for many of those who rely on agriculture for their livelihood, it impedes the ability of Nebraska's farmers and ranchers to innovate and invest in new and more efficient technologies due to the expense. Over time, states with less confiscatory property tax policies will move ahead of Nebraska in agricultural productivity. Value-added agricultural, which requires any kind of property investment, will be driven out of the state or will be begging the Legislature for tax exemptions and threatening to build elsewhere unless they get them. It's time to do something different. This summer and fall I was involved in an ongoing discussion with broad group of stakeholders in the property tax and school funding issue. Over several months, we identified what the problems were and tried to craft a solution which would provide property tax relief for all Nebraskans while giving each school an additional stream of revenue to help offset the loss in property tax funding. LB280 was the result of that effort. It employs a four-pronged approach. First, the bill lowers the percentage of agricultural land valuation from 75 percent to 65 percent in the resources side of the TEEOSA formula. This step will bring some schools back into equalization without affecting the ability of schools districts and other taxing entities to generate the funding they need to provide services. Because this valuation change would only apply to the TEEOSA formula, it does not impede a local government's ability to access valuation necessary to provide necessary services. Other proposals that simply lower ag valuations from 75 percent to 65 percent result in significant tax shifts to commercial and residential properties in heavily agricultural areas, and the more agricultural land that exists in a district, the greater the shift. In response to the suggestion that there may be constitutional concerns while treating ag land differently from other property for purposes of the formula, I requested an Attorney General's Opinion on that portion. Their February 17 Opinion determined that this provision does not violate the special legislation clause. Since the increase in the valuation of ag land in recent years has outpaced increases in the valuation of other real property, and I'll quote from the Opinion, "utilizing a different, lower percentage of agricultural land value in the calculation of state aid is not arbitrary or unreasonable, as it is based on real substantial differences between such lands and other real property." Secondly, LB280 gradually lowers the cap on school property tax levying authority over four years from the current \$1.05 per \$100 of valuation to 80.5 cents, or in the case of the Learning Community, from 95 cents to 70.5 cents. Lowering the property tax levies to these levels will save \$400 million in property taxes. And each senator on this committee must recall the drumbeat of property tax relief heard at the 2013 Tax Modernization Committee meetings. Third, LB280 proposes a mandatory local school funding surtax of 19.4 percent of a resident's state income tax liability across the board which will generate revenues to each school district and will also be included in the resources side of the TEEOSA formula. Put simply, if you owe the state \$1,000, you will pay an additional tax of \$194 which will go to

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support your local school district. The bill would allow school districts to raise the surtax further either by a vote of the people or by a supermajority of the school board up to an additional 10.5 percent. How does this element of LB280 maintain tax fairness? Some districts with modest property valuations are populated by high-income residents who I believe benefit more from the current state aid formula which bases resource calculations solely on the value of real property in that district. The optional surtax increases in LB280 provide a local opportunity to raise additional revenue to better educate high-poverty, ESL, and preschool children. This would address some of the needs expressed to the Education Committee during our visioning process this past summer. Those hearings emphasized school districts' needs for increased funding to better invest in areas like prekindergarten services and career academies. Unfortunately, there isn't enough funding under the current TEEOSA formula to provide these services and it would be impossible to incorporate them into the formula without further reducing the number of schools that qualify for equalization. Fourth, the bill adds \$500 for every student in the state to be provided to that student's district regardless of equalization status. This guarantees each district a predictable stream of revenue on which to base their anticipated expenses each year. The funding enters TEEOSA on the resources side of the equation. LB280 is true tax modernization. It balances school funding sources and provides more tax equity across the state without taking aid away from the schools. Although rural property tax relief is one goal of this bill, it's not limited to that. All classes of property will be affected by LB280 and average working Nebraskans will also see reductions in the property tax they pay on their homes. This should work to offset the additional income tax they will be paying. This bill will also create property tax relief for Nebraska businesses which are heavily dependent on property to generate revenue: from Nucor in Norfolk to Union Pacific and BNSF. In an earlier time, the amount of property you had was a good indication of your wealth and ability to pay. It was a fair way to support local government. Today, a \$10 million farm can be contrasted with a \$10 million stock portfolio or a \$10 million commercial property. All three are worth the same, but two of the three pay drastically higher total tax bills than the other. Cities long ago began to use the sales tax as an alternative source of revenue to support activities, but school funding has always been too dependent on property tax in Nebraska. We need to unchain the schools from that same complete reliance on one form of taxation. LB280 is a new idea. It's a bold idea. It's a controversial idea. But it's an idea which needs to be weighed and considered. I would like to note that the Fiscal Office estimates a \$32.5 million net reduction in school district revenue, which was unintended. Our intent has always been to ensure that no district loses revenue. I am happy to work with the committee on any amendments to LB280 to ensure that it meets our goals of restoring balance to school finance in Nebraska and lowering property taxes across the state while protecting funding for all schools. I urge you to advance the bill and I'm happy to address your questions. [LB280]

SENATOR GLOOR: Senator Davis, would you explain to me the foundation aid component of the bill, what that is, how that fits. [LB280]

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SENATOR DAVIS: So foundation aid is basically dollars per student. So if you have 100 students and each student is going to be guaranteed \$500, then you take the 100 times \$500 and you would come up with the amount of state revenue that you would get. I should say that the Board of Educational Lands and Funds funding that comes out of the school lands is distributed to the states in that way. [LB280]

SENATOR GLOOR: Okay. Thank you. Questions at this point in time? Senator Sullivan. [LB280]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Senator Davis. I'm going to start with your first comment about Martha...or Margaret. So did she run cattle on this land herself or is she renting it out? [LB280]

SENATOR DAVIS: She is renting it out at this point. It's a life estate though, so it's not something she can sell. [LB280]

SENATOR SULLIVAN: Right, but is she limited on the amount of rent she can charge? [LB280]

SENATOR DAVIS: She gets the market rent. So if she raises her rent, she's not able to rent the property. Is that answering your question? [LB280]

SENATOR SULLIVAN: Well, I guess. I just thought that computation seemed like maybe the rent was pretty low. But if you say it's the market rate... [LB280]

SENATOR DAVIS: You know, I'll just mention another one of my constituents who has a quarter-acre...quarter of ground which he rents out and then he's got some rangeland with that. But his gross receipts were \$41,000 and he paid \$22,000 in property taxes on that particular piece of ground. Plus he has to keep the pivot up, the pivots and the investment on that piece of ground up. [LB280]

SENATOR SULLIVAN: Do you know if some landowners have marketed or developed leases based on the increases that they have seen in their property taxes so that the rent or the lease goes up incrementally based on their increases in property taxes? [LB280]

SENATOR DAVIS: I'm sure that may be happening in some places. There may be someone that can testify to that. I can't demonstrate that that has happened. But we do know that essentially property taxes are somewhat built into the rent if you can make that happen. And you know as

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well as I do, if you live in a small town, for example, and you've got some rental property, you're not going to be able to do that just as far as residential property. [LB280]

SENATOR SULLIVAN: Sure. [LB280]

SENATOR DAVIS: And I think the same thing is true of agriculture. If you've got corn prices that have dropped, you're just not going to be able to rent that property for the same amount as you could prior to that. [LB280]

SENATOR SULLIVAN: Right. Explain to me a little bit more of the surtax. Now that is 19.4 percent of whatever your individual income tax liability is, is that correct? [LB280]

SENATOR DAVIS: Correct, correct. [LB280]

SENATOR SULLIVAN: So that would be in addition to whatever you income tax liability is. [LB280]

SENATOR DAVIS: That's correct. So if you've got \$1,000 in state liability, you'll pay 19.4 percent additional surtax which will be held and maintained by the resident's school district. [LB280]

SENATOR SULLIVAN: Okay. And tell me a little bit more about residents versus nonresidents paying that tax. [LB280]

SENATOR DAVIS: So on your tax return, when you put it down, you need to put your school district down. And there will be some residents that live outside the state that are going to have Kansas addresses or Iowa addresses. They're going to have income off that property, but that revenue goes to the General Fund for distribution. [LB280]

SENATOR SULLIVAN: Okay. Is there any constitutional concern regarding equal protection based on that situation? [LB280]

SENATOR DAVIS: I haven't addressed that. We could certainly ask for an Attorney General's Opinion on that. [LB280]

SENATOR SULLIVAN: Okay, all right. Because you're adding this new element of more emphasis on income tax, are you concerned at all about the volatility of income tax receipts,

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particularly in the rural areas where we can, because of the ag economy, see income swing quite dramatically. [LB280]

SENATOR DAVIS: Well, let's remember that we still have the property base to go back to for taxation. So if, when the revenue side comes in, if the revenue side is low because of low ag prices, for example, there's not going to be a lot of revenue that's going into the formula. So if the formula is needs minus resources equals aid and the resources have been reduced because the tax generated off that farm isn't very high, then TEEOSA will still be there to help fill that gap. [LB280]

SENATOR SULLIVAN: Okay. And that, then right along with that, you're incrementally dropping the levies over time. [LB280]

SENATOR DAVIS: Right. [LB280]

SENATOR SULLIVAN: But you believe that most of that loss, potential loss, would be made up with equalization aid. [LB280]

SENATOR DAVIS: Correct. Well, it will be made up through the income formula, you know, about \$400 million. [LB280]

SENATOR SULLIVAN: Okay. Thank you. [LB280]

SENATOR DAVIS: Thank you. [LB280]

SENATOR GLOOR: Senator Schumacher. [LB280]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you, Senator Davis, for bringing one of the many creative ideas we've had (laugh) for dealing with taxes. I'm curious about Margaret, that she only has a life estate. Do you know how she came to have only a life estate? Did she give the remainder interest to her heirs? [LB280]

SENATOR DAVIS: I am assuming that her parents left her a life estate and deeded the property to her grandchildren. [LB280]

SENATOR SCHUMACHER: Okay. So that's how she's... [LB280]

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SENATOR DAVIS: Right. [LB280]

SENATOR SCHUMACHER: And so basically she has no investment in this. This isn't an heir deal. Okay. [LB280]

SENATOR DAVIS: You know, and I used her as an example because we always hear people say, well, then they should sell the property. She can't sell the property. So if she could sell the property, maybe she could invest that revenue somewhere else in another investment. She's locked into it. And so for some people, yeah, it's a personal choice whether you want to keep the farm or sell it. But in her particular case, she doesn't have that opportunity. [LB280]

SENATOR SCHUMACHER: But she could get together with her grandkids and they could sell the entire fee. [LB280]

SENATOR DAVIS: Well, you know, some parents and grandparents and middle generation don't get along either. [LB280]

SENATOR SCHUMACHER: And then the other question, because I know we need to move on here, is in addition to the pain and anguish about property taxes, we've also heard that our income taxes are on the high end of normal, and talk that, well, they should be reduced. But this would take them up, if my figures are right, somewhere around 8.1 percent which would be I'd almost think really pretty high in comparison to other states except for a few. Any concern there that the high income tax push would have some of the Draconian effects that we've heard in some of those hearings? [LB280]

SENATOR DAVIS: Well, let's remember first of all that marginal tax rates aren't what the top rate is. Marginal tax rates are somewhat lower than that. So you know, I'm sure that there will be some...we know that the Platte Institute is here. I have a good feeling that they're probably going to testify against this bill, and some other folks. But we need to find some other solution to what we're doing. I think this is a good fair one. And my gut feeling about income tax is that I don't have a bit of problem paying it because it means I made money. You know, if you own property. You may not make any money, but you have to pay the property tax. And in a lot of rural Nebraska, we're getting to that situation today. And I'll remember a year ago, and Senator Sullivan will remember this, we were at Crete taking testimony on the Education Committee. And I think it was the president of the board of Norris came and it was a farm woman and she said, you know, I'm telling you, this is to the point where it's just not feasible any longer. And that was at \$8 or \$6 corn. Today we're at \$4 corn. And we still, if you look at the property tax appraisal process and running in arrears, we're still not to the top yet in agriculture. So we need



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to find a solution. All of you that toured with me, with Tax Modernization remember that was the number one issue at every one of the hearings I think. [LB280]

SENATOR SCHUMACHER: Thank you, Senator. [LB280]

SENATOR GLOOR: Senator Scheer. [LB280]

SENATOR SCHEER: Thank you, Senator Gloor. Senator Davis, how would you respond to somebody that would say, well, it's just a tax shift, more exclusively for rural education to cost less for the rural people and shift the cost of it to the more metropolitan area because to the extent that you're lowering the local effort rate substantially. Those in the metropolitan areas, the income per capita is going to be substantially higher than a lot of the rural areas. So they would be producing quite a bit more income via the income tax that would subsidize their districts. So in essence, that would leave a much larger pot of the pool for TEEOSA to go back into the rural area which they've lost over the last several years. But essentially, this truly brings the TEEOSA dollars in a big way back to rural Nebraska. Is that a fair assessment? [LB280]

SENATOR DAVIS: I'm not going to argue with you that it's not a tax shift because there is a tax shift element to it. But I would say if we go back to the formula in 1990 when it was put in place and there was an element in the formula that it had 20 percent income tax that was to be retained by the resident district, and I think Senator Brasch has a bill that deals with that that we haven't heard yet. But that has been whittled away by the Education Committee and some other people who were working on this idea that equalization was all about what you could kick off from your property. So you know, I think if you want to talk about how equalization works, then you need to consider the ability to pay. There just isn't as much ability to pay in rural Nebraska. So it comes to be a little bit of a fairness issue for me. And I think other people can probably address that maybe in a better way than I can. [LB280]

SENATOR SCHEER: Okay. Thank you, Senator. Thank you, Senator Gloor. [LB280]

SENATOR GLOOR: We know you'll be staying around to close. [LB280]

SENATOR DAVIS: I think I will. [LB280]

SENATOR GLOOR: Thank you, Senator Davis. I would like to see a show of hands of people who would like to testify as proponents for this bill if I could. And can I see a show of hands of those people who are here to testify as opponents on this bill specifically. We'll start with proponents. Thank you. We were just trying to get a measure and decide how to proceed from

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here. But we'll continue with our standard practice and welcome people forward. Thank you.  
Good afternoon. [LB280]

CAROLINE WINCHESTER: (Exhibit 6) Good afternoon. Thank you, members of the committee. I'm Dr. Caroline Winchester, superintendent at Chadron Public Schools, C-a-r-o-l-i-n-e W-i-n-c-h-e-s-t-e-r. Certainly want to thank members of the committee for the opportunity to testify from Chadron Public Schools' perspective on LB280. We are here today because we believe that LB280 can be part of a property tax solution. Chadron Public Schools lost \$1.6 million in state aid in one year. We had to close four rural schools and we had to reduce 16 full-time teaching positions. Following that, our buildings have aged. We have two 1921 buildings and two buildings that were built in the '60s. And so we attempted a bond issue. We had a bond going off and so we attempted a bond issue of approximately \$12 million to repair the aging infrastructure. That issue failed by 70 percent. It failed not because our patrons did not understand or see the needs. It failed because they could not afford to continue to pay the property taxes. Funding of public schools is a legislative issue. So because of that, we saw I think a very special thing happen. And that's where people that were opposed to the bond issue came together with people that were for the bond issue to work together for positive solutions to funding public education. We support LB280 for four major reasons. It is revenue neutral for public schools. It provides long-term property tax relief. It is more equitable, fair way to fund public education. And it provides more flexibility for school districts in funding education. First of all, revenue neutral, LB280 does not result in the loss of revenue for any school district but revenue may come from another source. Using the model run for Chadron Public Schools, we would see an approximate \$1 million reduction in property taxes. But that would then be replaced by approximately a \$1 million increase in the local income tax. It provides property tax relief. Chadron's levy is currently at \$1.05. Our property tax valuation per student is 19th from the bottom. We have a lot of nontaxed land in our district. Under LB280, Chadron's levy would be reduced by 27 cents, or to 78 cents, which would again, as I said, would result in a total reduction of property taxes of around \$1 million. Patrons, like I said, patrons recently soundly defeated a bond issue to repair aging infrastructure and safety concerns, again, not because they did not recognize the need, but because they were just unable to continue to pay the high levy. And you have to understand that about...excuse me, understand that 40 percent of our taxes are paid by 10 percent of our taxpayers. LB280 allows for...is also an equity and a fairness issue. LB280 allows more patrons, I like to say, the privilege of funding public education. Nebraska provides a free education for all students. Shouldn't schools be funded by all that are able to pay? Finally, a flexibility piece enters in. Flexibility comes through a local income tax surcharge. LB280 allows for an additional local source of revenue through a local income tax surcharge. The additional income source provides flexibility, I believe, among the 265 (sic) school districts with very diverse needs as to valuation per student and income wealth of the community. For example, our neighbors have four to ten times the valuation per student that Chadron does. But on the other hand, we may have the more potential to have a higher income tax per student per

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revenue. I want to say that the committee I know has a daunting task before them. No one enjoys paying taxes. As I testified at the Tax Modernization Committee hearing in Scottsbluff a year or so ago, we encourage you to be bold. The approach to resolving the property tax issue needs to be holistic. There are lots of moving parts. We want to encourage you in a goal to make it a tax neutral recommendation, but at the same time be a more equitable distribution of tax responsibility using property and income taxes. LB280 provides revenue neutrality, long-term property tax relief, equity, fairness, and flexibility. [LB280]

SENATOR SCHUMACHER: Thank you for your testimony. Any questions? Senator Scheer. [LB280]

SENATOR SCHEER: Thank you. Thanks for making the trip down. A couple things, this doesn't really help the plight of your school district though, does it, because it... [LB280]

CAROLINE WINCHESTER: Excuse me, doesn't help what? [LB280]

SENATOR SCHEER: It doesn't help the plight of your school district because if it's revenue neutral to you... [LB280]

CAROLINE WINCHESTER: That's correct. It's revenue neutral. But I think that's important. I think as we look at something to help with the property tax issue, I think it is...we have to understand that whatever we do to help solve property taxes needs to also make sure we do not harm school districts in doing so. And in some ways I think it does maybe help us. While we may not...it's revenue neutral. We don't gain any more dollars. It does give us a little more flexibility, for instance, if we were to proceed again with another bond issue. Currently, you know, the only thing I have is property tax. But with this bill you could also with a vote of the people utilize an income tax surcharge. So maybe it might perhaps be a model that you might go to the people and say, you know, we have these issues and say so many cents would come from property taxes and so many cents might come from the income tax surcharge. [LB280]

SENATOR SCHEER: Second question, would it not be a certainty that we would have to have a more stable formula that doesn't change from year to year because the only way that this truly can function forward is if we don't keep changing the knobs one direction or another, which I mean they do. And so in all actuality, the only way that this bill can work is if that becomes truly a stable formula so that everyone knows that it can be consistent because if we keep turning the knobs, then that throws away the predictability of the system as well. [LB280]

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CAROLINE WINCHESTER: Well, you know, I understand what you're saying because that's part of what we have struggled with in public education, is as the state decides how much money it can fund public education and then it does tweak the formula to suit those needs. And in some ways, yes, I can see what you're saying. But I think anything that we're going to do, it still would be under those constraints of what any Legislature may do. But I think the pieces right now, as long as we stay with the idea of... [LB280]

SENATOR SCHEER: Well, but I'd beg to differ. You can't... [LB280]

CAROLINE WINCHESTER: ...of equalization, it will tweak. Pardon? [LB280]

SENATOR SCHEER: You can't do that though. It can't happen if it was the way that it was presented by Senator Davis. That formula has to remain stagnant because if it changes year to year that throws off the relativity of the income tax and the TEEOSA formula. [LB280]

CAROLINE WINCHESTER: Well, I think this...well, this comes in on the revenue side. And maybe I don't quite understand. But because it comes in on the revenue side and maybe not the needs side, I think, which...you know, and I understand what you're saying about the instability. But I think because it comes in on the revenue side, you will still as a board be able to make some adjustments in your property tax asking. [LB280]

SENATOR SCHEER: Well, here's my problem. We switch to this program. [LB280]

CAROLINE WINCHESTER: Right. [LB280]

SENATOR SCHEER: And so some of the funding that previously was going to larger school districts now will flow into small school districts. [LB280]

CAROLINE WINCHESTER: That's correct. [LB280]

SENATOR SCHEER: And it's revenue neutral. [LB280]

CAROLINE WINCHESTER: Right. [LB280]

SENATOR SCHEER: So we have to protect the communities by two ways, that if the Education Committee were to turn the knobs and say, gee, well there's another segment of school children that need whatever it might be so now they become a portion of the formula as well. So that

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draws more money in but that subset of students all revolve around the more metro area, then all that does is brings the shift back into this direction. So the formula pays a pretty significant part of the distribution of the funds here. [LB280]

CAROLINE WINCHESTER: But that currently happens now, you know. And so I don't know that we would be in any other different environment that we're currently operating under. [LB280]

SENATOR SCHEER: Well, I understand. But I was hoping that this might improve it. And if all that's going to happen is that we reduce it via the income tax and it continues to balloon, the state aid continues to balloon, we really haven't accomplished anything. [LB280]

CAROLINE WINCHESTER: Well, I guess, you know, I would respectfully kind of disagree. I think we have. Or maybe I'm not understanding what you're saying... [LB280]

SENATOR SCHEER: Maybe not. [LB280]

CAROLINE WINCHESTER: ...because I think... [LB280]

SENATOR SCHEER: Sometimes I talk in circles so don't feel like you're the first person. [LB280]

CAROLINE WINCHESTER: Yeah. The stuff, it goes into the formula and, you know, is moving parts. [LB280]

SENATOR SCHEER: But isn't that part of the problem, though, I mean right now with TEEOSA is all the moving parts? [LB280]

CAROLINE WINCHESTER: Yes, it is moving parts. But I think the biggest problem with the formula, the formula works very well, but we have two things that have...some several things that have skewed it quite...first of all, the tremendous...when the formula was done originally, the intent was to be a third, a third, a third on sales and property and income in state aid. And the formula worked for the first few years. You know, things were stabilized. But as the state then had other obligations or did not receive the revenue that they thought or whatever, the state started backing off on the funding. And when that happened, then the property tax piece started to grow and grow. So we've seen a shift over the past years of like \$300 million coming from rural patrons, rural property owners being shifted in over the years. So right now the formula is somewhat skewed on account of the high ag land valuations that are skewing it. And I think the

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revenue sector is a piece that makes things struggle. If the formula were currently funded like it was when it was originally written, the state would be behind \$700 million. So I think that lack of aid creates, you know, a lot of the problems. And because of that lack of \$700 million that's not in it, the responsibility has been shifting more and more and more to local property tax owners and local patrons. [LB280]

SENATOR SCHEER: What happens three years from now if the, not necessarily the bottom falls out... [LB280]

CAROLINE WINCHESTER: If what? [LB280]

SENATOR SCHEER: If the bottom falls out of ag and ranch ground? [LB280]

CAROLINE WINCHESTER: I think that may be why we have a little more flexibility here. We're able to tax and have an income surtax because I have seen...remember the '80s when property tax valuations did go down. And a matter of fact, at Chadron, the year we lost the \$1.6 million, we had a 1 percent decrease in property tax valuation on top of that. [LB280]

SENATOR SCHEER: Okay, thank you. [LB280]

SENATOR GLOOR: Senator Sullivan. [LB280]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Dr. Winchester. My question relates to the income tax or the surtax. That's the 19.4 percent is a given in LB280, right? [LB280]

CAROLINE WINCHESTER: Right, correct. [LB280]

SENATOR SULLIVAN: So then by a supermajority vote of the school board... [LB280]

CAROLINE WINCHESTER: Yes. [LB280]

SENATOR SULLIVAN: ...you can increase it to how much? [LB280]

CAROLINE WINCHESTER: I'm sorry, I can't tell you that. [LB280]

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SENATOR SULLIVAN: It's 29-something. [LB280]

SENATOR GLOOR: 29.9 percent. [LB280]

SENATOR SULLIVAN: Okay. It just takes a vote of the board... [LB280]

CAROLINE WINCHESTER: Yes, it would. [LB280]

SENATOR SULLIVAN: ...rather than a public hearing and vote of the people. Okay. [LB280]

CAROLINE WINCHESTER: That's correct. [LB280]

SENATOR SULLIVAN: Thank you. [LB280]

CAROLINE WINCHESTER: That would provide if a district felt like they had some needs that they needed to address, and it's not anything unlike what we currently have. School boards are allowed to go above the \$1.05 with a vote of people. [LB280]

SENATOR SULLIVAN: But this isn't requiring a vote of the people. [LB280]

CAROLINE WINCHESTER: Yes, a board could do it either way. They could do it themselves or by a vote of the people, if I understand the bill correctly. [LB280]

SENATOR SULLIVAN: Okay. And is the 29-whatever-point percent in addition to the 19 percent or...so you've got the 19.4 percent. [LB280]

CAROLINE WINCHESTER: Right. [LB280]

SENATOR SULLIVAN: And then the 29 percent by the super... [LB280]

CAROLINE WINCHESTER: Well, yeah. They could vote to raise it. [LB280]

SENATOR SULLIVAN: That would be in addition. [LB280]

CAROLINE WINCHESTER: They wouldn't have to go the whole way I wouldn't think.  
[LB280]

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SENATOR SULLIVAN: Oh, okay. [LB280]

CAROLINE WINCHESTER: You know, it's just like now with a levy override, boards can choose how much they wish to do that. [LB280]

SENATOR SULLIVAN: Okay. [LB280]

CAROLINE WINCHESTER: And then it goes to a vote of the people. But rural...we've had, you know...especially in rural areas we've had people always say, well, if you need more...if you're not getting enough money from state aid, take it to a vote of the people with a levy override. And there are small...a lot of...some districts have done that. [LB280]

SENATOR SULLIVAN: Do you think under this scenario with LB280, you might be more apt to be successful in a bond election? [LB280]

CAROLINE WINCHESTER: You know, we never can know for sure. But I think a couple things, I'll put...let me talk to you about Chadron's situation. And like I said, people did not understand the needs. You know, they want to fund public education. They want good schools. They know that brings jobs and opportunities and economic development to areas. And they didn't have a problem with that. But they just couldn't pay any more because some of our patrons may pay as high as 60 percent of their gross income on property taxes. So I think perhaps we have, since the failure of the bond issue, gone and done everything we could with what disposable dollars we had in the depreciation fund. We have done some unique funding using energy loan, subsidized loans, performance contracts. We've done everything we can with what's available. And I think also, we're also able to go to our patrons and say we've also have attempted everything we can legislatively to make a change in this funding. And I think our patrons would respond and it would be easier because if you're seeing a 27 cent reduction in your property tax. And now I come back and ask for 10 more cents, and with also other people helping...other local people providing this, I think our residents would be more open to passing a bond issue. [LB280]

SENATOR SULLIVAN: Thank you. [LB280]

CAROLINE WINCHESTER: But it's all speculation. [LB280]

SENATOR GLOOR: Senator Scheer. [LB280]



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SENATOR SCHEER: Have you run what the net result would be for your school district if LB280... [LB280]

CAROLINE WINCHESTER: Yeah. These numbers were run for our school district and some other representative school districts so we could kind of see. [LB280]

SENATOR SCHEER: Okay. And so with your school district, how much does your state aid go up under LB280? [LB280]

CAROLINE WINCHESTER: I think our state aid would remain fairly stagnant in this particular model. There was one model we also ran if we do not do, I believe, the 75 percent to 65 percent. I think we potentially in that model might lose a little state aid. But what we would lose in state aid we would gain in the local income tax piece. [LB280]

SENATOR SCHEER: Okay. So essentially in Chadron's case, the funds from outside of Chadron remain stagnant. There's no change from the state aid, for instance. [LB280]

CAROLINE WINCHESTER: Yeah, our total revenue would be stagnant. [LB280]

SENATOR SCHEER: So from the vantage point, the people that were writing a big check for property tax essentially are just going to write a more modest check for property tax but yet an additional check for income tax... [LB280]

CAROLINE WINCHESTER: Yep. [LB280]

SENATOR SCHEER: ...and they both equal the same thing. So have we really solved a problem, other than camouflaged it? [LB280]

CAROLINE WINCHESTER: Well, no. The people that are currently...the people that own property will see a reduction in their property tax. And the models we ran, every case is going to be different, but some of the models that we ran show that actually their overall taxes would be less even though they're paying more income tax, their reduction in property tax would more than offset that. Now you've got some people of course that have invested their money let's say in stocks and bonds, maybe just own a home. But maybe they have \$100,000 investment in stocks and bonds. Those people currently are paying no taxes, are not supporting public schools with their investment in stocks and bonds. Those people might...would probably see an increase in their income tax. But I think that goes back to why it's called public education. And I say that

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this bill allows people, more people the privilege of contributing to public education. The surtax is on people that are able to pay. [LB280]

SENATOR SCHEER: But under the circumstance we're talking about, those people that own their home are paying taxes for the privilege of education. [LB280]

CAROLINE WINCHESTER: Right. They are. You're correct. [LB280]

SENATOR SCHEER: All right. Now they're going to pay more because of an income level. [LB280]

CAROLINE WINCHESTER: No. It would be offset by the reduction in their property taxes. Like I said, going from \$1.05 and reducing it by 27 cents is a considerable amount. [LB280]

SENATOR SCHEER: Okay. But then my point remains with you. If I'm paying \$5,000 in property tax and this bill goes through and so now I'm only paying \$3,500 in property taxes, but I'm paying another \$1,500 in income taxes, have we really solved anything? [LB280]

CAROLINE WINCHESTER: No, we don't know because I don't know what level that you pay income at. So you know, it's hard to say is it somebody that makes...owns a home and makes \$50,000 a year? Is it somebody that owns a home and makes \$300,000 a year? You know, those are the kinds of things that enter. [LB280]

SENATOR SCHEER: But the income tax and the property tax are still equaling the same amount that the property tax was before, correct, in your case? [LB280]

CAROLINE WINCHESTER: The total amount. [LB280]

SENATOR SCHEER: Yes. [LB280]

CAROLINE WINCHESTER: But each individual's experience will be different. [LB280]

SENATOR SCHEER: Okay. Thank you. [LB280]

SENATOR GLOOR: Thank you, Dr. Winchester. I don't see any more questions. [LB280]

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CAROLINE WINCHESTER: Thank you. [LB280]

SENATOR GLOOR: Next proponent. [LB280]

JIM O'ROURKE: Senator Gloor and Revenue Committee. [LB280]

SENATOR GLOOR: Good afternoon. [LB280]

JIM O'ROURKE: Thank you for listening. And I may have to...Jim O'Rourke, J-i-m O-'-R-o-u-r-k-e. [LB280]

SENATOR GLOOR: As soon as you finish with your testimony, would you fill that out and be sure to give it to the clerk. [LB280]

JIM O'ROURKE: I'll do that. [LB280]

SENATOR GLOOR: Thank you. [LB280]

JIM O'ROURKE: (Exhibits 7, 8) I may have to change the testimony that I have in front of you based on some of the questions you had here for Dr. Winchester. Fairness, fairness is my message here. Dr. Winchester talked to you about the school bond issue that failed in Chadron. And she pointed out the fact that it wasn't because we don't know that those school buildings need repairs. We need help on those building. You simply are not going to squeeze any more blood out of the turnip. The example that we just talked about had several examples of people paying 35 percent to 50 percent of their gross income in property tax. I hear a comment about we think that the income tax levied is too high. If 8 percent in income tax is too high, what do you think about 35 percent to 50 percent in property tax? And, Senator Sullivan, to answer a question that you talked about this particular...and maybe, Senator Schumacher, it might have been your question. Increasing the rate that you might pay on leased grazing. I have a small operation myself. You could increase that rate, but you're not going to sell your grass. You're going to get to a limit and I'm at a limit of \$30 an AUM. If I raise that in order to pay my property tax--all of my income goes to property tax right now--I won't lease the grass. So there's not an option. There's a limit as to how far I can go with that. So what happened in Chadron, after the school bond issue failed, we reactivated a legislative committee within the board of education. With a lot of input from the committee, this just wasn't a school board internal thing, it was the community coming together saying, yes, we've voted down the school bond but we've got to figure out a way to solve this problem. So we testified before the Tax Modernization Committee to several of you. We testified to the Education Committee. We realized that there was a need for

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a larger coalition. And so we made a lot of contact with school groups in Omaha. We made contact of course with OpenSky Policy Institute who you're going to hear from in just a minute, and of course with our senator, Senator Al Davis. During those discussions, we realized we needed to really get going on a larger coalition. So we had started to involve Nebraska Cattlemen, Independent Cattlemen, Sandhills Cattlemen, the Corn Growers, Farm Bureau, Nebraska Soybean Association, AARP, Nebraska Association of County Officials, Schools Taking Action for Nebraska Children's Education--no wonder they call it STANCE--Nebraska Rural Community Schools Association, NRCSA, and Nebraska State Education Association, NSEA. That group, that coalition has been meeting monthly since last July, most of our meetings in Broken Bow which is in central Nebraska, by the way. It's not west Nebraska as many folks think. That coalition brought up a number of issues, K-12 funding property tax reduction options was one of them. But the other issues that we talked about were broadening sales tax base, taxing intangibles, a circuit-breaker bill, limiting itemized deductions and we've heard a lot about that today, Marketplace Fairness Act, and requiring incentives in TIF to be made up by the city. LB280 addresses only that first issue that we talked about, K-12 funding property tax reduction options. So what I would like to leave you with is, again, what I started out with. And that is fairness. We need to think about fairness. And I think all of you on this committee need to think about the fact that in moving this bill out of this committee, your need to remove your personal opinions, you need to remove the opinions of your constituents. You are thinking about Nebraska, the entire state of Nebraska and fairness. You need to understand that person in Omaha that has a small house as well as the corn grower around York as well as the cow/calf stocker operator in grasslands in Nebraska, which by the way, make up 50 percent of this state. You need to understand those individual situations to be able to decide are we okay with property tax? Are we okay with the present level of income tax? Please represent Nebraska and think about fairness. Thank you very much. [LB280]

SENATOR GLOOR: Thank you, Mr. O'Rourke. Questions? Senator Scheer. [LB280]

SENATOR SCHEER: Sorry. Just one real quick, in the information provided it talks about \$1.4 billion collected for property taxes to fund public education in 2004 and then \$2.35 billion in 2014. Is that K-12, or is that K-12 and community colleges and the whole gamut? [LB280]

JIM O'ROURKE: Good question, Senator Scheer. But I'm going to have to relay that question to two people that follow me. [LB280]

SENATOR SCHEER: Fair enough. [LB280]

JIM O'ROURKE: OpenSky Policy Institute or Mark Haynes can answer that. [LB280]

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SENATOR GLOOR: Thank you. [LB280]

JIM O'ROURKE: You bet. [LB280]

SENATOR GLOOR: Continue with proponents. Good afternoon. [LB280]

JON HABBEN: Good afternoon, Senator Gloor, members of the committee. My contribution in the discussion, and I appreciate...I'm sorry. [LB280]

SENATOR GLOOR: If I could have you give us your name and spell it out for us, please. [LB280]

JON HABBEN: My name is Jon, J-o-n, Habben, H-a-b-b-e-n. I'm executive director of Nebraska Rural Community Schools Association. When I was asked to consider joining the discussion as representing schools generally, so to speak, I appreciated the offer and it was an interesting challenge. This bill or what we see now as a bill has gone through several evolutions throughout this discussion, interesting discussions. But what I'm here to talk about as far as parts of the bill, here's what I saw as most significant, we see the push to reduce property taxes, certainly ag land values, property taxes in general. But the idea that I think strikes at a school board and its superintendent is if we cut off a piece of revenue, are we simply saying, okay, school district. Make your cuts until you get there and then move on. The question I think for boards and superintendents is do we have a plan of replacement funds? Do we have a plan so that instead of reducing the educational product, we have at least the opportunity to remain held harmless on that revenue side? That was a very specific concern. The second concern is what we've been hearing for the last several years. TEEOSA is walking away from rural Nebraska. TEEOSA, mathematically as it calculates, appears to show rural Nebraska having lots of resources. And when you have lots of resources, what does TEEOSA calculate? It calculates that you have much, therefore, relative to your needs you are going to get less state support in terms of equalization through TEEOSA, okay? So you move forward from 2008 to today. And granted, there were two years of federal stimulus money thrown in there. But if you look at that period of time and you look at roughly \$300 million, if you use '08-09 as the benchmark, about \$300 million has moved away from rural Nebraska, small B, C, and D schools. That money has been made up by the property taxpayer, largely ag land folks. Now that's the way it was supposed to be, right? More resources, less state aid and pay those taxes. Well that pressure to do something about those taxes continues to increase. You're all well aware of that. It's not a surprise. It's simply...the ag land issue has simply added to the pressure to do something with property taxes. But our concern in terms of running school districts is if it's just cut, what happens? And that's what I would like to impart is what's the thought process? What's the intended outcome? What are we expecting to see happen? The second concept that I want to mention, inclusion in the

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TEEOSA formula. We have a lot of school districts over that period of time who have lost all of or nearly all of their TEEOSA. We have school districts that are nonequalized to the tune of next year 145 or so out of 245 districts. What are we going to do? Are we still going to have this formula continually serve a shrinking part of the population across the state? Are we still going to allow the formula to serve a shrinking part of the state of Nebraska that policy we hope addresses the whole thing. Those two concepts in this bill were really important I think to me in terms of how we view rural school districts across the state. I don't know the details of all the pieces of taxation. I can't testify to that. But those two pieces, the replacement funds and the inclusion of districts across the state were key elements for me. I'll stop there. I know you've got many people to hear. Thank you. [LB280]

SENATOR GLOOR: Thank you, Jon. It's been a busy day for you and this is probably your highlight, coming here to provide testimony. [LB280]

JON HABBEN: Well, of course. [LB280]

SENATOR GLOOR: I don't know, because you've been busy coordinating and whatnot, whether you had a chance to hear my comment this morning about the parallel between healthcare and education... [LB280]

JON HABBEN: Yes, I did. [LB280]

SENATOR GLOOR: ...and the difficulty of...and we I think touched briefly on that when I was leaving. And so in that light, I mean the difficulty of drawing a line and saying this is enough for my health. This is enough for the education of my kids or the kids in my community. When I look at the supermajority vote that could bounce the 19.9 percent to 29.9 percent, what do you think the chances are that we won't, if this bill were to pass, eventually end up with it being 29.9 percent in almost every community across the state? That's one of my concerns when I come to that unlimited need that we seem to see when it comes to some of those special services we provide. [LB280]

JON HABBEN: I don't have an educated guess on that. But I think when you put that possibility out there, that you may have still more needs than your resources are covering so you still have to access that surcharge, I can tell you I think school districts across the board would say, boy, I hope we don't have to do that. [LB280]

SENATOR GLOOR: Oh, sure. Yeah. [LB280]

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JON HABBEN: But one has to admit the possibility certainly exists because we don't know what's coming that either would increase our costs from a student perspective. We don't know what might increase our costs from a facilities perspective. We simply know that the possibility that that growth may be there. And this surcharge is an attempt to at least help balance that. But wish we could stay away from it? Oh, certainly. [LB280]

SENATOR GLOOR: Sure, certainly. Senator Harr. [LB280]

SENATOR HARR: Thank you. And sorry I didn't get to hear your whole speech. I had another hearing. I was introducing a bill and I'll have to leave again. But I do have a question. I got the tail end of your testimony. You said we're getting to where it's 145 out of 245 school districts. What percentage of students, of the total, are those 145 school districts? Unequalized, for the record. [LB280]

JON HABBEN: If you look at small B and C and D schools, you are looking at roughly 85,000 students. There's roughly 305,000 in the state. [LB280]

SENATOR HARR: Okay. So I went to law school because I couldn't do math. (Laughter) So what percentage is that? [LB280]

JON HABBEN: It's about...it's not quite a third. [LB280]

SENATOR HARR: Okay. And has...traditionally, and I don't know the answer to this, TEEOSA not cover a third? Is there a larger portion of unequalized students than there have been in the past? Is it becoming more of an issue? [LB280]

JON HABBEN: A larger...of nonequalized students? [LB280]

SENATOR HARR: Students, the number of students, has that increased? [LB280]

JON HABBEN: No. And I think the reality across all of rural Nebraska is that if you are looking at the student population in most rural school districts, you're hoping to stay level. I mean that...I don't think anybody misunderstands that. [LB280]

SENATOR HARR: Yeah. I didn't state that very well. What I guess I'm asking is we have approximately 85,000 students that are students in school districts that do not...that are

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unequalized, right? Is that percentage equal? Has it always been about 85,000, or was it 65,000 ten years ago? [LB280]

JON HABBEN: It has dramatically increased. If you go back to, well, let's say 12 years ago, I think you had probably 45 or so school districts that were nonequalized. [LB280]

SENATOR HARR: And that increase in 40,000, is because state aid hasn't kept up the amount that the state pays or is it because property taxes have gone up in value? [LB280]

JON HABBEN: Well what happens when the values of ag land go up and you become...you are measured to have more resources, I mean everybody knows dirt is not dollars, but you're measured to have more resources, that makes you more wealthy according to the formula...or to have more resources I should. I shouldn't use the word wealthy. And mathematically, that's relative to your needs, mathematically that simply says TEEOSA goes somewhere else. [LB280]

SENATOR HARR: So have the TEEOSA dollars increased or decreased during this time relative to the number of students? [LB280]

JON HABBEN: The TEEOSA dollars going to... [LB280]

SENATOR HARR: The students. [LB280]

JON HABBEN: Going to the school districts? [LB280]

SENATOR HARR: Yeah, sorry, to the school districts. [LB280]

JON HABBEN: Okay. The TEEOSA dollars, as I was saying, 2008-09, if you use that as your benchmark, let's say you started here and then had a column for each year. And as the total dollars move, that void, is that what you're referring to? [LB280]

SENATOR HARR: Yeah, '08-09 is kind of tough because...well, what I'm saying, that's a tough year to use as your base year because of what the economy was doing nationwide. So I'd probably go back a year before that. But yeah, so if we were giving let's say...let's just go...we used 12 earlier. If each kid in a school district received let's say \$100 in aid from TEEOSA if they were unequal, what's that number today? Hence, what percentage has it increased to per student? [LB280]



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JON HABBEN: I couldn't tell you that number. It's not something we look at. [LB280]

SENATOR HARR: Okay. Do you who has it increased per student or decreased? [LB280]

JON HABBEN: Do I...? [LB280]

SENATOR HARR: Has the amount of money in TEEOSA...okay, let's take the total pool. Let's say there are 100 school districts that get TEEOSA and each school district had 100 students. And then we take the pool for TEEOSA and divide it by the number of students. Has that number increased or decreased over the last 12 years if you know? [LB280]

JON HABBEN: I don't. I'm not sure the measurement you're trying to make per student because as we look at it, Senator, the aid goes to school districts. And so we... [LB280]

SENATOR HARR: Well, sure, it does. But we know how many kids are in each school. I mean the idea is to get it so that each kid has basically the same amount of money, right? So each kid equivalent, whether you're in County A or County B, the idea is, all things equal, we try to measure it out so that we get equivalent aid, right? [LB280]

JON HABBEN: Well, I think what you're asking me is if there were an average amount of TEEOSA per student and you were trying to measure let's say the C and D schools, for example, and where are they at relative to that average, the amount they get per student is below average. But I haven't got exact figures that I can really lay that out for you. [LB280]

SENATOR HARR: Okay. [LB280]

JON HABBEN: We can try to...I can try to do that and get that to you. But I don't have it right now. [LB280]

SENATOR HARR: And TEEOSA is not the only form of state funding for education, is it? [LB280]

JON HABBEN: Correct. [LB280]

SENATOR HARR: Okay. What other forms are there? [LB280]

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JON HABBEN: Well, I think one of the most...well, there's state apportionment. But one of the most important pieces has to do with special education reimbursement. [LB280]

SENATOR HARR: Okay. And what percentage is TEEOSA of that total amount of state aid? [LB280]

JON HABBEN: You're using the terms in a way that I'm not sure. [LB280]

SENATOR HARR: Okay. Let's say the state...how much, of the amount the state allocates for education, how much of that is TEEOSA, and how much is SPED? How much of it is ESL? [LB280]

JON HABBEN: Oh. Well, special education coming from the Appropriations Committee as a separate entity away from TEEOSA? [LB280]

SENATOR HARR: Yeah. [LB280]

JON HABBEN: I do not know what that total is compared to TEEOSA. I can tell you that TEEOSA is headed for \$970-some million. I would imagine that the special education total is significantly less than that because it matches up to about 53 percent of the total spent on special education as opposed to the 70 percent reimbursement of 10 years ago. [LB280]

SENATOR HARR: Okay. Okay, thank you very much. Appreciate it. [LB280]

SENATOR GLOOR: Senator Sullivan. [LB280]

SENATOR SULLIVAN: Thank you, Senator Gloor. Partly to follow up on Senator Harr's comment, but he's leaving now so maybe I'll wait until later to do that. This is no criticism but you've been around for a while, Jon. (Laughter) [LB280]

JON HABBEN: Oh. [LB280]

SENATOR SULLIVAN: So I wondered if you could shed a little historical perspective on two components, one that has really not been in the TEEOSA formula but is proposed in LB280 which is foundation aid. That was rather a staple years ago. [LB280]

JON HABBEN: Yes. [LB280]

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SENATOR SULLIVAN: And then the allocated income tax, which was and has been part of the current TEEOSA formula but we've whittled away at it. So could you expand on that a little bit. [LB280]

JON HABBEN: Briefly, the state aid formula before 1990, which was when TEEOSA first appeared, was heavily foundation aid--dollars per student went to school districts. And then there was some equalization built beyond that. And in 1990, '89 or '90, the first TEEOSA if I recall correctly basically took the approach of the current formula, needs minus resources equals state aid, and eliminated foundation aid. And when it eliminated foundation aid, the assumption was that unless a district really was well heeled in resources, there would be equalization aid going to by far most schools in the state. And there have been several evolutions through that. But that was kind of the original transition between pre-TEEOSA and TEEOSA. [LB280]

SENATOR SULLIVAN: So it's fair to say that the current formula really didn't anticipate these dramatic increases in ag land values. [LB280]

JON HABBEN: Well, in my opinion it certainly did not. And I've wondered about what if this would have been, these last eight years of these ag land incredible spikes, what if that would have happened in other property tax circumstances? Or what if would have happened with commercial and industrial? Or you know, would the formula have been out of whack? Probably so. I don't think this formula was built...I think it was built to attempt stability and a relatively measured annual growth. And if everybody fell into that and nothing really changed a great deal, I think you had a formula, even though we may have disagreed about allowances or adjustments and maybe tweaked this or tweaked that, I think you would have had a formula that you would have felt measured resources reasonably. I think what's happened the last eight years has just, year after year, has just really turned it on its ear. And I don't think it was built to figure out what to do with that. [LB280]

SENATOR SULLIVAN: Thank you. [LB280]

SENATOR GLOOR: Senator Scheer. [LB280]

SENATOR SCHEER: Thank you, Senator Gloor. Would it not be more simple then just to simply reintroduce a foundational aid to school districts at numbers that you were talking about. And I guess because of what's happened to TEEOSA, and I don't disagree that it's headed back east, but we've gone just in the couple years that I've been here, I think the first year we had unequalized of 112 or 114, I can't remember which one it was. This year it's either 124 or 128. And the first run on TEEOSA that was presented, I'm sure it will be changed so it's not going to be the number but for next year if we don't tweak it, will be 159 unequalized. So it really

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has...and it hasn't been the consistent revenue source as Senator (sic) Winchester commented, I mean, when you're a smaller district and you lose a million bucks, it's pretty hard to recoup from that. So I'm wondering if...my question is then, even though we have TEEOSA, would it be an easier solution just to reintroduce foundational aid so that would help those unequalized school districts as well as equalized school districts? [LB280]

JON HABBEN: That's a good point, Senator. In fact, in the last few days I've had several conversation about the idea of separating that foundation aid and doing this with foundation aid and moving on. And I think foundation aid, aid per student, I think it is a really important piece to consider. I think it's critical in my opinion to the survival of TEEOSA as a statewide policy. That component by itself doesn't address that if we reduce property taxes, what will make up the void so that TEEOSA and foundation aid can be paid for? I think that's the concern that I hear from superintendents and board members more than anything, is the foundation aid concept is really an important discussion. It really is a way that allows TEEOSA to be a statewide policy rather than the policy of less than the entire state. This discussion with Senator Davis' bill really began with this idea that if property tax goes down, so what are school districts supposed to do and being able to fund whatever TEEOSA was and that replacement fund issue in Senator Davis' bill. I mean, as Jim mentioned earlier, whether it's this tax or this tax or this tax or this tax, the concept of that replacement aid is really critical relative to the reduction of ag land values or property tax as a whole. The foundation aid concept, I would consider that a critical piece of the discussion in any of these discussions. Now I'll tell you another thing that was brought up is what about two formulas, one foundation and one equalization. And you know, then you start wondering is, so what happens if we get into an argument about how much money goes into foundation versus how much money goes into equalization? Do we set up another political circumstance where we have to argue about, you know, which is funded, how much? And so I think that's why keeping it as a part of TEEOSA, still including it and letting it be the base, I still think that has the better merit. But we all have to admit, this is looking at TEEOSA through some different lenses to get back to this aid-per-student component. And for better or for worse, I think it's an important piece to look at. [LB280]

SENATOR GLOOR: Senator Schumacher. [LB280]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just one quick question, you made an interesting comment: Dirt is not dollars. But there is one occasion in which dirt is a lot of dollars. [LB280]

JON HABBEN: Certainly. [LB280]

SENATOR SCHUMACHER: And that's when the farm is sold. [LB280]

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JON HABBEN: Certainly. [LB280]

SENATOR SCHUMACHER: And when the heirs take the money tax free. Isn't that a pot of money we should be looking at in order to finance some property tax relief? [LB280]

JON HABBEN: Well, are you looking at it as somebody down the road should pay it when they buy it, or...? See, here's my question about that is, well...and I think of my dad in retail business, too, sort of the same kind of thing. You're living in it. You're working in it. You're moving it every day. My dad in his store used that to make a living. But my dad couldn't take pieces of the store out and take it to the Treasurer's Office and pay taxes with it. Well, I don't see the farmers being able to do that either. But you're right. The value is there and it does grow. [LB280]

SENATOR SCHUMACHER: And the value turns to cash when grandpa dies and they sell the farm. [LB280]

JON HABBEN: Don't disagree. [LB280]

SENATOR SCHUMACHER: And that cash can be tapped to provide a common property tax relief fund rather than let that cash pass to heirs, half of whom live out of state, tax free. [LB280]

JON HABBEN: Well, the tail end of all of that I think you know a lot more about it than I do. (Laughter) [LB280]

SENATOR SCHUMACHER: Thank you. [LB280]

SENATOR GLOOR: Thank you. Any last questions? Seeing none, thank you for your testimony. [LB280]

JON HABBEN: Thank you very much. [LB280]

SENATOR GLOOR: I'm going to make just...I don't know that this has applicability but for those of you who are here to testify on both bills and think that your comments for this bill are also applicable to the next bill, you are welcome to tell us that and we will add those comments to the next bill. That may be the difference between you leaving here at 5:00 or leaving here at 8:00 or 9:00. So you have to decide, but you can submit your testimony for both of those bills if you should so choose. Thank you. Ms. Fry. [LB280]

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RENEE FRY: (Exhibits 9, 10, 11, 12) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I'm here today to testify in support of LB280. Property taxes have risen statewide in recent years, increasing by 38 percent in our state's urban areas and by 85 percent in rural areas over the last decade. Every major study of Nebraska taxes since 1962, including the 2013 Tax Modernization Committee study, noted our state's high reliance on property taxes to fund schools. Presently, about 48 percent of Nebraska K-12 funding comes from property taxes compared to a national average of 29 percent. That reliance is largely a result of historically low state support for our schools. When we enacted our current school funding system in the 1990s, we ranked 49th in state support as a share of K-12 funding. More than 20 years later, we still rank 49th. Many of the property tax proposals introduced this session, while well-intentioned, ultimately reduce our ability to invest in education. Some bills would reduce agricultural land valuations for taxation purposes from its current level of 75 percent of market value. Our research shows this would have a disparate impact and unintended consequences. Other proposals would add money to Nebraska's Property Tax Credit Program to be funded from the state's General Fund. Funding the program in this way could be self-defeating as it reduces the funds available for schools putting more pressure on local property taxes to make up the difference. We need to find a way forward that protects our investment in K-12 education and affords all students equal educational opportunities. LB280 is one way to do this. We recognize LB280 is a big departure from how we currently fund schools and that it takes a while to wrap your head around it. So we encourage people to step back and think about how we would determine a community's ability to fund their public schools if we were building a formula from scratch. Should property wealth be the primary determinant of a community's ability to support their schools? Or should income wealth also be taken into consideration? When framed that way, we believe most people would agree that income should be part of the resource calculation. OpenSky supports LB280 for the following reasons. It broadens the revenue base to support K-12 education funding, and in doing so, makes the funding sources more balanced and less volatile. It makes our tax code more progressive by reducing the reliance on property taxes, which weigh more heavily on low- and middle-income people. It reduces the reliance on property taxes to fund education while also protecting the level of funding to schools, providing a way to pay for property tax reductions. To demonstrate how LB280 works, I have included four real school district examples of funding calculations under LB280 representing schools with different variations of income and property wealth. It is important to note that although the mix of funding sources may change for school districts under this proposal, no school district will have less funding available to them under LB280 than they would under current law. It was the intent of LB280 to hold school districts harmless. If we look at the first school district example, South Sioux City, you will note that their resources will increase as a result of the school funding surtax and the per-pupil aid components of LB280. This will lead to a decrease in the amount of equalization aid the district would receive. However, because of the per-student aid, South Sioux City's total amount of state aid would increase. And residents and

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businesses in the district would experience a reduction in property taxes through a 25 cent decrease in their property tax levy. We've heard concerns that the phased-in reduction of the maximum levy but immediate implementation of the surtax will lead to a windfall for schools. The new revenue available to school districts as a result of the surtax will be immediately counted as a resource for schools, as will this per-student aid component, so those new resources will immediately be reflected in the allocation of equalization aid. Also, school districts will still be subject to spending limits that exist under current law so we believe the property tax reductions will be realized immediately. The maximum levy will be phased in over time to give districts time to adjust if necessary. However, we believe that the property tax reductions will begin the year the school funding surtax revenue becomes available to school districts. We've also heard concerns about more state aid going to low-levy districts. However, LB280 will actually reduce the difference between the highest and lowest property tax levy rates from nearly 84 cents to less than 72 cents. With my written testimony, I've included a few other charts that I haven't had time to cover. But I'd be happy to answer any questions. I've included a chart on K-12 school spending as a share of personal income, a chart on state TEEOSA spending as a share of personal income, and a chart that gives examples of how LB280 would impact several representative Nebraska taxpayers. Nebraska's property tax imbalance must be addressed for the good of the state and its residents. But it's also vital to make sure our schools are adequately funded. I did want to take minute to just address a couple of questions that had come up earlier. Senator Sullivan, you did ask about the AG's Opinion. There was an AG's Opinion on LB280. And my understanding was that the Attorney General's Office did look at the equal protection issue and it actually determined that the special legislation was a higher standard and that there was not an equal protection issue with LB280. And with that, I'd be happy to answer any questions. [LB280]

SENATOR GLOOR: Thank you. Questions? Senator Scheer. [LB280]

SENATOR SCHEER: Thanks for coming down. You made an interesting comment, so I'm going to ask you what you meant by it. [LB280]

RENEE FRY: Sure. [LB280]

SENATOR SCHEER: It said, about halfway down your first page, it said that it affords all students equal educational opportunities. What do you mean by that? [LB280]

RENEE FRY: So what we mean by that is we want to ensure that we're providing educational opportunities for students, and some of the proposals that we have before us would actually reduce funding for K-12. And we have significant concerns about us limiting our schools' abilities to provide education for their students. [LB280]

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SENATOR SCHEER: Do you believe that there is equal educational opportunities right now?  
[LB280]

RENEE FRY: Do I believe that? I mean, we haven't done a study in that regard, so I can tell you that I've heard from some school district superintendents that there is not equal educational opportunities. [LB280]

SENATOR SCHEER: Well, because to me that catches me aback because your statement says that it affords all students equal educational opportunities and from my perspective, and it's only mine, we don't have equal educational opportunities right now and, if you look at what is available in Hyannis versus what's available in Hastings or Bellevue, certainly not even on the same playing field. [LB280]

RENEE FRY: Sure. [LB280]

SENATOR SCHEER: So this bill is not going to equalize education. It may do a better job of equalizing funding, but it doesn't equalize education. [LB280]

RENEE FRY: Yeah, that would be accurate, fair enough. [LB280]

SENATOR GLOOR: Other questions? Seeing none, thank you. We'll continue with proponents.  
[LB280]

GALEN BOLDT: (Exhibits 13, 14, 15) Greetings. My name is Galen Boldt, G-a-l-e-n B-o-l-d-t, and I am superintendent of schools at Wahoo Public Schools. Senator Gloor and the committee, thank you so much for the...giving the opportunity to give proponent testimony today on LB280. I'd simply like to tell you the Wahoo story, as it might relate to informing the important decisions that you might be making. I want you to all understand that I do not consider myself an expert on taxes or economics in general, but I do engage in conversations with our community that deal with both. My support of LB280 stems from the strengths I see of two components: (1) the reduction of property tax burdens; and (2) the revenue-neutral effects of the legislation. I know the reduction of property taxes is high on priority lists of many Nebraskans, including Governor Ricketts. This focus on property taxes are of particular concern to those Nebraskans relying on ag land to conduct business who have seen skyrocketing land values contributing to ever-increasing tax bills, while the majority of others have been relatively flat over the past five years. My testimony to the Education Committee regarding the Wahoo story, which is kind of coming around right now, reports the evidence of the disparity of tax support in my district between a residential property and ag land that would compare increased tax bills of one to be \$90.50 in



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five years and the other to be \$1,719.95 in the same five-year period. While much speculation could be debated about why or how that increase has occurred, the fact remains that this disparity is real and has fueled the debate on property tax reduction. LB280 also has components that would replace lost revenue from property taxes that would support schools at current or increased levels. As I think about building budgets in the years to come, I have lots of say regarding how we spend money at Wahoo. In another of my handouts that's going around, I have included cost-per-pupil average over the last five years, and I am proud to say we're consistently under the statewide average while maintaining a high-quality education for our students. When comparing our growth of NeSA proficiency scores, Wahoo has outgrown state growth as follows: In reading, over the last five years, we were 74 percent proficient in 2010 and 84 percent proficient in 2014, as compared to 69 percent at the state level and 77 percent last year at the state level. Math, the same thing you can see. In 2011, we were at 63 percent proficient. We moved that to 83 percent proficient. Statewide, it was 63 percent to 71 percent. In science, we were at 74. We moved that to 82. The state was at 67, moved that to 72. I just want to let you know that we're feeling very good about the fact that we do provide a quality education, and that has come on behalf of the funding that we have received up until this point. In the budget-building process, I do not, however, have anything to say about choosing the sources of revenue required to support that first-class education. I simply present a budget to my board of education that supports that first-class education for students and then turn to the sources already chosen by the federal and state governments before I make a tax request at the local level, completely dependent on property taxes. The work that you do in this session will have a big impact on schools across our state, and loss of revenue is a concern that leads me to my testimony today. In final analysis, LB280 addresses the two concerns that Wahoo Public Schools fears in the revenue discussion. As you hear testimony from many different viewpoints, there could be much disagreement about this bill and the ramifications of its effect. That's the nature of thoughtful debate on important topics. I believe, however, there is no argument or disagreement about the importance of education in Nebraska and that education deserves a designation of top priority. Thank you for allowing my testimony and I'd be happy to take any questions. [LB280]

SENATOR GLOOR: Are there any questions? Senator Sullivan. [LB280]

SENATOR SULLIVAN: Thank you, Senator Gloor. And, Galen, I think you've been in the room for a while, so you probably heard Senator Gloor's question earlier about that additional amount that...regarding the surtax. It's the...starts at that 19.4 but by a supermajority... [LB280]

GALEN BOLDT: Yeah. [LB280]

SENATOR SULLIVAN: ...vote of the local board. Do you think that would be used in many cases? [LB280]

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GALEN BOLDT: Great question and, again, that's probably a little bit of speculation. But I would take you back to the nature of Nebraska schools from the beginning, local control. Those issues are all a part of local control. The notion of what are our needs, the formula has changed. I mean it just has. And I would like to think that while the formula hasn't been working perfectly, it's been working to a degree. And those changes always come as a result of changes in need. It happens to schools all the time. As a school is faced with those kinds of requests of the public, that's not going to be a happy day for me, I promise, if I have to make that request. But I'd be working with a local board of education. We would be looking at local needs. And I think together we could make a thoughtful decision about how we move forward on that. So while that's something I don't think any superintendent wants to believe, I'm going to go convince my community to increase their income taxes another 10 percent. I'd also like to think that's a great discussion that happens at the local level, and that's kind of how we're built right now. [LB280]

SENATOR SULLIVAN: Thank you. [LB280]

SENATOR GLOOR: Seeing no other questions, I would say one of your predecessors is a Willard Hunzeker and Mr. Hunzeker was my superintendent. [LB280]

GALEN BOLDT: Oh, my. [LB280]

SENATOR GLOOR: And I think the fact that he had me and two younger brothers staring him face to face may be one of the reasons he escaped to Wahoo, so that may be... [LB280]

GALEN BOLDT: Well, I tell you what, you are a lucky man. Willard still serves as one of my advisors. [LB280]

SENATOR GLOOR: As I understand, he still mows his lawn at about age 90 or 91. [LB280]

GALEN BOLDT: (Laugh) Yes, he does. Thank you very much. [LB280]

SENATOR GLOOR: Thank you. Next proponent. [LB280]

KEVIN COOKSLEY: (Exhibit 16) Good afternoon, Senator Gloor, members of the Revenue Committee. I am Kevin Cooksley, K-e-v-i-n C-o-o-k-s-l-e-y, the fifth generation of our family to own and operate our 135-plus-year-old family farm and ranch operation near Broken Bow in east Custer County. I'm here today, as a farmer and rancher, to support the efforts of LB280 to rebalance, if you will, the three-legged stool we all depend on to fund our public schools and county governments. What good is tax relief if it pulls more of the funding rug out from our

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local governments? Any resulting shortfall will only require a hike in the levy and we will just be back here again next year. For instance, in our operation, reducing the ag land valuation from 75 percent to 65 percent would cut our property taxes by an estimated \$7,000. However, in the Broken Bow School District, which we are a member of, and Custer County as whole, it would require by my estimate both to substantially exceed their levy limits in order to replace the lower valuation revenue in property taxes. Injecting state dollars from year to year into the property tax relief fund and/or the income tax credit program is appreciated but is inherently unreliable and most likely unsustainable. State aid for schools has a two-year lag time and is unpredictable at best. We can and must do better. We must address the fundamental way that government determines the wealth of the school district or a county. I believe LB280 is designed to address this issue and is comprehensive enough to withstand the financial ebbs and flows that naturally occur. Our family operation is mostly cattle and pasture, though we do have some irrigated ground. Over a five-year period, from 2010 to 2014, our pasture valuations went up over 68 percent, but the tax burden on those acres went up over 75 percent. For those folks who rent out their pasture, this translates into an effective property tax rate on their rental income of 33 percent. Pasture income occurs over a five-month period, and that's it. Our typical irrigated ground valuation climbed by 50 percent while the tax load on it went up by 65 percent. Now you might argue that I am disregarding how our revenue on those acres fared during those same five years, so I went back and I checked our tax returns. Keeping in mind we are a diversified operation with mostly cattle but with enough farm ground to raise the corn and hay to feed them out and sell some, I found the following: Over that same period of time, our gross income averaged a 4.5 percent annual increase. The bottom line is this: Over that five-year period, our gross income went up by 22.5 percent but our tax burden went up by 75 (percent) and 65 percent, respectively. The result is less discretionary spending for maintenance and equipment upgrades and a greater tendency to borrow more money for the newer equipment when we need it. I've served many years on several boards at the local and state level. I know the challenges they face and the laws that govern how they operate. I do not shy away from my responsibility to provide adequate financial support to our schools and local government, either. Our family has been stepping up for over 130 years, even back to the time when our dinosaurs were taxed as personal property. (Laughter) I wrote to all of you back at the end of January about LB280. I would reiterate today the following suggestions: (1) put additional funds this year and next that you think the state budget can afford into the property tax relief fund and taking those dollars from the rainy-day fund; (2) spend the rest of 2015 working on a comprehensive overhaul of how we fund our public K-12 schools and local governments using LB280 as a guide so that we may achieve a long-term rebalancing of the three-legged stool we use for revenue; (3) following this interim study, come back to the 2016 Session with a proposal designed to accomplish that task and, in the meantime, take it to the state's major organizations that are interested in looking at it, so that they can weigh in on its contents and provide a unified approach to its introduction next year; finally, pass in this year's session LB323 or a similar measure to reestablish the School Financing Review Commission so that when you do approve an overhaul of the school finance

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plan there will be in place a group to oversee it and ensure the plan works as it's intended. I belong to several major ag organizations in Nebraska and I can tell you this, that every single one of them are on the same page when it comes to policy regarding how schools are supported with funding. And this bill, LB280, meets the criteria in all of those organizations' policies. You are the only ones who have the power to change these laws. The farmers and ranchers, business owners, and homeowners aren't asking for charity; they just need to see the tax burden shifted back to a better balance. I'd ask you to, please, consider this advancement of LB280 for debate so that we can improve it and move on to a responsible solution. Thank you. [LB280]

SENATOR GLOOR: Thank you, Mr. Cooksley. You sent us a letter the end of January,... [LB280]

KEVIN COOKSLEY: Yes, sir. [LB280]

SENATOR GLOOR: ...all members of the committee. [LB280]

KEVIN COOKSLEY: Yes, sir. [LB280]

SENATOR GLOOR: Is this letter...because I haven't done a side by side with it--I have your previous letter in my file--is this the same letter or has it changed in any significant way? [LB280]

KEVIN COOKSLEY: The 1, 2, 3, and 4 were in that letter. The items down here at the bottom, the things that LB280 does, that's new. The information on the taxes is all new. That wasn't in my previous letter. [LB280]

SENATOR GLOOR: Okay, thank you. Other questions? Thank you. Well-written letter the first time,... [LB280]

KEVIN COOKSLEY: Thank you. [LB280]

SENATOR GLOOR: ...and I'm sure this is a well-written letter the second time. [LB280]

KEVIN COOKSLEY: Thank you. [LB280]

SENATOR GLOOR: Thank you. We'll continue with proponents. [LB280]

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MARK INTERMILL: (Exhibit 17) Good afternoon, Senator Gloor and members of the Revenue Committee. [LB280]

SENATOR GLOOR: Afternoon. [LB280]

MARK INTERMILL: My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP. As Mr. O'Rourke mentioned, AARP was one of the groups that went out to central Nebraska, Broken Bow, to talk about tax issues, specifically about property taxation. In the interest of time, I'm going to cut to the chase here. The reason that AARP is interested in this issue is obviously property taxation. The first attachment to my statement is a listing of AARP's principles related to taxation. The two first principles are revenue adequacy and equity, and these were the two principles that we took to the table in Broken Bow as we talked about these issues. These were the things that we were looking for, and I think LB280, which is...came out of those discussions, does meet the revenue adequacy issue. Unlike some proposals that may reduce the amount of revenue that are available to support the state's priorities, this does make up the losses that might occur. Equity is a more difficult issue both in terms...there...we'd look at horizontal equity and vertical equity, vertical being the progressivity of the tax structure, horizontal meaning that persons of similar means pay similar amounts of taxes. And I think it's the second one, the horizontal equity, that we have a bit of a problem in Nebraska, and that...the third attachment really addresses that issue. One of the things that we are looking at in Nebraska at AARP is the longevity economy. We're looking at what an economy looks like with a substantially older age profile, and in Nebraska we have some natural laboratories that we can look at, and one of those is along our southern border, basically between McCook and Beatrice, an area of seven contiguous counties in which about 48 percent of the population is over 50, close to 25 percent over the age of 65. So we've been looking at that area, and one of the things we've been looking at is the tax structure as a measure of economic activity. So what we've provided you is a comparison of those seven counties with Adams County, which is in the same region of the state but has a more diversified property tax base. And what we discovered was that, enter the bottom line, tax as a percentage of adjusted gross income in Adams County is about 12 percent. In those border counties, where there's more of a property tax-centric taxation structure, it's 16 percent. So they're areas with about the same population. The adjusted gross income is a little bit higher in...on a per-capita basis in Adams County than the border counties, but the amount of taxation collected is higher in the rural counties. And I think that is an indication of where our tax structure may not be meeting that goal of horizontal equity, and I think you've also heard from some of the people who are impacted that that may not be the case. We see that LB280 is a good place to start as a way of looking at our tax structure, of looking at trying to increase the equity, both the horizontal/vertical equity, because by using income tax to...which is more progressive, to replace a more regressive property tax, you do improve the progressivity of the system. And also, in a way, that provides for the revenue adequacy to make

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sure that we have the funding to meet our state's funding priorities. So with that, I will conclude and be happy to answer questions. [LB280]

SENATOR GLOOR: Questions for Mr. Intermill? I see none. [LB280]

MARK INTERMILL: Thank you. [LB280]

SENATOR GLOOR: Thank you, Mark. [LB280]

LARRY SCHERER: (Exhibit 18) Good afternoon, Senator Gloor, members of the Revenue Committee. My name is Larry Scherer. I work for the NSEA. And that's spelled L-a-r-r-y S-c-h-e-r-e-r. And we're here to support the conceptual basis of LB280. This bill takes a systemic and sustainable approach to funding for schools and property tax relief. There are a number of bills this year that propose putting extra money into the Property Tax Credit Fund, and that's probably, as Mr. Cooksley, suggested, maybe what can be done this year. But in terms of a long-term structural change, we need to look at bills like this and Senator Sullivan's LB521, LB522, and LB523. I kind of get them mixed up. And we...you know, and in terms of what this does for school funding, it benefits not only the urban schools and rural...I mean rural schools, but the urban as well. And I'll take you back to LB1059 in 1990. There was a 20-percent income tax increase. There was a penny sales tax increase. The bill was introduced, signed on by 32 senators, and it passed despite a Governor's veto and despite a referendum. That's because people really wanted property tax relief and they saw it, as was mentioned before, they saw it for a number of years. There was a period of time when it appeared that the income tax would start to greatly decrease equalization aid because it put so much money into a lot of school districts that as much equalization aid was not needed. So that was capped and, right or wrong, that's what happened. This bill would go to a similar concept with the 19.4 percent surtax, and it returns the money back to the school districts. In terms of a goal of NSEA, it's sustainable and it's hopefully more stable funding. There are arguments that income tax bounces around more than property tax and, you know, probably it does. But if you look at the combination of income, property, and state aid together, there's a little chart on the back that people from OpenSky created. I was asking about that very issue: Are we trading one problem for another? And as you can see that the...if you look at the three of them together, there is a more stable line than there is with just one. TEEOSA has been funded. When there is enough money, you fully fund it; when there is not enough money, you change the formula and don't fully fund it. And I looked at...there...I took the liberty of handing out LB357 opposition testimony, too, at your suggestion, Senator. There's a chart on the back of that that shows that if you look at funding for TEEOSA over the last ten years, that I think about eight or nine of those years there has been less funding than the formula called for. Actually, last year, we had to change the formula to spend more and this year it looks like we're right on track. And it's not a very steep track, but it's on track. So that's what's

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happened is, basically, property tax relief through TEEOSA has taken a number of hits over the years and the income tax rebate has taken a number of hits over the years. This bill would conceptually restore those things, and the growth and stability that could come out of this relatively bold approach could be very good. I agree with Mr. Cooksley and others that the studies that have been proposed, LB323 and...it's really...this is a Revenue, it's Appropriations, this is an Education issue and really all three committees need to look at it in depth over the next year or two. We certainly hope this concept will be one of those that will be included. Thank you. [LB280]

SENATOR GLOOR: Questions? [LB280]

LARRY SCHERER: Oh, and I...one additional point. I see I have a few seconds. There is a comparison on one sheet of expenditures per pupil. You see Nebraska at 33. That means we...expenditures per pupil are average. But then the next chart shows that it's the tax structure. You have high property tax local support, low state support. That does not seem to correlate all that much with how much schools spend, so this really isn't a spending problem for schools. It's where the money comes from and having the stability to keep funding the program. Thank you. If there are questions, I'll try to answer. I know you're busy. The...we had a person that was going to come for testimony on LB357 in opposition, but he has a class to teach tonight. So I'm delivering that testimony, and if you want to grill him, you could... [LB280]

SENATOR GLOOR: We have to find him. [LB280]

LARRY SCHERER: You have to find him. I'll hang around awhile to get grilled but not for too long. [LB280]

SENATOR GLOOR: Seeing no questions, thank you, Mr. Scherer. [LB280]

LARRY SCHERER: Thank you. [LB280]

SENATOR GLOOR: Good afternoon. [LB280]

JON BAILEY: (Exhibit 19) Good afternoon. Good afternoon, Senator Gloor, members of the Revenue Committee. My name is Jon Bailey. That's J-o-n B-a-i-l-e-y, and I'm the director of the rural public policy program at the Center for Rural Affairs in Lyons, Nebraska. And today we come before you to provide testimony in support of LB280. As Nebraskans have heard for decades, the real tax debate in this state should be how to provide meaningful and sustainable property tax reform in a state where local government entities are too reliant upon property taxes.

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There now seems to be consensus among the citizens, the Legislature, and the new administration that the time has come to actually provide meaningful and sustainable property tax reform. We believe LB280 provides that opportunity for meaningful and sustainable property tax relief, particularly in rural areas. However, the real question and a serious question this committee must begin to answer must be, how can Nebraska enact meaningful property tax reform and also avoid harmful cuts to schools and other key services? These questions are particularly critical for rural Nebraska. The vast majority of our state is property rich but people poor. An increasingly smaller number of rural residents are paying for the...paying the freight for our schools and our local government. Dr. Winchester commented on that in her school district. Data show that residents in areas with high amounts of agricultural land pay more in combined income and property taxes than residents of areas with the least amount of agricultural land, both on a per-capita basis and as a share of income. What our tax system has become over the years in rural areas is one reason for the budding call for tax reform. As you know, our rural...our local government entities are among the most property tax dependent in the nation. Only Illinois relies more on property taxes to fund schools than Nebraska. Nebraska is nearly 40 percent more reliant on property taxes for school funding than the national average. For years, as Dr. Winchester pointed out, the call in rural areas has been to fund schools and local governments in a balanced method. The preferred balance has always been a third, a third, a third, the three-legged stool of income, property, and sales tax. As can be seen from the extreme reliance on property taxes for school and local government funding, the three-legged stool is seriously out of balance. LB280 begins putting balance back in Nebraska's tax system. In our opinion, LB280 provides meaningful and sustainable tax relief for rural Nebraska and protects the institutions needed to make rural communities viable. I'd like to also second several of Senator Davis' comments in his introduction. Much of our work at the Center for Rural Affairs deals with value-added agricultural products, projects, and beginning farmers and ranchers. As Senator Davis stated, they're getting literally hammered by property taxes. And ultimately, Nebraska will fall behind in these areas to other states and to the detriment of the rural economy in the state, in general. And that's why this issue is so important to rural Nebraska and to the Center for Rural Affairs. So we support LB280 because it is the only balanced tax plan before the Legislature this year, it is the only comprehensive tax plan that recognizes that property taxes and school funding drive each other, and the only comprehensive tax plan that proposes to significantly reform that connection. So we respectfully request that you advance LB280. Thank you. [LB280]

SENATOR GLOOR: Thank you. Questions? Seeing none, thank you, Jon. [LB280]

JON BAILEY: Thank you. [LB280]

SENATOR GLOOR: Afternoon. [LB280]



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KEN HERZ: (Exhibit 20) Good afternoon. Senator Gloor, members of the Revenue Committee, thank you for the privilege to address your committee. My name is Ken Herz, K-e-n H-e-r-z. I farm and ranch near Lawrence, Nebraska, which is about 25 miles south of Hastings, Nebraska. I'm here today to offer support for LB280. I believe that LB280 offers a better funding mechanism for K-12 education while reducing the burden on property taxes. LB280 broadens the tax base for educational funding while maintaining local control. LB280 attempts to utilize the ability to pay, in addition to property ownership, as a means to fund education. There is a real need to reduce the reliance on property tax as a funding mechanism for education yet maintain school funding at its present level. I believe that we are at a breaking point in the amount of taxes that property can support. The valuation of agricultural land has risen dramatically in the last several years. It is expected that this valuation increase will continue for the next several years. This has created a property tax shift where agricultural land shouldered more and more of the property tax burden, and agricultural incomes have not risen as fast as land values. Fact is, most crop budgets show a negative return this year and the same is predicted to continue for the next several years. As I prepare my crop budgets, I find that property taxes are the second-highest single cash expense. Only fertilizer is a higher expense. I have watched the Legislature try to reduce property taxes in the past, with very limited success. LB1059 is a very good example where the overriding focus was on lowering property taxes. LB1059 raised state income and sales tax in an effort to provide more state support for public schools and reduce property taxes. But in the years since LB1059 was passed, the equalization formula has been regularly changed to help balance state budgets. Most, if not all, of the property tax savings have been lost. Whatever property tax relief bill is passed, we must be mindful of the past and try to prevent history from repeating itself. The most appealing part of LB280 to me is the local income tax. I am convinced that the best way to reduce property taxes is to offset the lost revenue with a local income tax. This allows for local needs to be funded with local resources. It is an income tax that is returned directly to the school district. It is a progressive tax based on ability to pay. It would provide greater stability to the funding sources for education. It would reduce the reliance on property tax and broaden the tax base. LB280 would provide more tax fairness. And to me, the most important part of LB280 is that it would be less likely altered once passed because of the way it is structured. In conclusion, I would urge this committee to allow LB280 to be debated on the Nebraska legislative floor. It is debate that needs to be...to occur to reach a consensus on property tax relief. Thank you for your time. I would be happy to address any questions or concerns. [LB280]

SENATOR GLOOR: Thank you, Mr. Herz. Questions for Mr. Herz? Seeing none, thank you. Are there any more proponents? [LB280]

JOHN HANSEN: Chairman Gloor, members of the committee, good afternoon. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. We are in support of the use of LB280 as a conceptual package to begin the business of

putting together the necessary package to provide a more fair and balanced tax system and provide property tax relief. Does that mean that we like all parts of the package? The answer is no. We think that the business of lowering property tax valuations from 75 to 65 is a standalone piece. We have not supported that in the past. We don't support it now because it doesn't provide the amount of property tax relief in a majority of the landowners' cases, because in their districts they don't have enough different kinds of classes of property to shift it to. Historically, we have not supported a local income tax because it only helps fix the problem for about a third of the counties in the state and the rest go without, so...but there has to be a package, in our view, to deal with the situation that we find ourselves in. And we think that this package has a lot of merit as a starter package. There's going to have to be a lot of give-and-take. So the question is, is this package or some mix of this package good enough to cause us to hold our nose on those parts of the package we don't like in order to get some of the parts we do like? The answer is yes. We need to get back to foundation aid. You can tell the system is broken when almost half of the school districts in the state don't get any equalization aid or TEEOSA support. That's not good, and the shift has all been to property. So as the president of a farm organization who has been doing this for 25 years and have been at this ever since Kevin Cooksley and Larry Scherer and those were involved with LB1059 in 1990, I would tell you that I am the recipient of every complaint that every farmer and all big and small and different kinds of farmers feel the need to share it with. And I am an equal-opportunity listener, but I will tell you that the drumbeat over the current way that we fund K-12 education is a drumbeat. It's...it colors all of our conversations with our members, with our membership. It is the single-most common conversation and people bring me their figures. I salute Ken Herz, who you just heard from. He could just as well attend your average, run-of-the-mill Farmers Union meeting because he did a very articulate job of bringing forth the kinds of concerns that our members have. And the inequities of the current system cause us to have to do give-and-take. And so while there will be opponents to this package, the challenge for them is to come up with a better package. And so I think, as you look at the committee, there is going to have to be...it takes so many financial resources to be able to fund K-12 education, provide services, infrastructure, all those things. So how are you going to pay for it? I would tell you that my organization debated this in some depth the last two years at our state convention, and they have consistently supported increasing the amount of use of income taxes. And their view is, when we have good years, when we're making money, we can afford to pay it. And we realize that we're not going to make money every year. We wished we did, but we realize we don't. But when we're making money, if we make money, we can afford to pay it. And in our organization's view over the long term, we have consistently held that of three different sources of revenue, which mirrors all of the studies that we have had down through the years, that of the three different sources of primary revenue--income, sales, and property--that property is the most regressive based on ability to pay and that income is the best, single-most fair way to tax in that it most accurately indicates the ability to pay. And so because of that, I think that we're due for a rethinking of how it is that we fund K-12 education and I wish this committee well in your deliberations in the future. There was a point in my stint here where I

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used to think, boy, I wished I sat in one of your chairs so I could do X, and now I'm just so thankful that I am not. (Laughter) [LB280]

SENATOR GLOOR: Thank you. We appreciate the comfort that you...that gives us. A quick question for you, and this is clearly philosophical. But it's evident in my day-to-day dealings with Nebraskans and my constituents, and we've even heard it in testimony today, that what we consider to be not an insubstantial amount of money that went toward property tax credit last year has just kind of not been seen or recognized. And so my question has to do with, if this bill, as presented, were to be adopted, especially given the fact that there is this local effort income tax that goes into place, is there going to be a recognition that, as people grouse about paying the income tax increase, that that's the price to pay for property tax relief? Or is the property tax relief going to get lost in the calculations and the fact that there's still a tax bill that has to be paid? [LB280]

JOHN HANSEN: Senator, you raise a very good point and I would tell you that, as taxpayers, we have incredibly selective memories. And as a former... [LB280]

SENATOR GLOOR: That's why you should have run for the Legislature. [LB280]

JOHN HANSEN: As a former public official and the former chair of the budget and legislative committees of the Lower Elkhorn NRD, I can tell you that, as we're a new entity getting started, that we found out very quickly that people had a very long memory for when it is that you raise their taxes and they had absolutely no recollection whatsoever for those years when we lowered it. And so we decided, based on the beatings that we took, that it was a good idea to try to head kind of toward the middle and try to take a more steady approach, rather than trying to chase the ups and downs of our budget needs, because we were taking such beatings over when we raised the rate, despite the fact that we had lowered the rate two years in a row. And so it goes. And I think part of what has to happen, in my view, is that we, if we're going to be constructive about trying to come up with a more fair tax system, we have to be realistic that we're all going to have to pay our fair share of the tax load and that you don't get something for nothing. And there has been, in my view, a less-than-honest discussion that's been held with a lot of taxpayers that has them...that's given them encouragement in the idea that they can maintain the quality of services across the board and yet they don't have to somehow pay for them, that you get something for nothing, it just comes out of, you know, out of the air. And so, yes, we want services and we need services and, yes, we're going to have to pay for them, and so I salute Senator Davis for his effort here. But to your question, I think that that's a challenge and that perception that...the other comment I would make is that the perception of fairness in all the years that we have done this and been involved in these issues, is it becomes a relative thing. And so the total load per taxpayer has something that they perceive as being heavy or unfair has something to do with how

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they perceive their neighbors shouldering their share of the load. And so in the case of ag, the ag folks look at the amount of taxes they're paying versus the folks in town who have the kids. And they say, well, you know, how much taxes are they paying and how much are we paying? And so that perception gets to color their own perception of, you know, am I being taxed too much. And so that's a part of the mix in terms of acceptance, I think, but getting acceptance to changing anything, as you know, is a challenge. But we're at the point where we have to take some risks that might be... [LB280]

SENATOR GLOOR: Thank you. Any other questions? Senator Scheer. [LB280]

SENATOR SCHEER: Thank you, Senator Gloor. John, you mean all these years all I had to do was put enough bad things together and, finally, with enough bad stuff in one item, you'd support it? [LB280]

JOHN HANSEN: I...Senator, the smart-aleck part of me wants to say, I just wanted to see if you were paying attention. (Laughter) But I will say that there is going to have to be give-and-take. There is not going to be any package that's going to do the things we want to do that's going to have...every piece of it is going to be a piece that everybody likes. [LB280]

SENATOR GLOOR: Thank you. Any final proponents? Good afternoon. [LB280]

MARK HAYNES: (Exhibit 21) Good afternoon, committee. My name is Mark Haynes, M-a-r-k H-a-y-n-e-s, and I'm a farmer in Dawes County. And I'm here today in support of LB280 because I believe we need a balanced approach when we fund education that everybody needs to participate financially. A quick background: I grew up on a farm and ranch in Dawes County, were five kids in my family, and my parents passed away in the early '90s and we inherited 1,600 acres of land. We leased out the section of grass to a neighbor. We quickly realized that the expenses of fence maintenance, water lines, noxious weeds, and taxes consumed most of the income. The next year, the valuation increased. I protested the valuation. I felt good about the case because I had comparable sales around the area that indicated that they sold for less than the assessed value. I stated my case to the county board of equalization. I was able to show that my valuations were too high because of the sales around me. The assessor told me at the time, she said, Mister, I will not split up this county. So I had my first lesson in mass appraisal. We sold the 300...we sold that section of grass because it wasn't a very good investment. So later on in the '90s, my three siblings chose to sell their share of the...another 300 acres. They wanted out of the business. So that left my oldest brother and me to continue the partnership. So we own a section of ground today, and then I crop-share an additional 950 acres. What I've learned over the 40 years of ag production in Nebraska was...is that we don't have a competitive industry with surrounding states. The ag industry is...farm and ranch is not competitive with those states. And

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the example would have been that Nebraska landowners pay more in property tax than Oklahoma, Kansas, Colorado, South Dakota, North Dakota, Montana combined. I left Wyoming out of that. I had one in earlier on Wyoming, but I left it out because it's more...not as much an agricultural state as Oklahoma. So to give you a comparison is, in grassland in Dawes County, is taxed twice as much as grassland in Fall River County that borders Dawes County. South Dakota goes by an 85 percent of use value, which is an income-producing value that they use, which most of our surrounding states use an income-producing value. And so the difference is, is that the levies are fairly close to the same, but it's the difference in the valuation how they determine what that land is worth. So the poorest-quality grass in Dawes County, 4G, had a value of \$250 an acre. In Fall River County, they have an eight-year average--throw the high and low out, average the six--and that number comes up to \$125 an acre. In 2010, I took a parcel of ground at \$6.19 an acre in Dawes County. Logan County, Colorado, which borders Cheyenne County, was about \$1.50 an acre. So Colorado uses a 29 percent use value, which is an income-producing value, and we're at 75. So we're not competitive with our grass- and our drylands and our surrounding areas. Do the Nebraska landowners pay their fair share? If I took a comparison of a \$100,000 home in Dawes County that would rent for \$9,600 a year, the property tax paid to the school district would be \$1,050 at \$1.05 levy, and that's about 11 percent of gross income. The \$100,000 of grassland in Dawes County would rent for \$3,600; and since ag is valued at 75 percent of market value, that \$1.05 levy would yield \$788 in property tax to the school district, 22 percent of gross income. The \$100,000 worth of stocks and bonds would yield no property tax to the school system. There has been lots of discussions about property tax. I've been to a lot of different meetings. John Anderson had an article about...points out it only takes 4 percent of your income to pay the property tax bill in Nebraska. On ag, it's over 18 percent, on average; in grasslands, it's over 40 percent. It only takes 2.5 percent of your income to pay the income tax bill in Nebraska. I have a chart here which shows you the difference between the tax base in Kansas and Nebraska on this back page: commercial/industrial, Kansas, 40 percent; Kansas...and Nebraska is 23 percent; residential, Kansas, 44 percent; Nebraska, 46 percent; agriculture tax base in Kansas, 5 percent; in Nebraska, 30 percent--this is for the year 2013--and then other, in Kansas, 11 percent; Nebraska, 1 percent. To give you an idea about the tax, if ag producers were taxed equitably, the other sections would look more like Kansas. The property tax per capita in Kansas is \$1,557. In Nebraska, it's \$1,827. If I back out the ag share of that, Kansas pays \$1,524; Nebraska pays \$1,351. The elephant in the bathtub is agriculture. Property tax on the land last year went up 25 percent. The valuation went up 30 percent. The taxes went up 25. The assessor told me here last week that we're looking at another 25-percent increase in valuation. So I sold wheat three years ago for \$8.70 a bushel. [LB280]

SENATOR GLOOR: Mr. Haynes, I need you to begin wrapping up... [LB280]

MARK HAYNES: Oh, okay. [LB280]

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SENATOR GLOOR: ...your comments, please. [LB280]

MARK HAYNES: Now it's \$4.70 a bushel. This is definitely a negative impact on my bottom-line property tax. One quick thing is, valuations on residential and commercial property have not kept pace with spending, especially on education. Three-and-a-half percent on residential, 4 percent on commercial, it's unsustainable. It's a mathematical fact. It's unsustainable if you're going to fund education on property tax and residential and commercial property cannot keep up with spending. So thank you for your time. [LB280]

SENATOR GLOOR: Thank you. Are there...are there any... [LB280]

MARK HAYNES: There is a sheet there, also included. [LB280]

SENATOR GLOOR: This one attached? [LB280]

MARK HAYNES: Any questions? [LB280]

SENATOR GLOOR: Any questions? Thank you, Mr. Haynes. [LB280]

MARK HAYNES: Thank you. [LB280]

SENATOR GLOOR: Good afternoon. [LB280]

LORAN SCHMIT: Good afternoon, Senator Gloor, members of the Committee on Revenue. My name is Loran Schmit, L-o-r-a-n S-c-h-m-i-t. I am here to testify on behalf of the Association of Nebraska Ethanol Producers. Ethanol producers are frequently one of the largest taxpayers in the subdivision in which they are located, so we're very interested in this. I see my red light is on. I may have to leave. (Laughter) [LB280]

SENATOR GLOOR: We did that just for you. [LB280]

LORAN SCHMIT: I thought so, Senator. I just wanted to say, with your permission, I would like to testify on behalf of both LB280 and LB357. [LB280]

SENATOR GLOOR: We'll make that note. [LB280]

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LORAN SCHMIT: I think that both bills form the basis for good starting points for discussion of the revamping of Nebraska's tax system, as has been indicated by many witnesses. I can't add anything to information which has been presented here before. There was a word mentioned a little bit earlier. I think, when we talk about the wealth of a district, you first need to determine what do you count in the wealth of a district. And I believe it's...Senator Davis had mentioned the word "intangibles." And if you go back, and I'm sure that Senator Sullivan has looked at this, if you were to include the intangibles in the value of a school district, it might tip the scales somewhat heavier towards the urban area than it has been in the past. But I'm not recommending that. I'm saying that if you try to determine what is the wealth of a district, then those of us in agriculture like to say, ag land today has escalated very rapidly. But when we talk about the livestock that runs across that grassland, and if you've been to the cattle sales recently, we notice a tremendous increase in the value of the livestock. So there are many, many factors and there will be a lot of discussion on the floor before you determine exactly who has the ability to pay. But for a long time we've said that income should have something...some contribution to the education of children, and this may one of those times when we want to consider that. Be the end of my testimony and be glad to answer any questions. [LB280]

SENATOR GLOOR: Are there any questions for the senator? [LB280]

LORAN SCHMIT: Thank you. [LB280]

SENATOR GLOOR: Seeing none, thank you. [LB280]

LORAN SCHMIT: Thank you. [LB280]

SENATOR GLOOR: Any more proponents? [LB280]

MILES WINCHESTER: (Exhibit 22) My name is Miles Winchester, M-i-l-e-s W-i-n-c-h-e-s-t-e-r. And I am simply going to read a letter that was written by Gary Fisher. He is 80ish and it's eight hours from here to there, so. Dear Senators, we own 1,760 acres in Dawes County. It is all rangeland with some timber, although the fire of 2012 destroyed most of the timber. We own no livestock, instead, leasing the pasture to a beginning farmer and rancher. In 2012, our property tax was \$8,442. In 2013, our tax bill was \$8,166, slightly reduced because of the fire damage. In a similar situation, the state of Colorado paid all property taxes on fire- or flood-damaged property. My total property tax bill was \$9,565 in 1913 (sic). My tax credit was \$451. Homestead exemption was \$948, leaving \$8,166 total tax for me to pay. Of this, \$6,932, or 84 percent, went for education funding--local schools, ESU, and WNCC. Of our gross income in 1913 (sic), \$19,300, it took 42 percent to pay the property tax. Nebraska is almost at the bottom of the list for state funding of education. Nearly every other state uses one-third property tax,

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one-third sales tax, and one-third income tax to fund education. Our former Governor has boasted that Nebraska has had two large income tax reductions in recent years. Legislation has been introduced for another. In 2007, ag valuations for property tax purposes were lowered from 80 percent to 75 percent. However, in the last six years, these valuations have nearly doubled. This is largely due to the changes the Property Tax Administrator has made in the rules and regulations regarding the agriculture property valuation guidelines. One of the Property Tax (sic--Assessment) Division staff, Denny Donner, commented to me that, if you don't own it, someone else will, an indication of their attitude of indifference. Nebraska's largest industry is finding it increasingly difficult to be profitable under the current property tax system. The 10-percent reduction does very little for me as a landowner when my county assessor informed me last week that agriculture valuations will be increased by at least 25 percent this year and that wasteland will be going up significantly. Sincerely, Gary Fisher. [LB280]

SENATOR GLOOR: (Exhibits 23, 24, 25, 26) Thank you, Mr. Winchester. Are there any questions for him? Seeing none, thank you. Other proponents? Then we'll move to opponents. While someone is coming up here, I'll read into the record that we have letters in support from Jake Stewart, Dawes County Commissioner. We have an opponent letter from Roger Breed on behalf of Greater Nebraska Schools Association; from Coby Mach on behalf of Lincoln Independent Business Association; and then there is a letter in a neutral capacity from Kenneth Boswell with the Nebraska Soybean Association. Good afternoon. [LB280]

DICK CLARK: (Exhibit 27) Good afternoon, Chairman Gloor, members of the Revenue Committee. My name is Dick Clark, D-i-c-k C-l-a-r-k. I'm testifying today on behalf of the Platte Institute. Thank you for this opportunity to speak in opposition to LB280. LB280 would increase state income taxes through a new local income tax conceived as a surtax to be tacked onto state income tax. This new tax would increase the taxpayer state income tax liability by 19.4 percent initially. And as we've already discussed, school boards would have the additional authority to raise that to 29.9 percent either by going to the voters or by supermajority vote of the board. Now proceeds from the new surtax would initially be earmarked for foundation aid to school districts. However, the new tax dollars would be collected by the Department of Revenue and disbursed to school districts in a process that could easily be subjected to political gamesmanship later. For purposes of applying the TEEOSA formula, agricultural land valuation would be dropped to 65 percent from the current 75 percent of assessed value. Maximum levy authorized for districts would be lower starting in the next biennium, and then the stricter levy caps would be phased in slowly. Now at the Platte Institute we agree with Senator Davis on a very important point: that property tax relief has to be a priority this year in this Legislature for Nebraska. Now the Platte Institute has worked to address the causes of high property taxes and will continue to do so in the future. But the justifiable concern about property taxes in Nebraska should not be answered by simply shifting costs, hiking income taxes, and making Nebraska even less competitive. Higher taxes do not make for a better, more vibrant state. They stifle



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growth; they slow innovation. All of the best arguments and evidence suggest that lower tax environments are better for encouraging business development, job creation, and the resulting higher standards of living. We need to encourage people to move here, Senators, to set up shop here, to raise their families here. Higher taxes mean fewer opportunities for people to do that. With the changes proposed in LB280, Tax Foundation economists have calculated that Nebraska would have the eighth-highest income tax in the nation. My understanding is that is just with the initial 19.4 percent surtax, not with the amount above that, that the school boards would have the option to go to. Nebraska needs tax relief, not tax hikes. Thank you for the opportunity to testify today. I'd be happy to answer some questions, although I did want to note, based on some of the previous comments, you know, our state reliance on the income tax as a source of public funds I believe is about 23 percent across all levels of government. The average reliance on income tax is about 22 percent, so we already rely on income tax to a greater extent than the average. Now on property tax, we also rely on property tax to a greater extent than the average. We're at 36 percent here in Nebraska. The average is about 32 percent. So I would suggest that we need to talk about tax relief, not just tax shifts. Both our property taxes and our income taxes in this state are awfully high. [LB280]

SENATOR GLOOR: Thank you for your succinct testimony. You're using a term, "political gamesmanship." It's not a term I'm familiar with at all, so. (Laughter) [LB280]

DICK CLARK: Well, I'd never accuse anybody in this building of being involved in that, but I fear that maybe in the future some might be involved, Senator, and so... [LB280]

SENATOR GLOOR: But do give me an...I mean, is your concern that the money will be used for roads? Or is your concern that it'll be tapped into to pay for Medicaid? I mean... [LB280]

DICK CLARK: Well, I like roads and I like healthcare as much as the next fellow, but I have to remember back to how we got an income tax in Nebraska. And the purpose of creating the income tax in Nebraska was for property tax relief, right, is the idea of relying less on property tax as a source of revenue and having some other source of revenue to rely on. And unfortunately, here we are today with a state income tax that's quite high compared to our neighbors, compared to other states in the nation, and we're still here trying to figure out how to reduce our property taxes, so. [LB280]

SENATOR GLOOR: Okay. Questions? Senator Sullivan. [LB280]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Mr. Clark. To that end, what recommendations do you have for reducing or achieving property tax relief? [LB280]

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DICK CLARK: Well, I...you know, we've already this session I think weighed in on more bills than we testified in all last session. Now maybe you can chalk that up to being a longer session, but several of those are on just modest little ways to chip away at the property tax burden. A major topic that we've talked about that we've published a study on is on the, you know, mandates on locals and what percentage that might make up of local budgets. That's been part of the conversation in hearings on previous bills before this committee, as you know. I think that's certainly a part of it. But as I've also said in other hearings, you know, there is not a direct correlation between spending more money on public services and getting better quality services, enhancing that service delivery. And so I do think that we have to look at ways of changing how we're delivering some of the vital services that people in Nebraska think government ought to be playing a role in. And so we've recommended reforms in how education may be delivered, how we can improve that. We've recommended reforms in how Medicaid benefits are provided and, indeed, will continue to try to provide creative ways to get more bang for the buck, not just to get more bucks into state coffers. [LB280]

SENATOR SULLIVAN: Thank you. [LB280]

SENATOR GLOOR: Other questions? Seeing none, thank you. [LB280]

DICK CLARK: Thank you. [LB280]

SENATOR GLOOR: We'll continue with opposition to LB280. Good afternoon. [LB280]

JOHN CEDERBERG: (Exhibit 28) Good afternoon. My name is John Cederberg. It's J-o-h-n (microphone malfunction)...well,... [LB280]

SENATOR GLOOR: It's all right. We'll eventually take care of it. [LB280]

JOHN CEDERBERG: We'll figure that out. [LB280]

SENATOR GLOOR: Yep. [LB280]

JOHN CEDERBERG: C-e-d-e-r-b... [LB280]

SENATOR GLOOR: We'll send you the bill, Mr. Cederberg. [LB280]

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JOHN CEDERBERG: (Laughter) Yeah. C-e-d-e-r-b-e-r-g. I am the elected treasurer of the Nebraska Chamber of Commerce and Industry. I'm also a member of the Lincoln Chamber of Commerce. I am handing out my testimony here because I really do not intend to read it to you. But I am here representing the Nebraska Chamber of Commerce and Industry, the Lincoln Chamber of Commerce, the Greater Omaha Chamber of Commerce, the Nebraska Bankers Association, and the Nebraska Federation of Independent Business, all in opposition to LB280. You can read my testimony. I really only want to make a couple of comments. One of the...I feel a little bit like a fish out of water here today in an ag meeting but, you know, these business associations are the people who deal with, I'll just say, the people in town and, interestingly enough, the income taxpayers. I have attached a sheet just to remind you after the written testimony that has the maximum individual rates of all of the surrounding states and the current and proposed income tax rate in Nebraska. And as you can see, rather quickly, this surcharge would put us way out of range with our neighbors. Now I understand there is...this is intended to be revenue neutral, but people who are tax sensitive, interestingly enough in my 40-year career in public accounting, tend to evaluate taxes separately, and particularly if you're dealing with attempts to grow the nonfarm economy with people who would be doing startup businesses, people who would be entrepreneurs, and who are going to report their business income through their individual returns. This becomes a substantial disincentive or would become a substantial disincentive for them creating those jobs and doing those businesses in Nebraska. The other thing that I would draw your attention to is the last three pages of my testimony, is a very rough schedule. And this is not intended to be absolutely accurate, okay? It's a very rough schedule of how the reduction in the school tax levy and the surcharge, the income tax surcharge, would play out on a county-by-county basis. And, you know, I didn't have time and no one was paying me to get too deep into the numbers, so here is what I did. I found the school taxes assessed in the Nebraska Department of Revenue statistics for 2014 and reduced that number by a fraction, 80 over 105 being the fully implemented, and that's why the column says "fully implemented." And then I found, and unfortunately there's a couple-year gap here, but in a relationship basis, that's not material. I then took the individual income tax liability by county from the Department of Revenue statistics and increased it by 19.4 percent, assuming nobody overwrote. And what you can see there is this works only in places that are highly urbanized, in terms of being revenue neutral by county. Douglas County is the only one that produces enough income tax to offset the property tax reduction. Now obviously, I ignored the foundation aid because that comes out of the state General Fund budget anyway under the bill. But when you get to the next 11 populous counties, they have a smaller deficiency. But then you get to the other 76 populous counties and they are very dependent then upon the state maintaining, every year, its commitment to the new TEEOSA formula to fund the deficiency. I lived under a local income tax in Maryland years ago when my wife and I lived in Maryland. And it worked, but it worked in Maryland because Maryland is a very densely populated state, other than the eastern shore. We have this...the results of this little test I did is entirely consistent with my experience in Maryland, that this is a big shift and we really don't know how to get the \$23 million extra out of Douglas County. You

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know, that's going to go to the Douglas County schools directly, plus they get their foundation aid. They're not going to get TEEOSA, I would assume, if they had a \$23 million excess. But we've got a...this is a \$150-160 million claim every year on the General Fund budget. With that, I would be happy to address any questions that you might have. [LB280]

SENATOR GLOOR: Thank you, Mr. Cederberg. Questions? Senator Schumacher. [LB280]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Mr. Cederberg, you once told this committee that good tax policy is a maximum amount of plucking for the least amount of squawking. [LB280]

JOHN CEDERBERG: Um-hum. Yes, I have said that. [LB280]

SENATOR SCHUMACHER: Could you help us out and tell us how we get that? [LB280]

JOHN CEDERBERG: How do we get the maximum amount of plucking with the least amount of squawking? I...you know, that ranks right up there with the very first day that I spent in diplomacy school at Georgetown University when my...when the professor asked for a definition of diplomacy. And his answer was, you tell the counterparty to go to hell and have him look forward to the trip. (Laugh) The two of them rank right up there together. Last year, the Omaha and Lincoln Chambers commissioned the Nebraska Bureau of Business Research to do a study and prepare a report--I'm sure most of you have probably seen it--which said...on what is a modern tax policy and a progrowth tax policy. You know, they...one of their issues was you've got to do something about the property tax. They also made a big point about reducing and/or certainly restraining the rates on the most mobile of your productive resources. And of course, that's our entrepreneurs. I'll take my chamber hat off and say that they were talking about expanding the sales tax to more consumer services, if you remember reading that report. That was Eric Thompson's and John Anderson's solution. How much we actually get on that, I have never literally put the pencil to it. But I guess I have long felt that, as long as we did not invent a cascade tax, it was on business-to-business services, that perhaps there was more flexibility in the sales tax than in anything else. The difficulty is, property tax is very easy to identify by the taxpayer. They get a bill. The income tax is very easy to identify. And while the farmers very rightfully get...are very upset about the way that the economy is just kind of out of whack in terms of property values and how it's affected property taxes, they can't really vote with their feet, and so they're at a great disadvantage. Unfortunately, in our neighborhood, entrepreneurs can vote with their feet. And so there is...I've thought about this for more years than you've been in the Legislature, and I am convinced there is not a silver bullet. I think there are a lot of...to use a baseball term, we've got to win with small ball and a lot of singles, and they've got to come timely. [LB280]

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SENATOR SCHUMACHER: Thank you very much for the advice. [LB280]

SENATOR GLOOR: Senator Brasch. [LB280]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Cederberg, for your testimony. And I like your comments, especially, and I also like your figures because, although I'm not a mathematician like my attorney and colleague here, I look around Lincoln and I look around Omaha and I don't see a lot of farms, you know. [LB280]

JOHN CEDERBERG: No. [LB280]

SENATOR BRASCH: You don't. And your numbers are saying that my colleagues from Lincoln and Omaha really don't have a lot of skin in the game when it comes to losing money for the schools. [LB280]

JOHN CEDERBERG: Well, your... [LB280]

SENATOR BRASCH: ...because the income is there. [LB280]

JOHN CEDERBERG: Your colleagues from... [LB280]

SENATOR BRASCH: But did I hear that? [LB280]

JOHN CEDERBERG: Your colleagues from Lincoln have a little bit more skin in the game... [LB280]

SENATOR BRASCH: A little bit, but... [LB280]

JOHN CEDERBERG: ...because we do have fairly robust and actually very valuable farmland north of town and south of town that are still in the county. [LB280]

SENATOR BRASCH: But the numbers...number, quantity of acres... [LB280]

JOHN CEDERBERG: But the quantity is not there. [LB280]

SENATOR BRASCH: ...is not what you, when I take a beautiful road trip... [LB280]

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JOHN CEDERBERG: Oh, no. I understand that. [LB280]

SENATOR BRASCH: ...out to Grand Island or... [LB280]

JOHN CEDERBERG: Go to Polk County, where I grew up. [LB280]

SENATOR BRASCH: Okay. All right. So you are saying that those that are suffering the most are...because you said a number of 70 or so... [LB280]

JOHN CEDERBERG: Seventy-six counties. [LB280]

SENATOR BRASCH: The further you get away from our metropolitan city and Lincoln, that's the greatest impact and loss to schools. [LB280]

JOHN CEDERBERG: Right. [LB280]

SENATOR BRASCH: Thank you. Would you say that again, loud, on record? I appreciate it. [LB280]

JOHN CEDERBERG: Well,... [LB280]

SENATOR BRASCH: But I think you have something here and your numbers reflect that so. [LB280]

JOHN CEDERBERG: The dependence of schools, post an LB280, on state aid and on the Legislature's willingness and ability to fully fund it, year in, year out, increases as population decreases. [LB280]

SENATOR BRASCH: Yes. Very good. [LB280]

JOHN CEDERBERG: And, you know, above that line of 25,000 population, that dependence is in the single digits of a percentage, except for five counties, as I recall, that have significant towns in their county, like Red Willow and McCook. Except for those five counties, that percentage deficiency, dependence on the state government goes to double digits and on several counties goes over 20 percent. [LB280]

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SENATOR BRASCH: Very good. I have no other questions. I just wanted to confirm what I thought I saw with my eyes, what you showed on paper. [LB280]

JOHN CEDERBERG: Yes. [LB280]

SENATOR BRASCH: So thank you. [LB280]

JOHN CEDERBERG: You read it right. [LB280]

SENATOR BRASCH: Okay. [LB280]

SENATOR GLOOR: Thank you, Mr. Cederberg. Next opponent. Good afternoon. [LB280]

J.D. KOERNER: (Exhibit 29) Senator Gloor, members of the Revenue Committee, my name is J. D. Koerner, J. D. K-o-e-r-n-e-r, and thank you for the time today. I'm going to curtail my prepared remarks in light of the time, but what I would like to say is, we heard a lot about fairness today in taxes. If you think about...just a rhetorical question: What do you think is fair for Nebraskans to pay as a percent of their income in taxes? There's probably...there's eight senators. There's probably eight different answers. But I can tell you that in 2013 my wife and I paid 32 percent of our income in taxes. That's not a marginal rate. That's an effective rate when you add up all the taxes that we paid. To put it another way, we had to work from the beginning of the year to April 27 just to pay our taxes to the government, to different government entities, and only then could we start paying our own bills--you know, save for college for our two boys, pay for my son's schooling twice, once through his tuition and once through our property taxes, and save a little bit for our retirement. That's nearly a third of our income that's gone off the top, so are we paying our fair share? Senators, I think this is a bad bill. I think it's a destructive tax. Any time you tax income, you're putting a price and a penalty on prosperity. I think that's the wrongheaded move to do. So everybody that's listening to this that might think, well, you know, we might be getting a good deal with property taxes going down, but let me admonish you and think about what's happened in the past. The income tax was imposed here decades ago to relieve property taxes, but we're back in the same situation again. If you look on the federal level, the alternative minimum tax was enacted in the '60s because a couple of hundred people were legally paying zero tax and they didn't think that was fair. But now think about how many millions of people that tax ensnares now, even after Congress fixed it. So we may be able to lower ag land down from 75 to 65 percent, and we might get a little bit of a relief from property taxes. But we're just going to jack up income taxes, and it's not going to be fair. Senators, I urge you, let us live our lives, don't burden us with these heavy taxes. I ask that you IPP this bill and instead focus on controlling spending and growing revenue by growing the economy. And we do

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that by reducing regulations, reducing taxes, put more money in people's pockets, not by hitting us with yet another tax. Thank you for your time. [LB280]

SENATOR GLOOR: Thank you, Mr. Koerner. Questions? Seeing none, thank you. [LB280]

J.D. KOERNER: Thank you. [LB280]

MATT LITT: Good... [LB280]

SENATOR GLOOR: Afternoon. [LB280]

MATT LITT: I think it's evening now. Chairman Gloor and... [LB280]

SENATOR GLOOR: Not quite. [LB280]

MATT LITT: Not quite. [LB280]

SENATOR GLOOR: But trust me, I will change my salutation when we get there. [LB280]

MATT LITT: (Exhibit 30) Well, good late afternoon, members of the committee. In the interest of time, I'll send my testimony along to the clerk. I just want to make a few points. My name is Matt Litt, M-a-t-t L-i-t-t. I'm the state director of Americans for Prosperity-Nebraska, and I'm representing our more than 40,000 members across the state. Just a few points: We do credit Senator Davis for looking at a...for a unique solution to the heavy tax burden, but we don't think that this is the right solution to alleviate that burden. Our organization opposes the creation of new taxes, especially one with such a high rate. Iowa is our only neighbor with a meaningful local income tax, and this, the rate would blow that out of the water. I'll just conclude with, we're concerned that the results of this bill, if enacted, would be an unbearable property tax, along with a now-unbearable income tax burden. As has been mentioned, I think our state's history has shown that the income tax has not lowered property taxes. And with that, I'll conclude and take any questions. [LB280]

SENATOR GLOOR: Questions for Mr. Litt? [LB280]

MATT LITT: Okay. Thank you. [LB280]



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SENATOR GLOOR: Seeing none, thank you, Matt. Others in opposition to this bill? Anyone in the neutral capacity? Apparently, not on this bill. (Laughter) Senator Davis, you are recognized to close. [LB280]

SENATOR DAVIS: Thank you, Chairman Gloor. I realize it's been a long afternoon and I'm sure you would love it if I had waived, but I just couldn't do that. [LB280]

SENATOR GLOOR: That would take... [LB280]

SENATOR DAVIS: I appreciate what the opponents have said and I understand some of the things that they've said, but there are a few things that I think we need to talk about, first of all, if we didn't have an income tax in this state. I've heard people say that the income tax did not help the property tax situation. Let's remember that the state of Nebraska is already putting \$900-and-some million into TEEOSA, which is equalization funding. A large portion of that comes from the income tax. So if there wasn't an income tax, people in Omaha and Lincoln would be paying drastically higher property tax rates, just like the people in unequalized districts in Nebraska. So the income tax has been a stabilizing factor. We've heard that this is...this proposal will cause a terrible economic collapse in this state. Twenty-five years ago, the Legislature had the will to put in a 1-percent increase in sales and a 1-percent increase in property...in income taxes to fund LB1059. We sailed on through the '90s and through the 2000s in pretty good shape until 2008, when the entire nation went down, and still Nebraska was better off. We've heard that cutting income taxes is a great stimulus to the economy. We can look at our neighbor to the south and I have to question whether that is a valid argument when we see that Kansas is not fulfilling its obligations, isn't seeing revenue growth, is seeing a governor who is pulling money from the Highway Trust Fund and from the pension fund to fill gaps in the state budget in Kansas. So this is...what we propose is a new and drastic way of looking at things differently. So I'd like to just respond a little bit to what the chamber said. First of all, not every district is going to be levying at 80.5 cents. Large numbers of these districts are going to be levying down at 50 cents. Even some of the bigger districts are going to be able to do that so, you know, that argument really doesn't hold water, I don't think. And the foundation aspect of that funding is going to help all these districts who are unequalized and even some of the equalized districts; so when that money comes in, the need isn't going to be there. The other thing, let's remember, is we have property tax relief, not just on the farm. We have it in town too. So we've got districts that are levying \$1.05 and we've got some that are levying much higher. I think Westside is quite a bit higher than that because they've imposed another levy on top. Those levies are going to drop and the average homeowner is going to see some property tax relief there. And for the average individual, it's probably going to be a wash. It's a tax shift, I admit that, but it's something we have to think about. We have to find another way of funding education in this state, because education is the driving force behind the problem we have today. Thank you. [LB280]

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SENATOR GLOOR: Thank you, Senator Davis. Senator Scheer. [LB280]

SENATOR SCHEER: Some things I've thought of. Your income tax, that's personal income tax that's paid by residents. Is that correct? [LB280]

SENATOR DAVIS: Say that again, Senator. [LB280]

SENATOR SCHEER: The income tax, that's a personal income tax, correct? [LB280]

SENATOR DAVIS: Yes, it's a...it's income tax on everything. [LB280]

SENATOR SCHEER: Okay, on businesses, as well? [LB280]

SENATOR DAVIS: If you've got a corporation, you're going to pay income tax. [LB280]

SENATOR SCHEER: Okay, domiciled in Nebraska? [LB280]

SENATOR DAVIS: Yes. [LB280]

SENATOR SCHEER: Okay, what about any corporation that's domiciled outside of Nebraska? [LB280]

SENATOR DAVIS: Well, let's talk about...I can't address how that works because I'm not a tax expert, Senator Scheer. [LB280]

SENATOR SCHEER: Well, here's my problem. [LB280]

SENATOR DAVIS: But can I make... [LB280]

SENATOR SCHEER: No, let me first. My question is this...I'll give you the question so that you can answer it. My concern was that if it's a personal income tax and we reduce the property tax by 25 or 30 cents, I don't care if it's a Hy-Vee store or somebody else, out-of-state corporation that would have quite a bit of property within the state, or even with Loran's ethanol plants, they're going to receive a huge reduction in their property tax, but how...if they're not going to compensate us from an income basis, they sort of get the free ride on it. So, I mean, that's my...how do we...how are we going to get those dollars back? [LB280]

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SENATOR DAVIS: And that's the question I'll have to get an answer for you on, you know. But if you talk about the individual who pays the tax, who lives in Kansas or lives in Iowa or lives in Florida but has revenue that is made here on his investment, or like when Cher was here and performed, you know, there was a tax bill due for Cher's performance here in Nebraska, so that money stays here, that income tax that's generated that way. And that is...it's a part of the General Fund then. [LB280]

SENATOR SCHEER: But my concern is those corporations that would own real estate within the state of Nebraska, aren't domiciled within the state of Nebraska, are not necessarily paying income tax in the state of Nebraska, whatever property they own, those...their tax consequences will be reduced substantially. But through the shift that you're talking about, we don't have that income shift to pay for their part of the property tax reduction. Is...am I misinterpreting something or is that correct? [LB280]

SENATOR DAVIS: You know, Senator Scheer, my guess is that those entities are paying...will be paying an income tax. I just don't know how that works because I'm not an expert on tax policy. [LB280]

SENATOR SCHEER: And so theirs would be the...whatever they paid to the state then would just be the 19 percent or would be automatically 19 percent. [LB280]

SENATOR DAVIS: It would be...the surtax would go to the state, yes. [LB280]

SENATOR SCHEER: Okay, and would they always be...they would always be at the minimum level then? [LB280]

SENATOR DAVIS: I haven't thought through that. That's something the committee could decide. [LB280]

SENATOR SCHEER: I'm just asking because, you know,... [LB280]

SENATOR DAVIS: Yeah. Yeah, I would say so. [LB280]

SENATOR SCHEER: Yeah, okay. [LB280]

SENATOR DAVIS: I would say so, because you're not going to be able to specify where that comes from. [LB280]

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SENATOR SCHEER: Yeah, yeah. Yeah, absolutely. Okay. Thank you. [LB280]

SENATOR DAVIS: Thank you. [LB280]

SENATOR SCHEER: Thank you, Senator Gloor. [LB280]

SENATOR GLOOR: And just a procedural question, Senator Davis: If the school board had the supermajority to go from 19.9 to 29.9, could it reverse and back out of that at some future date by the same supermajority vote? Have you...I mean is that built into the bill? [LB280]

SENATOR DAVIS: That isn't built into the bill, but it's certainly what I would think would have to be...would need to be a part of it. I would say it ought to be maybe voted on every year if you're going to do that. You know, on this, there could be a committee amendment to do something with that, you know. If the committee felt that was putting too much responsibility in the hands of a school board, you know, we could make it a vote of the people. [LB280]

SENATOR GLOOR: But right now, we haven't laid out...you didn't lay out exactly how to do that, so that's open. [LB280]

SENATOR DAVIS: No. That's true. [LB280]

SENATOR GLOOR: Okay. Seeing none, thank you. [LB280]

SENATOR DAVIS: Thank you. [LB280]

SENATOR GLOOR: And that will... [LB280]

SENATOR DAVIS: Thank you for your patience. [LB280]

SENATOR GLOOR: Certainly. That closes the hearing on LB280. We'll now move to the hearing on LB357, Senator Smith. You're looking very fresh, Senator Smith. [LB280]

SENATOR SMITH: Thank you. This looks like quite a repair bill here. Good afternoon or good evening, Senator Gloor and members of the Revenue Committee. For the record, my name is Jim Smith, J-i-m S-m-i-t-h, and I represent the 14th Legislative District in Sarpy County. I'm here this afternoon to introduce LB357. I'd like to thank my colleagues that have cosponsored LB357 and for those individuals that have lasted this afternoon that are seated behind me that will testify

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in support of LB357. LB357 is about tax relief--tax relief for families, tax relief for businesses, tax relief for every Nebraskan that pays either income tax or property tax. LB357 is also about economic benefit for every segment of the Nebraska population. Governor Ricketts has continuously talked about his desire to grow Nebraska. In order to grow anything, you must first start with an environment that is conducive to growth. In this state, we have an advantageous central location, we have a great education system, we have a strong work force, and we have great communities. It's a very desirable place to live. But we also have our taxes. The Tax Foundation 2015 state business tax climate index ranks Nebraska's corporate tax 31st in the nation. Our property tax is ranked 39th in the nation. Our overall ranking is 29, not even in the top half. Of our surrounding states, only Nebraska (sic--Iowa) ranks lower than Nebraska and only Iowa has taxes higher than ours. Our tax rate is directly related to our business tax climate, and our business tax climate is directly related to our ability to grow. According to a January 30 Wall Street Journal article, the states are on the move. At least 20 are moving forward in trying to provide, attempting to provide tax relief for their citizens and their businesses. That is in addition to the 14 states that have already enacted some type of tax relief initiative in 2014. In order to stay competitive, we simply cannot ignore the fact that our high taxes put us at a disadvantage. The article continues to point out that over 50 different studies prove states with higher personal and business tax rates produce fewer jobs and are unable to grow their own economies. We don't like to talk about Texas necessarily here in Nebraska, but Texas which is ranked at the top...in the top ten has no income tax and saw more job creation in the past seven years even during the recession than all 49 states combined. I am not advocating for something as drastic as eliminating our income tax, even though two of our surrounding states, both Wyoming and South Dakota, don't collect any income tax and are coincidentally ranked number one and number two by the Tax Foundation. I am not...neither am I advocating for sweeping tax cuts as was demonstrated in Kansas. We heard that mentioned. Those were tax cuts that reduced rates by over 25 percent that is now suffering from that action. What I'm advocating for is reasonable and responsible...a reasonable and a responsible approach that's laid out in LB357. The tax cuts proposed in LB357 are phased in slowly over a period of eight years with cuts that represent less than .5 percent of the state's annual budget. The biggest cuts occur in the bottom bracket. By the time we get to the year 2023, the bottom rate will be reduced from the current rate of 2.46 percent to 1.23 percent and the top rate will be reduced from 6.84 percent to 5.92 percent. Businesses will also see tax relief under LB357. And these are truly corporate businesses because the bottom corporate rate will drop from 5.58 percent to 4.54 percent and the top rate will drop from 7.81 percent to 6.41 percent. But remember that many of our small businesses in Nebraska are not...don't pay their taxes through the corporate brackets but they pay their taxes through the individual brackets, S-corporations, partnerships. So whenever you hear the discussion made that only the wealthy receive a benefit from this, remember that many of our businesses pay through the personal tax brackets and they are going to be able to get relief because they are job producers in this state. Small business continues to be the engine that drives the economy. The bill calls for further reductions in the tax rates if a trigger occurs. So this is

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beyond year eight. If actual General Fund net receipts exceed the estimated receipts, the Tax Commissioner shall reduce the rates by .015 percent. Again, a very small amount but an amount that means real tax relief to our citizens and our businesses. This only happens when that trigger is hit. While the bottom bracket would eventually get to zero, the second bracket would never go lower than 3.5 percent, the third and top brackets would never go lower than 5 percent. That's our target. Same with the corporate rates. The bottom would freeze at 3.5 percent and the top at 5 percent. Finally, this bill provides property tax relief for all property owners regardless of where you live in the state by infusing an additional \$40 million into the Property Tax Credit Fund for each of the next two years. I understand the position that we all have that the Cash Reserve Fund should not be used for ongoing purposes and that this state benefited from that fund during the recession. But we have over \$700 million in that fund. My proposal would provide a very limited transfer of Cash Reserve Funds in the first two years to offset the tax reductions, \$20 million in the first year, and this is a timing issue, and \$60 million in the second. The remaining years will be offset by holding the growth rate on government spending. I am confident that these reductions will result in greater tax revenues triggering further tax relief, attracting new business and job seekers will grow our tax base and should allow local governments to decrease property tax levies. Since the beginning of the fiscal year, we have already collected more in tax receipts than was projected. If actual receipts continue to outpace the projection by the end of the fiscal year, it will be the fifth year in a row we've come in above the projection. We have a record amount of money sitting in Cash Reserve. The time to provide tax relief for our families, for our businesses, and to bring Nebraska into the top half of state rankings is now. LB357 provides tax relief to everybody. It provides it in a way that's responsible, that's reasonable, and that's feasible. I ask you, please, to give strong consideration and to advance LB357. Thank you very much for your time. [LB357]

SENATOR GLOOR: Thank you, Senator Smith. Questions? Senator Sullivan. [LB357]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Senator Smith. It's a tantalizing proposition. We don't want to pay any more taxes than we have to. But my question is and I know that the...you made the comment that there will have to be less government spending. I presume that you mean across the board, but are there any particular areas where there may need to be significant cuts in spending? [LB357]

SENATOR SMITH: Senator Sullivan, that's a question that we've used on many of the folks that have come in here to testify on bills and it's a great question. But I'm going to go back to the reasonableness of the request. One percent, roughly one percent. That's the equivalent of roughly slowing growth in government by 1 percent. I own a business. I know you've owned a business. Senator Schumacher is a business owner. Many of us have been in business and we look at our own individual budgets. I know good and well we can all find 1 percent in our budgets if we needed to and probably more. I understand the question and I believe that every department in

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this state government can look for those reductions. I believe we as a Legislature, I think we've done that in years past. We found reductions, places to reduce our spending. I think it's a possibility. I think it's doable and it's reasonable and it's relatively a small amount. [LB357]

SENATOR GLOOR: Other questions? Senator Davis. [LB357]

SENATOR DAVIS: Thank you, Senator Gloor. Thank you, Senator Smith. Interesting discussion. I'm kind of following up with what Senator Sullivan referred to, but I want to refer back to my bill a little bit. So I had lunch today with Broken Bow School superintendent who's losing \$1.2 million in state aid because of his equalization issues and he's at \$1.03. I lay that out there because that's the problem that exists in a lot of rural Nebraska is lack of resources. But, you know, business in Nebraska has always put a high value on education and getting educated workers, and that's something that we are very strong in is turning out a very good quality product. So if the resources aren't there, how are schools going to fund themselves? [LB357]

SENATOR SMITH: Senator Davis, I don't want to get into a deep discussion on education and philosophy and education spending, but I will tell you that we've taken three different paths in choice with our children. We've educated in private education, we've educated at homeschool, and we've educated in the public school system. We've had fantastic experiences in all three locations. But I will tell you that what we experienced in private education in terms of facilities were very subpar to what we experienced in public education. And I'm very reluctant to go down that path, but I think where we need to focus our spending in this state is in salaries, in wages for our teachers to make certain we have the very best and that they're compensated in the very best possible way. But look around and look at some of our private schools, whether they're religious based or not. Look at how they make their dollars stretch. And I believe probably in our rural communities I bet you that they do a pretty good job as well. But I think we can do a better job of how we spend our money in this state and we can pass those savings onto our citizens and let them make the decisions as to how they use their money. [LB357]

SENATOR DAVIS: And I think your point is well taken. You know, I just remind you that salaries do make up about 85 or 90 percent of most school budgets. So, you know, if we're going to do something with salaries and try to make our staff be the best possible, the money has got to come from somewhere. [LB357]

SENATOR SMITH: It absolutely needs to be a combination of both funding methods as well as spending. It needs to be a combination. [LB357]

SENATOR DAVIS: Thank you. [LB357]

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SENATOR GLOOR: Thank you, Senator. [LB357]

SENATOR SMITH: Thank you. [LB357]

SENATOR GLOOR: We'll move to proponents. Good afternoon and thank you for waiting patiently. [LB357]

JOSEPH HENCHMAN: Yes. Thank you. Chairman Gloor, members of the committee, my name is Joseph Henschman, J-o-s-e-p-h H-e-n-c-h-m-a-n, and I'm vice president for state projects at the Tax Foundation. Tax Foundation is a national research think tank based in Washington, D.C. And I appreciate the opportunity to speak to you on the concept behind LB357. Now my job is to monitor state tax trends, report on them, and analyze them from the perspective of economically sound tax policy. That is the idea that taxes should be as simple, transparent, neutral, and stable as they can be. And from that perspective, we looked at the proposal in front of you. I'm, of course, no stranger to Nebraska or Nebraska's tax policy having written a report, a book on Nebraska's tax policy back in 2013, that involved speaking with some of you as well as with many businesses and taxpayers in the state. Do Nebraskans think their taxes are too high? Sure. And if it were up to some Nebraskans I'm sure there would be no income tax or no property tax or no sales tax or no anything tax. Now, of course, that's not possible. The state provides services and those services need to be paid for with taxes. However, Nebraska can do this while still being aware of competitive pressures and with the recognition that some taxes are worse than others. From the perspective of what boosts economic growth, what promotes job creation, and what encourages an investment...encourages investment, there are good ideas and bad ideas. Nebraska's top individual and corporate tax rates are high for the region and for the revenue they collect. These rates cause sticker shock for recruiting and retaining talent and contribute to that net outward migration, particularly of young people that is evidenced in the available data. Now I agree Nebraska's economic performance would make many states envious, but the tax system is middle of the pack. From our review of economic and fiscal data and from our research on the economic efficiency of various tax structures, tackling the state's high tax rates would do a lot to promote investment, new businesses, and boost job creation. Now I know what's happened in Kansas should be a warning sign. And as someone who was from the very beginning critical, publicly critical, of what Kansas was doing, you should know that I'm not afraid to warn about disastrous tax policy in the making when I see it. This is not that. It's a phased-in, paid-for approach that takes responsible steps each year toward reducing Nebraska's uncompetitive top tax rates and heavy taxes on business investment. It addresses valid concerns that have been made in the past about doing too much too fast and builds on the hard work that you and the rest of the Legislature have done in recent years to make the tax system simpler, smarter, and fairer. By bringing top tax rates down to where most of Nebraska's neighbors are, it removes a big disincentive for in-state investment in entrepreneurship. Further, despite Nebraska's high tax rates, tax collections are at or below the average of other states. And this suggests that the high rates



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that you have now are harming economic activity and leading to pressure that you get for exemptions, carve-outs, and other specific targeted tax incentives. An across-the-board tax reduction is fairer, would benefit everybody, and would achieve the most economic development bang for the least revenue lost buck. Just yesterday, I spoke with a young man in the Old Market and he's going to college for business and finance and as of now is undecided of whether he's going to stay in Nebraska. Now lots of things will affect his decision of where to live and the similar decisions that so many others like him face. But taxes and their effect on business climate, investment, and job creation are part of that equation and indeed it's a big part for him because he wants a job in the field that he's going into here in Nebraska if he's going to stay. More importantly, it's something that you can move the needle on immediately. Education and transportation and other things that you can control have a long lead time, but taxes you can change now if you wanted to. Thank you for your time and for the opportunity to speak with you today. [LB357]

SENATOR GLOOR: Thank you, Mr. Henschman. Senator Brasch. [LB357]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Henschman, for...are you from Washington, you came all the way here or... [LB357]

JOSEPH HENCHMAN: I'm from San Diego, California, where we've got a pretty good zoo. But I've lived in Washington, D.C., for ten years. (Laughter) [LB357]

SENATOR GLOOR: It's not number one. [LB357]

SENATOR BRASCH: And it's probably a little warmer there as well, is it not? [LB357]

JOSEPH HENCHMAN: I think nobody is winning that race nowadays. It's pretty cold all over. [LB357]

SENATOR BRASCH: Okay. Very good. I have not read the book. I would like to see the book and read it, but Nebraska has one of the lowest unemployment percentages, sometimes the lowest. And when we talk about jobs creation, we love jobs creation and want to see it continue. I'm from the northeastern part of the state and we have a lot of jobs but it's hard to fill the jobs. [LB357]

JOSEPH HENCHMAN: Sure. [LB357]

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SENATOR BRASCH: And seeing that during the 2008 on that the parts of the country that relied heavily upon industry suffered the most because there's no money, nobody is buying, the economy slowed down. And as an ag-based state... [LB357]

JOSEPH HENCHMAN: Sure. [LB357]

SENATOR BRASCH: ...that is what helped us move along. I've talked with a lot of businesses during that period of time that they held steady. And what you're proposing here that the cure-all for our state or to get people here is, you know, how do we get people to move to Nebraska from the warmth of San Diego? And I'm just thinking, you know, when you're an ag state we have all the natural resources, we have a plentiful water supply, shouldn't we look at that, you know, bandage...band-aid first and then look at how we can...you know, how do you know who goes...which plane takes off in the runway? [LB357]

JOSEPH HENCHMAN: That's an excellent question, Senator Brasch. And I'll be happy to provide you with a copy of the report that we put out a couple of years ago. The takeaway that I had from a lot of the conversations that we had is that Nebraska certainly has many strengths and you've listed several of them. But it also faces a number of challenges, challenges that other states that Nebraska competes with don't face. Part of it is--I don't know how to quite describe this--cultural, kind of a, you know, why would I move to Nebraska kind of attitude that a lot of people who haven't been here can sometimes express. One of the corporate recruiting people that we talked to said the key is getting people to spend a weekend in Omaha when there's a job offer. Because if you can't get them to actually visit Omaha they're not going to do it. But once they're here then they can see, well, you know, I can actually see myself living here. And that attitude is certainly not going to be easy to overcome. And so you have to look at kind of what are the other things in your toolbox to help overcome that. And, you know, that's different for every state. New York doesn't face that problem. New York has a lot of other strengths and a lot of other weaknesses. But for Nebraska knowing what the weaknesses are and thinking about how to capitalize on strengths to overcome that. And one of the ways that this proposal would tackle that is removing that sticker shock of high income and high investment taxes that out-of-state people face and, indeed, instate people face if they want to stay here. Is it a cure-all? No. And I certainly wouldn't describe it as that. It's got to be part of a, you know, package of everything, including some of the things you mentioned. But it's got to be part of it because otherwise you're not even getting out of the starting gate. [LB357]

SENATOR BRASCH: Very good. And I wouldn't call it weaknesses. It's qualities that we have here. But, again, you know, I would like to see it comparatively on what our assets and abilities are. And tax relief all the way across the board is ideal, as you were saying earlier. But I think at this point in time we need to have priorities of which industry can actually produce ag-related

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jobs, agribusiness in the environment we're in, so. I guess I have no other questions. And I would like to read your book. [LB357]

JOSEPH HENCHMAN: Oh, sure. And just to comment on that. You know, agriculture, historically a very important part of Nebraska's economy, will continue to be a very important part of Nebraska's economy. Is it going to grow by 50 or 100 or 200 percent, create a whole bunch of new jobs? I don't know and I don't know if a lot of people would say yes to that question. So the question then becomes if Nebraska is going to be competitive for all of the new types of jobs out there, such as the data farms that you're already starting to get, but, you know, all of the other personal services that are growing by leaps and bounds, the healthcare industry which is certainly continuing to grow and other tech businesses, what can you do to attract those? And, you know, the best targeted incentive, economic development program is going to be a couple hundred, maybe a couple thousand jobs a year. But, you know, Nebraska's excellent schools are turning out many, many times that. [LB357]

SENATOR BRASCH: Very good. Thank you, again, for your testimony. [LB357]

SENATOR GLOOR: Mr. Henchman, let me ask you since you look at a lot of different states and we're talking about comparative numbers, where we sit from a tax comparison standpoint, one of the things that I felt about this state prior to coming down here and it's been affirmed since I've been down here is we're not an expensive state or a costly state. Our cost of government, even though everybody talks about inefficiencies within government, from a comparative standpoint our government and our government services run fairly efficiently. Cost of healthcare, reasonable. Cost for education for what we get, very reasonable. Our sources of income though are limited. We don't have...we can't count on severance taxes. We don't have huge amounts of tourism. You don't see posters that say ski Nebraska, that mean it anyway. And if you look at our industrial base, try as we might we're going to stay rooted pretty much in an ag-based economy. We're not going turn into a manufacturing mecca or Silicon Valley. So here's my question. Certainly we can prove our current standing, but how reasonably high can we go or how low can we go depending upon how you want to measure it? We're never going to be number one when it comes to how we rank in a tax environment. How much better can we do than 29th? Can we do 25th? 21st? I mean, everybody is going to want it to be better no matter where it's at. But I guess my question is what's a reasonable ranking for us to shoot for given the fact that we have all of those issues, geographically diverse state, that requires roads and infrastructure for all Nebraskans across all 450, 500 miles, however far it is? [LB357]

JOSEPH HENCHMAN: That's an excellent question, Chairman Gloor. And the main report that we put out that Senator Smith cited, our state business tax climate index, actually is not a measure of how much a state collects. It's a measure of how a state collects it because, you know,

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you can be a top...you can be at the top of that particular ranking by going without one of the major taxes. And by going without one of the major taxes, you go without the compliance costs and administrative costs and the economic deadweight loss associated with having a major tax. Or you can have all of them but make sure they're structured in a way that are as simple and neutral and transparent as possible. And states in our top ten list that fit into that are Indiana and Utah. They have all the major taxes but they've structured them in a way that minimizes their negative impacts on the economy. I don't see anything holding back Nebraska from being something similar to Indiana and Utah in the level of government spending, the level of services provided, and the outcomes that are achieved. As for the raw dollars, I would agree with the sentiment that was expressed earlier that spending amounts aren't necessarily everything. I think outcomes have to be a big part of the conversation. [LB357]

SENATOR GLOOR: Absolutely. [LB357]

JOSEPH HENCHMAN: And, you know, a state like New Hampshire which only has property taxes and business taxes. And if you've never had a chance to sit in on a New Hampshire town hall meeting where they set the budget for the year, it's quite an experiment...it's quite an experience and that works for New Hampshire. It doesn't work for everybody. And, you know, just down the road, just across the line there is a state like Vermont which up until very recently was talking about a universal healthcare system for the state. So, you know, that's the great thing about our country is that we can have these different baskets of goods and services in different states and structure tax systems that reflect them. I mean, I'm not one of these people that goes from state capitol to state capitol peddling the same advice to each other. And if you read the book on Nebraska, it looks a lot different...very different from our book on Nevada and looks very different from our on North Carolina and so forth because you have to keep in mind the strengths and the... [LB357]

SENATOR BRASCH: Quality. [LB357]

JOSEPH HENCHMAN: ...the qualities that each state has in framing a tax system. As for kind of what the goal should be, I mean, that's ultimately a decision that you guys have to make. Senator Smith suggested, you know, moving to the top half of things and I think that's...whether that's desirable or not I think it's eminently achievable to set out that your tax system should be sufficiently simple and not pick winners and losers and be transparent and stable enough that you're in the top half of the nation. I think Nebraska can do that and more. [LB357]

SENATOR GLOOR: Okay. Thank you. Senator Schumacher and then Senator Sullivan.  
[LB357]

SENATOR SCHUMACHER: Thank you, Senator Gloor. I was looking through your...some of the blogs on your Web page, there's a guy name Alan Cole in November posted this at the bottom of his article. It is also unreasonable to say that cutting top personal income taxes would produce more revenue. These tax cuts aren't even close to being self-financing. So if that's anywhere close to the truth we're not going to see a self-financing this money replaced from someplace else. And we have...this program locks us into an eight-year schedule. And as a practical matter to break this schedule you'd have to survive a filibuster under our rules here in Nebraska. So to lock anything in for eight years is just real risky business. But let's look at the risky business. Some of our budget projections are based upon a traditional thing that goes back 20 years that we're going to have 5-point-something percent revenue growth year over year and that seems to be a risky assumption in a post-2008 economy where the national economy and probably ours is going to have a hard time struggling around 3. It also assumes a 3 percent state budget growth and that somehow it can be held to that. And granted you may find some efficiencies in the system, but we face some unique things in this state. We're told that our working families, two people work far higher than I think any other state in the Union. And as a result they don't make much money. They make the average income for a family but both of them are working full time. The kids are showing up in school without adequate training in many cases and are supposedly falling behind and lock themselves into an increasing interlocking schedule where they continue to fall behind that we've got to address some way, and that's not going to be cheap. We have a prison system that's a mess. And to fix the mental health component of that as well as house the prisoners is not going to be cheap and not going to be subject of a cut of any kind. We've got always the risk that the federal government, whatever aid it gives us toward our budget, may not be sustainable and may have to be trimmed back. We've got a rural population and, as the rest of the country, an older population that's going to have to be...have some safety net under it because it didn't save or, in this economy, couldn't save or if it did save didn't get any interest on its money and is inadequately situated for retirement. So in this setting over the next eight years and on out, if we are prudent and don't take a lot of risk in our assumptions we're going to need revenue, and then this thing shows that in just its projection we're going to be down the road \$280 million short. Plus, last year we indexed our tax brackets and I think if the calculations I remember right, that's going to result in another \$100 million shortage over what we had. So we're somewhere in \$300-\$400 million shortage in revenue. And if we don't meet these needs we've got an increasing complicated problem. So how can we justify it and does anybody else lock themselves into a plan for eight years when even if we take the property tax thing at \$40 million or \$60 million, we've got \$3,000 million (sic) in property tax collected, a little more than that. It's not anything that people are going to dance about. So how do we...what's the wisdom in locking ourselves into this program for eight years? [LB357]

JOSEPH HENCHMAN: It's a very good question, Senator. Just starting with reference to the blog post, I mean, you didn't necessarily need to hunt down a blog post on our Web site. I mean, I'd answer that question very straight for you. Income tax cuts generally do not pay for

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themselves. There are tiny exceptions such as the federal capital gains rate or sometimes estate tax that sometimes work out that way, but generally they don't. And, for instance, the 1964 federal income tax cut which brought the top rate down from 90 to 70, that recovered about 40 percent of its...40 percent of the revenue came back after that, and that's kind of viewed as the high watermark that you could expect. And, you know, that's going from like 90 to 70, so very dramatic percentage reduction and that's not something you would expect here. And I know an economic analysis has been done on what the revenue feedback effect would be from this cut and, you know, you do get some, but it's not going to be anywhere close to paying for. You're absolutely right on that. As for the questions of, you know, listing the various needs that the state has, and, you know, I'm going to violate my own rule here when you said that, you know, Nebraska is unique in this and Nebraska is not unique in this. Every state has lots of needs and the needs are generally endless when you list them out like that. And, you know, I have great respect for policymakers because you're the ones who have to make the tough decisions of prioritizing them. And even if this bill doesn't pass, you're not going to escape that duty. You still need to...there's not going to be enough money to satisfy what everyone wants to do over the next period of time. And it's an important duty regardless of what happens on this. As for locking it in, I mean, my reading of the legislation is that the phased-in approach of doing it year by year is precisely to address that concern that it's not enacting everything immediately like Kansas did but doing it in an approach. And if it really is wrecking the state the way that you worry it might, I would hope that you wouldn't have trouble finding the votes in the Nebraska Legislature to stop it or even reverse it. I don't think that that's the case. This is not what Kansas did. What Kansas did was very different. This is about a phased-in, step-by-step approach. So that's my reading of what this looks like. [LB357]

SENATOR SCHUMACHER: Thank you. [LB357]

SENATOR GLOOR: Senator Sullivan, then Senator Davis. [LB357]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Mr. Henchman. Just curious, in your research at the Tax Foundation, do you do anything with respect to the interplay between your rankings on tax rates and tax incentive packages? And how do we compare in that respect with other states. [LB357]

JOSEPH HENCHMAN: It's a little bit harder because of...thank you, it's an excellent question. It's a little bit harder because some states don't release all of the information relating to tax incentives and also there is sometimes a bit of a lag. So, for instance, just this past year, Nevada awarded a huge incentive package to Tesla to locate a facility in northern Nevada, and there's a lot of promises, job growth and incentive promises associated with that package. Whether they'll turn out it's too soon to tell and so it's kind of hard to do an analysis that's not several years

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dated. We've been working closely with the National Conference of State Legislatures to improve the performance of tax expenditure reports. And that's actually a project that we've been working in partnership with OpenSky's parent organization, the Center on Budget and Policy Priorities, and a number of other national groups. And we're hoping that that will improve the availability of data to allow more research to be done on that. We're generally, we and a lot of the fiscal experts that look at this stuff are critical of target incentive packages because if you're in a position where you have people clamoring to you saying I need an exemption from the tax system because it's too onerous, that's a sign that the problem is with the overall tax system, that that's something that needs to be addressed on a broad, across-the-board level rather than handing out incentive by incentive. And the governor of Illinois just gave his budget presentation today and that's something he fingered as a big problem with Illinois is that their tax policy discussions have been incentive for Sears, incentive for the Mercantile Exchange, incentive for this, incentive for that, as opposed to how do we make the state competitive overall. [LB357]

SENATOR SULLIVAN: Thank you. [LB357]

SENATOR DAVIS: So I think I'm next. (Laughter) Senator Gloor is gone, but. And so I think you make some good points and I completely agree with you. Low broad tax base is absolutely the best approach. But, you know, that is so much harder to do than you would ever think. And... [LB357]

JOSEPH HENCHMAN: And credit where credit is due. Nebraska has done some amazing legislation in the last several years to advance that, such as the income tax bracketing that...inflation adjusting that Senator Schumacher mentioned. [LB357]

SENATOR DAVIS: You know, we had...in the '80s were a difficult time in Nebraska and we had entities that...corporations that were going to leave. We put in LB775, which was an incentive program. We're still dealing with the ramifications of that. We put in some other programs later on for different incentives and different exemptions. And those things complicate this whole discussion. But, anyway, my point, my question is, so we have people coming in to this committee that say we need military income exemption and we need a Social Security exemption. And those things... [LB357]

JOSEPH HENCHMAN: And a zoo exemption. [LB357]

SENATOR DAVIS: I'd like to know what your opinion is about those, but those things whittle away at the ability to do anything else. Whenever you make an exemption in one place, you whittle away any ability to fix it somewhere else. Would you like to comment on those retirement benefits and things? [LB357]

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JOSEPH HENCHMAN: Certainly, Senator Davis. And, you know, like all of you I'm sure, I have nothing but the greatest respect for those who served our country or community in whatever capacity. But I would agree with something you just said, which is, you know, kind of dealing with this on a piecemeal basis one group by one group prevents tackling the larger issue. And this is something I've gotten into arguments with legislators in other states about because it's often, you know, it's a big pull. The group that's in the room and in front of you and they're saying, you know, we need this when the real problem is the broader high rates that everybody is having to pay. So rather than, you know, having some people pay zero, this group pay zero and that group pay zero and everybody else pays, you know, almost 7, finding a way to maybe have everybody pay 5, which maybe is less dramatic and less appealing for some of those groups but I think it's much fairer. [LB357]

SENATOR DAVIS: But doing that takes vigilance on the part of this committee to not open a door. You know, so we opened a door today to the sales tax on zoos and whether that bill goes anywhere or not, that is a tax that now is off the table. You now, so it becomes a cascading problem that we have. And I don't know how you'd deal with that. I mean, if you start over, if we started over we would do everything differently. [LB357]

JOSEPH HENCHMAN: Well, no state is perfect on this and, you know, every state has stuff like that in its code and some of them for very good policy reasons. And, you know, the things I would suggest are things that you're already tackling, which is look at what's in your code of things you can address. You guys did the Tax Modernization Committee to raise some of these issues and maybe identify some of them and talk about tax reform not just on a, you know, bill-by-bill basis but on a comprehensive look. And I certainly want to commend both you, Senator Davis, and Senator Smith for starting that conversation because I think if you look at it from a broader perspective it's a lot easier to do, you know, the, quote, unquote, right thing as opposed to, you know, trying to bat each bill one by one as they come across you. [LB357]

SENATOR DAVIS: Thank you. [LB357]

SENATOR SCHUMACHER: Any other questions? Seeing none, thank you very much for coming here and your testimony. [LB357]

JOSEPH HENCHMAN: Thank you, Senator. [LB357]

SENATOR SCHUMACHER: Next proponent. [LB357]



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JOHN CEDERBERG: (Exhibit 1) Good evening. I'm going to do something that I don't normally do, and that is say my piece and then evacuate. I have a date with my grandchildren. I'm John Cederberg, J-o-h-n C-e-d-e-r-b-e-r-g, and I'm appearing in support of LB357 again on behalf of the same group of companies, the Nebraska Chamber of Commerce and Industry, the Greater Omaha Chamber of Commerce, the Lincoln Chamber of Commerce, the Nebraska Bankers Association, and the National Federation of Independent Business. You can read my testimony, but I just wanted to make maybe four comments. One is that LB357 would by 2024, pending changes in other states, bring us just about into the middle of the maximum rates in our neighborhood. I would argue a little bit with Senator Smith about whether Iowa has a higher rate than we do. Their higher rate is actually for a relatively narrow slice of income between like \$67,000 and \$120,000 or something like that, the reason being, Iowa allows a deduction for 100 percent of the individual's federal tax liability. And so when you take that 100 percent of the federal tax liability deduction, it brings the effective rate, and actually they have a reverse curve, they have a progressive curve. And then at a little bit over \$100,000 it starts back down and gets to 5.4 percent eventually. But this would bring us at...Missouri does a little bit that but not nearly as dramatic as Iowa. But this would bring our rates over a period of time into about the middle of our neighborhood. Unlike Senator Schumacher, I really like the long phase-in period for a couple of reasons, one being that the long phase-in period lets us do something dramatic but not dramatic per year. Now you'll see in my testimony a reference to 2-2.5 percent, that's a difference in the other percentage you've heard here because that was a percentage of the federal...of the state income tax liability, the income tax rate as opposed to state revenue. It would equate to about 1 percent. My 2-2.5 (percent) equates to about 1 percent. But if we can keep the revenues growing at 3.5 (percent) or 4 percent, 5 percent hopefully, and we take 1 percent off the bottom, that allows us to basically cover inflation, fund a few new things, scrap a few things, and hopefully it would work. But the other advantage of the long phase-in period is it gives tax-sensitive entrepreneurs and pass-through entity owners a trend line. It gives them some confidence as to where we're going to get to so that they don't make a tax decision. Now there may be other reasons for making the decision, but do not make a tax decision that turns out to have been under false pretenses. So I like the phase-in period from that perspective. I also like the long phase-in period from the standpoint of the Appropriations Committee. Successive Chairmen of the Appropriations Committee over a decade have a road map and the committee members have a road map. And as was mentioned previously, I do disagree with you a little bit, Senator Schumacher. I think we could break a filibuster if the state were really, really in deep trouble. If this was a 1980s issue or if this was a 2007 issue, I think we'd break a filibuster. I saw some things repealed in 2007 that surprised me. We take care of our own and we take care and we're fiscally very responsible. So from that standpoint the associations that I'm representing would urge you to use LB357 as a platform for developing a long-term income tax strategy. Having said that, I do want to take a second and go back and answer Senator Scheer's question on LB280. As written, C corporations do not pay the school premium tax or the school surcharge. So a C corporation whether domiciled within or without Nebraska would not pay it.

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Pass-through entities, which would be the owners of S corporations, LLCs, and partnerships, pass-through entities if it gets to an individual return would be subject to the school surcharge. The surcharge would be paid in the district that the owner lived in. So you could end up, you know, with 30 shareholders and they literally could pay to 30 districts. If they live out of state, they would pay the surcharge but it would go into a state fund that's allocated. [LB357]

SENATOR SCHEER: Thank you. [LB357]

SENATOR SCHUMACHER: Any questions? Senator Scheer. [LB357]

SENATOR SCHEER: You had testified before in relationship to LB280 and considered a tax shift, but if property taxes are too high and you're supporting reducing income taxes, where do we get some type of relief? I mean, we've got to have something somewhere that helps rectify the problem within the entire system I mean rather than piecemeal? [LB357]

JOHN CEDERBERG: And that is absolutely a conundrum. I wish that more counties in our state were as densely populated as Douglas. Different ones of you that have been on this committee in other years have heard me talk about how property taxes are absolutely designed to raise revenue in high property areas where the earning cycle is long, perhaps a year or more. Income taxes and sales taxes are designed to raise revenue where it's an urban population that the earning cycle is 15 or 30 days. That's how you get the volume of income and sales taxes. The problem is, and, you know, I've told previous committees this, Mary Jane probably has heard me make this speech. If we could suddenly import and hire 2.5 million additional people our tax problems are absolutely solved. We can cut our property taxes, we can...you know, we could cut our income taxes. The sale taxes would take care of...would in many respects take care of us. Now that would create many other problems, like how do we get the 2.5 million people housed and how do we get them around and, you know. But that's how many it would take, for example, for Nebraska to be as densely populated as Kansas. And I think we think if Kansas is being...western Kansas being pretty barren, but it would take 2.5 million people for us to be as densely populated as Kansas. And so, yes, this is conundrum. And as I said on...to somebody on LB280, it's probably a group of singles. Unless we're really willing to take the risk of something that I would view at least as a risk of something as massive as the surcharge that's in LB280. [LB357]

SENATOR SCHEER: What do you consider singles? [LB357]

JOHN CEDERBERG: Well, you know, I got asked that out in the hall too. [LB357]

SENATOR SCHEER: I wasn't out in the hall, so answer it again. (Laugh) [LB357]

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JOHN CEDERBERG: No, you weren't in the hall. That's right. Well, obviously some sort of enhancement of the Property Tax Credit Fund. Though I agree with Senator Schumacher how many of us actually look at our bill and see how much that's helped us. I think one of the things that maybe we should be looking at is how many services are the counties and cities doing that we should be doing at the state level because we mandated them, and perhaps absorbing some of those back to the state level would be a single. The hard part is the schools. The hard part very much is the schools. And what you really want to do in my view is develop enough nonproduction agriculture income and sales taxes to be able to raise the school aid, reinstate the foundation aid, and make, you know, a significantly higher contribution from the state to the schools. Now the difficulty, as I said to Senator Brasch on LB280, is if you do that then they become dependent on this Legislature. And if the Legislature has a change of people, ends up with a change of attitude, and ends up with the next recession, and, you know, it will happen, we just don't know which year, you know, they may be left high and dry. And that's my concern for the 76 nonpopulous counties under LB280 is that they become so dependent on this Legislature that, you know, we have some issues with regarding the sustainability. But, yeah, you just got to be creative. And I don't have that laundry list sitting here, you know. I'm not the magician with the laundry list sitting here in my sleeve. [LB357]

SENATOR SCHEER: Thank you. [LB357]

SENATOR GLOOR: Senator Davis. [LB357]

SENATOR DAVIS: Mr. Cederberg, I don't want to argue with you and appreciate that, Senator Gloor, but you say the 76 counties are going to be dependent. And let me tell you that the metropolitan districts in this state are extremely dependent on revenue from the state for their school fundings. It's just an important fact that needs to be said. [LB357]

JOHN CEDERBERG: I understand. They also have a lot more clout. [LB357]

SENATOR DAVIS: They do. But, you know, without TEEOSA funding that goes to the school districts, they would not be able to function. [LB357]

JOHN CEDERBERG: I didn't mean to be flippant but they do have a lot more clout. And taking care of... [LB357]

SENATOR DAVIS: Clout and fairness are not the same. [LB357]

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JOHN CEDERBERG: ...taking care of the Learning Community schools I would guess is going to get closer attention than taking care of Chadron. It shouldn't but I bet it does. [LB357]

SENATOR GLOOR: Other questions? Senator Brasch. [LB357]

SENATOR BRASCH: Thank you again, Mr. Cederberg. And I missed most of your testimony. I just got...but you are back here in the same seat representing the State Chamber... [LB357]

JOHN CEDERBERG: Same people. [LB357]

SENATOR BRASCH: Okay. And so we have to realize who's talking to us and not necessarily the gentleman with the sharp pencil all the time because you're representing that group. When you talked about the looming next recession, in light of the projections of population growth globally, with the sharp pencil, don't you think the need for agriculture will remain at least steady to feed food, that industry? [LB357]

JOHN CEDERBERG: The difficulty with that assumption and I would say to you I hope like the dickens you're right. I hope we establish good relations with Cuba and sell them beans by the trainload. Okay. But the difficulty is that in so many respects our production agricultural commodity prices are dependent upon international politics and world supply. And, you know, our commodity prices would be a whole lot better if we had better diplomatic relations with Russia because they're short of food and they would be buying here instead of in South America because our quality is good. You know, there's...and I could go on, there are difficulties from an international perspective in whether we can maintain the commodity prices. You know, supply and demand absent politics, yeah, we should be almost recession-proof. But we aren't unfortunately. I can tell you that from 40 years in the accounting profession. [LB357]

SENATOR BRASCH: Absolutely. Thank you so much. [LB357]

JOHN CEDERBERG: Sure. [LB357]

SENATOR GLOOR: Thank you. And thank you for pointing out a reality, and that is the sanctions against Russia are very much being carried on the back of agriculture in this country unfortunately. Thank you, Mr. Cederberg. Next proponent. [LB357]

JIM VOKAL: (Exhibit 2) Thank you, Chairman Gloor and members of the Revenue Committee. My name is Jim Vokal, J-i-m V-o-k-a-l, and I am the CEO of the Platte Institute for Economic Research. I'm here tonight to speak in support of LB357 because it's essential that the Revenue

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Committee acts this year to advance meaningful tax relief for all Nebraskans. I, too, have traveled the state speaking with Nebraskans about the impact the state and local tax burden has had on them and their families. I've heard from young people unable to find the good-paying jobs that can help support a family or buy a home in their community. I've met small businesses facing a disadvantage against their out-of-state competitors or lacking capital to grow their businesses. And I've heard from elder Nebraskans who can't enjoy their golden years to the fullest because taxes are hurting their standard of living or perhaps even worse, hurting their family life because their loved ones have moved away to find better opportunities. LB357 will help all these Nebraskans strengthen their roots in our state. Hand-in-hand, its sensible property and income tax reforms make it the most broad-based tax relief bill in this year's legislative session. LB357 provides tax relief to every real estate property taxpayer and income taxpayer in Nebraska, helping all Nebraskans provide more for their families and businesses. That is why LB357 has attracted such broad public support. In addition to the support from the Nebraska Chamber of Commerce, the Greater Omaha Chamber, the Lincoln Chamber of Commerce, and the Lincoln Independent Business Association, LB357 has earned the support of over 6,000 Nebraskans who have either liked our plan on Facebook or signed our petition in support of LB357. But LB357 is not just about saving money for taxpayers. It's also about protecting the good life in our state for everyone. We began the strong roots Nebraska campaign to support LB357 and other sensible tax relief measures because we know something has to be done to help grow Nebraska. Just like our athletic programs, we want our state to recruit and retain top talent. But as Senator Burke Harr eloquently stated before this committee last year: Right now, high taxes are creating "issues when it comes to recruiting talent to Nebraska and retaining talent to stay here in Nebraska." This problem of out-migration is hurting the quality of life in Nebraska. The good life is in jeopardy today because of a tax burden that is needlessly slowing our economic and population growth. Census estimates show that the majority of Nebraska's counties are on track to decline in population over the next decade. Some of the committee members represent counties in this tally: Cuming County, Dawes County, and Valley County. State and local spending is growing faster than Nebraska is growing, making our tax burden more onerous. This trend is bad for taxpayers and public services. It must be reversed. Last year, the American Legislative Exchange Council ranked Nebraska's future economic outlook 35th among the states, citing our high taxes. The Tax Foundation, which studies state tax policy as you know, praised the income tax reform plan contained in LB357 because Nebraska ranks an unfortunate 29th for state business tax environment. This means if Nebraska's tax system were ranked like the Huskers, we wouldn't be a championship-level contender. In fact, we wouldn't even show up in the AP Poll. Meanwhile, our immediate neighbors have some of the most attractive tax environments in the country. Some levy no income tax while we have the highest total tax burden among our bordering states, the highest property tax burden as a percentage of income, and the highest top income tax rate among any of these states with the exception of Iowa. The modest tax relief in LB357 can turn things around with a sensible, gradual approach. But you don't have to take my word for it. An independent analysis by the Beacon Hill Institute

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at Suffolk University found that LB357's income tax relief alone, not including its \$80 million of property tax relief, would result in a 65 percent return on investment for Nebraska's economy. Population growth, greater investment in Nebraska, and the creation of thousands of new jobs among the economic benefits Nebraska will realize even before LB357 reaches its final stage around a decade from now. Beacon Hill also estimates that local political subdivisions will win with LB357, because additional economic activity will grow the local tax base, leading to larger sales and property tax revenues. History and economic research also support the idea that sensibly lowering taxes for all Nebraskans will spur economic growth. Between 2002 and 2012, 62 percent of the 3 million net new jobs created in the United States were created in the nine states which do not levy an income tax. Additionally, these states experienced average economic growth increases 15 percent higher than the average of the U.S. Further, seven of those nine states saw their populations grow faster than the national average. The idea of lower taxes leading to higher economic growth is no longer a matter of controversy in mainstream economics. What remains a political controversy, though, is how to responsibly structure tax relief to protect the fiscal health of a state. And this is something at which LB357 excels and is a leader among tax relief programs across the country. LB357's property and income tax relief doesn't spend money Nebraskans don't have, and we're especially proud that it doesn't pit different groups of taxpayers against each other. Now, some states do have natural resources and benefits of weather we don't have that help them get to their very low taxes. We can't change what we don't have, so LB357 may not go as low as some people wish. I will wrap this up. But we do have a record Cash Reserve Fund. And with LB357 we can fully fund property and income tax relief for all Nebraskans for two whole years and still have over \$600 million left in the state's reserve. That's well more than fiscal experts say is necessary in the event of an economic downturn. With those two years, the Legislature can write a road map to even more reasonable tax environment through modest spending restraints and in some years just by slowing the growth of state government. While LB357 \$80 million in property tax credit funding will certainly not solve the problem of property taxes, this bill will allow the Legislature to spend these next two years working on the long-term systemic problems that are contributing to out-of-control property taxes, like unfunded state mandates and the need for stronger valuation caps and property tax limitations. Now is the time to show the country and the world that Nebraska is ready to end its unfortunate reputation as a high-tax state. We can create a more reasonable tax environment for growing families and businesses while protecting funding for education and essential services. With your support of LB357, we can help all Nebraskans provide more for their families, protect the good life, and grow opportunity in Nebraska. Thank you for the opportunity and I encourage your support to advance LB357 to the full Legislature. [LB357]

SENATOR GLOOR: Questions? Senator Davis. [LB357]

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SENATOR DAVIS: Thank you, Senator Gloor. Thank you, Mr. Vokal, for coming in. About a month ago I attended one of your functions at the law college and I believe it was someone from the Heritage Foundation, that was there that day. [LB357]

JIM VOKAL: Dr. Stephen Moore. [LB357]

SENATOR DAVIS: Right. So he was arguing, at least the impression I had was he was arguing for limiting income taxes altogether. Is that the position of the Platte Institute? [LB357]

JIM VOKAL: Absolutely not, but what our position is is we've seen with other states that have lowered their taxes that lower taxes leads to growth. And our neighboring states are blowing us away with their tax rates. We have billionaires in South Dakota and Wyoming paying less in income taxes than average, middle-class Nebraskans and small business owners making \$29,000 in our state. [LB357]

SENATOR DAVIS: And so after we invest the \$40 million in the Property Tax Credit Fund for two years, then what happens in the year three? [LB357]

JIM VOKAL: Years three through eight would be funded, fully funded, through a 1 percent reduction in the state budget, General Fund. [LB357]

SENATOR DAVIS: Do you think that's realistic? [LB357]

JIM VOKAL: I think it's very realistic. Back in 2010 through LR542, then-Speaker Flood charged the Legislature for finding 10 percent worth of cuts, and they did. Just through our Medicaid study that we released last year, by doing two simple things that we're not doing here as a state through auto procedures and opening it up to more than two providers of Medicaid, they estimated we could save \$300 (million) to \$400 million. And so I think that the efficiencies certainly are there. [LB357]

SENATOR DAVIS: And I guess I would just remind you are we are dealing with a lot of tough issues which one of them being prison reform, the issue of maybe building a new prison. And we get out eight years and we're short several hundred million dollars. I can only see us going to more reliance on more regressive taxes, you know, down the road if we do that. Would you care to comment on that. [LB357]

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JIM VOKAL: I disagree. And although it is eight years down the road, it is a fully funded plan. We're not left with any budget holes. And we're under the belief if you look at other states that when you lower taxes you see more growth. [LB357]

SENATOR DAVIS: How would you explain the Kansas situation then? [LB357]

JIM VOKAL: Well, the Kansas situation, I'm glad you brought it up, is completely different than LB357. LB357 is fully funded. Kansas reduced their income tax rate in year one by 24 percent. This is a 2 percent reduction. It's slow. It's gradual. It's responsible. That's what we've heard from senators as we've talked about taxes over the last couple years. [LB357]

SENATOR DAVIS: And I understand that, but I asked the question because you said lower tax rates leads to economic growth. I don't think that's working in Kansas. [LB357]

JIM VOKAL: Well, they're filling budget holes because it wasn't funded. [LB357]

SENATOR DAVIS: But still my point is I don't see economic growth happening in Kansas at the present time. [LB357]

JIM VOKAL: But we have seen it in the nine no income tax states that I mentioned previously. We're seeing it in states similar to Nebraska through New Hampshire as Joe Henchman mentioned earlier. [LB357]

SENATOR DAVIS: Thank you. [LB357]

JIM VOKAL: And the nice thing, if I may follow up on that, half of the plan is funded only if we have growth. Only if growth exceeds the budget estimates does this...do the second half of the cuts even take place. That's responsible. [LB357]

SENATOR GLOOR: Senator Schumacher. [LB357]

SENATOR SCHUMACHER: Thank you, Senator Gloor. I found your chart on the face of your testimony interesting showing that a single mother of two in poverty making \$20,000 a year will save \$140 a year. An average Nebraskan with a median income of \$52,000 will save \$500 a year. And you go up to a Panhandle farm implement owner who makes \$130,000 a year will save \$1,900. If...you stop there for some reason. But would not then using this same math a person making or family making \$500,000 a year experience a savings of nine times what the median



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person would, in other words \$4,500? And a person making \$1.1 million a year would save \$1,000 a month, which is 24 times what the median income earner would save? [LB357]

JIM VOKAL: I think your math is correct. But to respond to that, I don't believe...growing up, my family was a middle-class family. My father did not make over \$30,000 a year. We are a middle-class family. Everybody under this plan sees tax relief. And I don't believe that people making \$29,000 or small business owners making \$29,000 are the most wealthy. And you're correct. Your math is correct. But everybody under LB357 sees tax relief, everybody. And, in fact, the lower brackets actually see their tax rate go down as a greater percentage. [LB357]

SENATOR SCHUMACHER: But that's just playing...that's not in real money, that's playing with the math. Percentages of percentages and things like that. [LB357]

JIM VOKAL: Sure. [LB357]

SENATOR SCHUMACHER: But if our target is to bring in people who make median incomes so that they fill factory jobs or something, we're targeting the folks in that \$52,000 to \$68,000 range which will see somewhere in the neighborhood of \$300, \$400, \$500. Wouldn't it be better to take some of the tax savings off the folks making \$1.1 million and put that down into that lower category? [LB357]

JIM VOKAL: I want to see tax relief for all brackets evenly as a percentage of their tax rate. [LB357]

SENATOR SCHUMACHER: Thank you. [LB357]

SENATOR GLOOR: Other questions? Seeing none, thank you, Mr. Vokal. [LB357]

JIM VOKAL: Thank you. [LB357]

SENATOR GLOOR: Good evening. [LB357]

PATTY WOOD: (Exhibit 3) Good evening. Chairman Gloor and members of the Revenue Committee, my name is Patty Wood, P-a-t-t-y W-o-o-d, and I am the vice president of the Nebraska Trucking Association. I represent approximately 800 commercial trucking companies and our affiliated businesses in the state. My testimony today is in support of LB357. You've heard a lot of the statistics already so I'm going to be extremely brief. We believe that

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increasingly...incrementally lowering income taxes for Nebraska taxpayers makes good economic sense and will stimulate economic growth. Nebraska needs to continually look at ways to stay competitive in this ever-changing economic climate and LB357 is a positive step in that direction. Thank you for your time. [LB357]

SENATOR GLOOR: Thank you. Questions for Ms. Wood? Seeing none, thank you. [LB357]

PATTY WOOD: Thank you. [LB357]

SENATOR GLOOR: Good evening. [LB357]

HARVEY SANKEY: (Exhibit 4) Good evening, Chairman Gloor and members of the Revenue Committee. My name is Harvey Sankey, H-a-r-v-e-y S-a-n-k-e-y, and I represent the printing industries of the Midwest, specifically Nebraska. The Printing Industry of Nebraska supports the tax reform package of LB357. The printing industries in Nebraska employ approximately 8,500 people in 390 locations. This equates to an average of 22 employees per location. The printing industry is very competitive and as a result, margins are very low. Most of the companies bid on every job and on any long-term contracts within the Midwest. A few hundred dollars can mean the gain or loss of a job. As an industry, sales volume has declined which has resulted in layoffs and in some cases the closure of businesses--two major companies in Lincoln. Technology is changing rapidly and we have to keep up with the changes in order to be more competitive and stay in business. This bill will help us to be more competitive, produce more work, and increase cash flow. It would also put more money into the pockets of our workers. This bill would help us and other small businesses increase our job-creating capacity, hire skilled labor, and increase wages and benefits. Job creation and income gains flow from productivity which in turn flows from effective investment in facilities, machinery, technology, and know-how. Fiscal triggers that are in place in this bill after 2023 protect the integrity of the state budget and make sure that the tax code would raise enough revenue to pay for essential services, including state aid for education. The triggers would protect lawmakers and the Governor in case the state experienced a recession. The following are excerpts from the 2015 state business tax climate index prepared by the Tax Foundation. Taxes matter to business. Business taxes affect business decisions, job creation, and retention. Plant location, competitiveness, the transparency of the tax system, and the long-term health of the state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers through higher prices, employees through lower wages and fewer jobs, or shareholders through lower dividends and share value. Thus, the state with lower tax costs will be more attractive to business investment and more likely to experience economic growth. States do not enact taxes...excuse me, states do not enact tax changes, increases, or cuts in a vacuum. Every law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region,

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and even globally. Ultimately, it will affect the state's national standing as place to live and do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states. Study by Bartik in 1989 provides strong evidence that taxes have a negative impact on business start ups. He finds specifically that property taxes because they are paid regardless of profits have the strongest negative effect on business. Thank you. [LB357]

SENATOR GLOOR: You just have a yellow light in case you cut yourself short, if you had something else. [LB357]

HARVEY SANKEY: No, that's fine. I'm sure I could add to that if somebody has some questions. [LB357]

SENATOR GLOOR: Okay. Thank you, Mr. Sankey. Senator Scheer. [LB357]

SENATOR SCHEER: Well, just a comment. Your last comment talks about that the property taxes have the biggest negative effect and we're talking about an income tax reduction not a property tax reduction. So... [LB357]

HARVEY SANKEY: Well, you are in this bill. You're reducing through the state tax credit fund. That reduces your property tax. [LB357]

SENATOR SCHEER: Well, that's a small portion of it. Most if it's in income tax reduction. [LB357]

HARVEY SANKEY: I understand but you're still seeing that happen in this tax bill. And if businesses want to come here, they're going to look at property taxes and they're going to say, hey, look what they're doing this year. [LB357]

SENATOR SCHEER: I'm not arguing that. [LB357]

HARVEY SANKEY: Oh, okay. I'm sorry. [LB357]

SENATOR SCHEER: I understand that. I just thought that this is primarily an income tax reduction. [LB357]

HARVEY SANKEY: It is but I throw that one in too. [LB357]

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SENATOR SCHEER: Well, one-shotter, I appreciate that. Thank you. [LB357]

SENATOR GLOOR: Senator Schumacher. [LB357]

SENATOR SCHUMACHER: Thank you, Senator Gloor. It's not often that we get a chance to do a little follow up on what we did last year. How's it been since we made the arrangement where you don't have to pay tax on postage anymore, good thing or a bad thing? [LB357]

HARVEY SANKEY: That's very good. That's a very good point. That's a good illustration. There are taxes, there are companies that...and also in the silver and gold industry too. There are companies here that couldn't...that did not benefit from, let's say, over in Iowa. They exempted taxes on silver and gold transactions and they also exempted taxes on postage for mailing. We couldn't compete against them. As a mailing industry...we're part of the mailing industry now, now we can do that. Now we can contribute more to our bottom lines by getting those mailing...shifting the mailing operations here in Nebraska and taking them away from Iowa. That was an excellent point here and I think we can do that by...in other ways, too, to help the printing industry. [LB357]

SENATOR SCHUMACHER: Finally we did something right. (Laughter) [LB357]

HARVEY SANKEY: Thank you. [LB357]

SENATOR GLOOR: It took us till 7:00, but. Thank you, Mr. Sankey. I don't see any more questions. [LB357]

HARVEY SANKEY: Thank you. [LB357]

SENATOR GLOOR: I'm going to ask the page to try and reattach the mitten on the mike, so give us just a second and plug your ears because it isn't going to be quiet. Mechanical engineer in training. Thank you. [LB357]

DAVID KUTLER: I could have done that. [LB357]

SENATOR GLOOR: It's all right. [LB357]

DAVID KUTLER: Okay, but maybe it's a union deal. I'm not sure. [LB357]

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SENATOR GLOOR: We have ultimate test. He's covered under insurance if he broke the mike and you wouldn't be. [LB357]

DAVID KUTLER: Okay, thank you. My name is David Kutler, D-a-v-i-d K-u-t-l-e-r, and I'm a small business owner in Omaha. And I belong to a lot of small business groups and talk to a lot of owners. And oftentimes in that conversation this comes up, a phrase is, well, you know, Nebraska is a great place to live, but--and this is a big but--our taxes are way too high. So I see this, a good effort to help reduce some of that burden on not only the business owners but all the individuals in the state. And as Senator Smith alluded to, as a small business owner, a lot of my income taxes are paid actually on a personal level as well from the business. You know, we need to have a more favorable tax rate. Obviously, we'd like to attract more businesses, be competitive in our region. In addition, that of course would bring bright, young talent hopefully and other investments in our state. But at the same time, I think it's important that we keep those taxes low to help retain the great talent that we do have. Anybody who's been in business knows that it takes a great deal more money to attract a new client or a new customer than retain what you have. So I think by doing this the people that are here, they already know the taxes are too high. Maybe the people from out of state don't know that yet, but they will shortly after they get here. So if we can do that, I think it would help keep some of that talent from leaving our state. And in addition, obviously, the extra money that people might have in their pockets is going to help grow our economy. I think that's another way that this can be funded besides the reduction in taxes, because now you're going to have additional sales tax revenues coming through into the state, so. That's basically all I have to say. [LB357]

SENATOR GLOOR: Questions for Mr. Kutler? I don't see any. Thank you. [LB357]

DAVID KUTLER: Thank you. [LB357]

SENATOR GLOOR: Good evening. [LB357]

BRIAN GUBBELS: Hello. How are you guys? It's 7:07. I have a greater appreciation for the work you guys are doing down here. Thank you for sticking around and allowing us to have comments here. Brian Gubbels, B-r-i-a-n G-u-b-b-e-l-s. Let me start here with...I just want to say thank you for the opportunity to present my thoughts on LB357. As a Nebraska constituent, small business owner, and a community chamber board member, I have significant appreciation for a bill that is taking into consideration the need to keep a tax reduction in balance with prudent fiscal needs while aiming to attract businesses and constituents to our state. I am particularly in agreement with the tax reduction plan that has taken the prudent measure of basing further reduction upon measurable results. I will confess that I truly believe there is a direct correlation between business investment in the state and the degree the tax plans of a state

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do not reduce the rewards of the investment within those states. I will also confess to you that I believe a strong state is one that continues to make result-oriented investments in education of its young people and its infrastructure. I believe this bill takes into consideration the importance of balancing those objectives. And because of its fundamental soundness, this committee will be able to reflect upon many successes for the year to come. You know I wanted to add some additional thoughts here was the fact that, as a business owner, I'm betting on the future of Nebraska and I'm betting that progress will continue in this state. And I believe that the biggest issue I face as a small business owner is not enough people. And how do we attract more people? I'll tell you, the fact is that I don't want status quo. And I know that with tax planning, we know in an ever-changing environment that status quo is not where we need to be. And so you heard a lot of debate, I know you guys spend a lot of time trying to figure out what that is. I want to grow. I want to hire people. I want to make investments back in this state. And I'm looking for investors that will want to continue to provide money into this state. And I believe this bill is prudently marching towards a direction where we're creating an environment where business owners will have the opportunity to show if you give us money back in a tax return, we will make investments in the state because in this plan, you are providing tax return back in incremental decreases that are only if we have the results that we set out to get. And never in the history of Nebraska has there been so much opportunity to attract businesses to this state. With the advent of technology...I'm from Cedar County, Nebraska, is where I grew up, in Randolph, Nebraska. And the reason why we can't move business there is because there's no people. Technology is there. So if we can create...we have good dirt, we have good people. And I really believe that if you can pass this bill or get this bill out to the floor I think that you'll be celebrating a win, not just next year, but ten years from now. And I'd be glad to assist you in any way I can. Thank you. [LB357]

SENATOR GLOOR: Thank you for the offer. Questions? Thank you, Mr. Gubbels. [LB357]

BRIAN GUBBELS: You're welcome. Thanks. [LB357]

MATT LITT: (Exhibits 5, 6) Chairman Gloor and members of the Revenue Committee, my name is Matt Litt, M-a-t-t L-i-t-t. I'm the state director of Americans for Prosperity-Nebraska and I'm here to testify in support of LB357. Again, I will deliver a very abbreviated testimony and will send the full testimony on to the clerk. In essence, we think that this bill is a reasonable and prudent long-term approach to tax relief and state spending. What's more, this bill...and it's important for our members to know again that this bill lowers taxes for all Nebraskans who are paying. We think this bill is a win for taxpayers and we urge the committee to support LB357. Thank you. [LB357]

SENATOR GLOOR: Questions for Mr. Litt? Thank you, again, Matt. [LB357]

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MATT LITT: Thank you. [LB357]

SENATOR GLOOR: Other proponents? Seeing no more proponents, we'll move to opponents for this bill. [LB357]

RENEE FRY: (Exhibits 7, 8, 9) Good evening, Chairman Gloor and members of the Revenue Committee, my name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We are testifying in opposition to LB357, a bill that would require significant cuts to our schools and other vital services and would likely force property tax increases to make up for the loss of state aid. In fact, the revenue loss from LB357, once fully implemented, it is equal to about 10 percent of our General Fund. We're greatly concerned about the stealth nature of this proposal, which uses Cash Reserve transfers to mask the impact of the revenue loss in the initial years. It also uses Cash Reserve transfers to temporarily increase the property tax credit program to a level that will be unsustainable as revenue collections drop due to LB357's income tax cuts. After the initial period of income tax rate reductions, further reductions would kick in when revenue estimates or when revenues exceed the revenue forecast. Thus, any revenue underestimate by the politically appointed Nebraska Forecasting Board would cause more income tax cuts, even if the forecast shows a deficit. Currently, revenues come in above projections about half of the time, which means that reductions in the income tax rates would continue to occur after the initial changes laid out in the bill. While LB357 tries to appear modest in its approach to tax cuts, the impact on state spending and on our rainy day fund will be anything but modest. Please note the chart in the handouts entitled "LB357 Budget Impact" illustrates how LB357 passes huge spending cuts and a depleted Cash Reserve on to future lawmakers, particularly if the state intends to continue the commitment to the property tax program beyond the transfers laid out in the bill. This will set us up for a Kansas-like crisis. When fully implemented, LB357 will result in a loss of \$419 million per year in today's dollars, according to an analysis by the Institute on Taxation and Economic Policy. This is equivalent to the salaries of more than 8,500 teachers or almost half of state spending on TEEOSA. Improving Nebraska's tax ranking has been mentioned as a reason for LB357. But Nebraska is not a high-tax or a high-spending state by any standard measure. U.S. Census Bureau and U.S. Bureau of Economic Analysis data, which were used by the Tax Modernization Committee, show we rank near the middle nationally and regionally in nearly every tax and spending category, both on a per capita basis and as a share of personal income. LB357 and other recent measures to cut income taxes have been proposed in the name of economic growth, but academic research fails to find a conclusive link between income tax cuts and economic growth. For the most part, Nebraska economically outperforms other states with lower or no income taxes. And you can see in the charts in the packet to this effect. And I would note that Nebraska's growth is second in the region. The cuts LB357 will require for schools, roads, and other key services make it likely that the bill would actually hurt, rather than grow, our economy. As for income tax rates, there is much consternation about our top rate of 6.84 percent. However, there is an important difference

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between our marginal and effective tax rates. In its 2010 tax burden study, our Department of Revenue found that the highest effective tax rate among taxpayer deciles was 4.58 percent. For the top 500 taxpayers, the effective tax rate was 3.26 percent. Furthermore, the Institute on Taxation and Economic Policy analysis...oh, excuse me. I skipped over because this was addressed by Mr. Henchman about the negligible gain in economic growth or in revenue, excuse me, from cutting the income taxes. In addition, the Institute on Taxation and Economic Policy found that 31 percent of the LB357 income tax cuts would leave Nebraska; 17 percent would go to nonresidents with income from Nebraska sources; and 14 percent would go to the federal government because Nebraskans would have less state income tax to write off on their federal income tax returns. Eighty-one percent of the corporate income tax cuts would go to nonresidents who own stock in multistate companies that do business in Nebraska. The 2010 Department of Revenue study did not appear to account for the number of jobs that teachers and other public employees would lose under such a significant tax cut, but it did show that the tax cut would not come close to covering its own cost. We believe the same is true for the income tax reductions proposed in LB357. This means cuts to schools, healthcare, and other vital services would be required. Simply put, income tax cuts do not pay for themselves. And we believe that there are far better investments we can make to improve our state and help grow our economy. I do want to mention, Senator Gloor brought up spending. We do rank 29th to 33rd in spending nationally. And business climate rankings were brought up as well. According to Forbes, we have the second best business climate. CNBC puts our business friendliness at third. And Pollina has us as the third best probusiness state. And with that, I'd be happy to answer any questions. [LB357]

SENATOR GLOOR: Questions for Ms. Fry? Senator Davis. [LB357]

SENATOR DAVIS: Thank you, Senator Gloor. Thank you, Renee. We talked a little bit about marginal versus effective tax rates. Could you kind of gives us a little more information on that, because wouldn't that be true in every state, an effective tax rate, would that compare? In Iowa would they have an effective tax rate and a top rate too? [LB357]

RENEE FRY: So it really depends on your exemptions and your deductions and the amount of your deductions and exemptions that you have. So we don't cap our...we don't cap those in this state. A lot of other states do cap deductions or phase them out at higher rates. And we don't do that as well and so what ends up happening is that we have a lot of exemptions that do reduce those effective tax rates. So if our tax rate is an issue, we could do a lot to actually bring the marginal rate down by adjusting our deductions and exclusions. [LB357]

SENATOR DAVIS: And so that would give us a better ranking in terms of the... [LB357]



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RENEE FRY: I can't speak to the ranking. I can speak to the fact that if you look at our economic growth, we were the...we have the second highest economic growth in the region. So clearly our tax rates aren't impacting our economic growth. One of the charts that I did hand out shows high income tax states compared to no income tax states. And we don't find that no income tax states outperform high income tax states nor do they outperform Nebraska. So we just don't see a correlation there with tax rates and with economic growth. And so we just don't find this to be a compelling argument. But if we're concerned about those tax rates, we could certainly make adjustments to our deductions and exclusions and address that issue. [LB357]

SENATOR DAVIS: Thank you. [LB357]

RENEE FRY: Thank you. [LB357]

SENATOR GLOOR: Senator Schumacher. [LB357]

SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you, Renee, for your testimony. Again, I think we need to focus a little bit on this effective tax rate versus our marginal tax rate. The effective rate is suppressed because some folks have got mortgage deductions and charitable deductions. But there are a lot of people who don't have those that are paying the full bore. Is that...would that be a fair statement? [LB357]

RENEE FRY: Well, even at...the Department of Revenue report actually looked at every decile. And they found that no decile is actually paying 6.84 percent. [LB357]

SENATOR SCHUMACHER: But individuals in there were. I mean, there's some individuals paying the max and there may be some individuals, because they got huge charitable deductions because they're giving away huge estates and may be paying 2 percent to get to that average. [LB357]

RENEE FRY: Although they have the lower bracket so they're probably not paying at that 6.84 percent. So at the first--and I know I have it here--first seven deciles, out of the ten deciles that the Department of Revenue put together in this tax burden study, they find that the first seven deciles have an effective tax rate on average of 1.62 percent because you have those lower brackets. And I know that the Revenue Committee, in their report that was released in December, also found that no income group was paying higher than 5 percent. [LB357]

SENATOR SCHUMACHER: But as an individual though, individuals in any one of those, unless they have some of these deductions, there are individuals that are approximating that 6.84

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percent. We even have a clawback, don't we, to clawback some of our lower brackets for folks that are making a couple hundred thousand or more? [LB357]

RENEE FRY: Yeah, we have a clawback for folks who are making, I think, over \$170,000. [LB357]

SENATOR SCHUMACHER: So, I mean... [LB357]

RENEE FRY: And their effective tax rates are much lower because they tend to do deductions. So the issue...I mean, we could certainly look to see if we could get to a scenario where someone is paying less than 6.84 percent. But it's usually going to be the higher income individuals who are paying because we have the lower brackets, right, that are kicking in. So you're not going to get...even a middle family income isn't going to be at 6.84 percent, they're going to be at something less than that. But we can certainly look and try to see what the highest is that they would be if they're not itemizing. [LB357]

SENATOR SCHUMACHER: I think that if you just apply the...go to the Nebraska 1040N and fill it in and don't take any...much for charitable deductions or mortgage interest, you're going to get far higher than what these figures show for marginal for that person. [LB357]

RENEE FRY: If their income is high enough and they're not deducting. [LB357]

SENATOR SCHUMACHER: Right. [LB357]

RENEE FRY: But you'd have to have that situation where there's a pretty high income and they're not itemizing. But other than that, at the lower rates you've got the lower brackets and the lower percentages that are kicking in. And so I think you're going to have to find just the right taxpayer who's in that situation. Most taxpayers are paying significantly lower effective tax rates. [LB357]

SENATOR SCHUMACHER: There's quite a few, I think, that are paying close to the 6.84 percent once they have a house paid off and don't have mortgage interest deduction, their only deduction is state income tax unless they're charitable. That's the only deduction they get. And so I would guess for that doctor and his wife, for example, making \$600,000 a year, have a house paid off they're going to be pushing that 6.84 percent I think. It would be interesting to know. [LB357]

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RENEE FRY: Yeah. I mean, I can just tell you that tenth decile before the top 500 did have the highest effective tax rate and that was 4.58 percent, was the average effective tax rate for that tenth decile, which would be the very highest income earners in this state before the top 500. [LB357]

SENATOR SCHUMACHER: Thank you. [LB357]

SENATOR GLOOR: Seeing no other questions, thank you, Ms. Fry. [LB357]

RENEE FRY: Thank you. [LB357]

SENATOR GLOOR: Other opponents? Good evening. [LB357]

MIKE MARVIN: (Exhibit 10) Good evening, Chairman Gloor and members of the committee. My name is Mike Marvin, that's M-i-k-e M-a-r-v-i-n, I'm the executive director of the Nebraska Association of Public Employees. We are the union representing the vast majority of the state employees. I really don't envy this committee their job this session. You have so many bills in front of you. I don't know which one of you is Solomon, but somebody needs to be and figure it all out. I'm not going to read my testimony into it, you have it. But I want to make some points on some things that I heard. They talked about...Senator Smith talked about slowing the growth of state spending. That was a philosophy of our last two Governors and it got us into some real, real problems. You look at the Department of Corrections and everything that's gone on there. I truly believe that was because they didn't want to put the money into Corrections to fix the problems right. You look at ACCESSNebraska, Beatrice State Developmental Center, and I'm telling people the next one is going to be the veterans homes. That was...a lot of those are due to trying to slow state spending. They're not spending the money that we need to to provide those services. It is incumbent upon us, as a state, to protect our citizens and to do what we can for the most vulnerable of our society. That doesn't fall...the cost of that doesn't fall within the cost-of-living adjustments. You don't provide your services based on that basket of goods that they use to do that. We have to provide medical services, we have to provide prisons, we have to provide those things. So you can't rate your growth by what the cost of living is, because that's not what you spend your money on. My other things are, Nebraska is the good life. We have very affordable housing. We have very affordable utilities. A lot of places don't have that. You have to look at the whole cost, not just our tax rate cost. I'm a native Nebraskan. I moved away to Kansas for two years, which was the biggest mistake of my life. I came back because things were so bad down there. And I want to touch on Kansas for a second. Yes, this is not the...what Governor Brownback pushed through down there. But just last week, to try to fix the problems in Kansas, a bill was introduced in the senate, it was SB173. Everything you read on this says that it's going to have a devastating effect on agriculture. And that's just trying to fix some of the budget

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problems that were caused by the tax cuts there. I would urge you to be cautious in what you do much the same as the Tax Modernization Committee did last year. Follow that model, stay with it, be cautious, be reasonable. And with that, I will conclude my testimony. [LB357]

SENATOR GLOOR: Thank you, Mr. Marvin. Questions? I see none. Thank you, Mike. [LB357]

MIKE MARVIN: Thank you very much. Dinnertime now. [LB357]

SENATOR DAVIS: Cocktail time. [LB357]

SENATOR GLOOR: We have pizza. Yeah, we have pizza coming I think. Next opponent. [LB357]

MARK INTERMILL: Good evening, Senator Gloor and members of the Revenue Committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP in opposition to the bill. There's much that I heard from the proponents that I agree with. I think we do need to operate...look for ways to operate more efficiently. I think the idea of hitting singles is probably something that is wise advice. But I...basically, we oppose this bill because of the principles that we provided to you earlier, the issue of revenue adequacy and the issue of equity. And I just have summarized it down into four numbers that I want to provide you to make our argument. And the first one is 35, which is the percentage of our General Fund budget that is directed to four programs: state aid to education; state aid to community colleges; the property tax exemption; and the homestead exemption. And the things that all four of those programs have in common is that they provide some property tax relief. If we're looking at reducing General Fund spending and we're not...and we want to continue to provide property tax exemption, that puts that reduction on the other 65 percent. The second number I have is 48, and that's the percentage of Americans who...of households that would have to borrow or sell something to meet an emergency that required \$400. Forty-eight percent of households indicated in the survey that they don't have \$400 to spend on an emergency. The tax relief that I see being provided in this bill is not going to those individuals who are likely in that category. And those are the ones that we probably need to be targeting the relief to the most. In looking at the distribution of tax returns by income, it looks like most of the relief provided in the bill will go to those with incomes above \$100,000. We think that it would be best...and in the previous testimony I provided you with some information from a survey that we had that indicated that it's the group in the middle that's probably feeling the tax burden the hardest. That's the group I think we probably need to target. The third number is 2025, the year after this...the eight-year phase-in of this bill is also the year when the oldest baby boomer will reach the age of 80. Starting in 2025 the growth in the 80-plus population will be, projections indicate, about 4 percent a year. We have never experienced much more than 1 percent per year. This produces some challenges

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in terms of providing healthcare, long-term care services to a population at an age that's most likely to need those services. Again, the limitation on spending could create a challenge there. And the last number is \$280,497,000, which is, according to the fiscal note, the lost revenue in 2024; 2024 dollars will probably be less valuable than current dollars. Just estimating a 4 percent annual average change, that's about \$180 million in current terms, which is a little bit more than we spend on Corrections. It's a little bit more than we spend on General Fund aid to University of Nebraska at Lincoln. So it is a significant amount that we would be reducing as a result of this. And for that reason, I think this would be one that we would not recommend that you keep on the table, that this is something that I think should be disposed of. And I'd be happy to answer any questions. [LB357]

SENATOR GLOOR: Any questions for Mr. Intermill? Thank you, Mark. [LB357]

MARK INTERMILL: Thank you. [LB357]

JON BAILEY: I told Senator Schumacher, you guys don't get paid enough to have late nights like this. [LB357]

SENATOR SCHEER: We get overtime. [LB357]

JON BAILEY: Really? [LB357]

SENATOR GLOOR: We sleep well at night though. [LB357]

JON BAILEY: I think I can say good evening now, right? [LB357]

SENATOR GLOOR: It's safe to say good evening. [LB357]

SENATOR DAVIS: You might say good night. [LB357]

SENATOR GLOOR: In a little while. Thank you, Jon. [LB357]

JON BAILEY: (Exhibits 11, 12, 13) Chairman Gloor and members of the Revenue Committee, my name is Jon Bailey, J-o-n B-a-i-l-e-y, I'm the director of the Rural Public Policy Program at the Center for Rural Affairs in Lyons, Nebraska. And today we are or this evening we are providing you testimony in opposition to LB357. You have my written testimony. I just want to make a few points, highlight a few points. First, in our opinion LB357 would be catastrophic for

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rural Nebraska. As Ms. Fry talked about, LB357 is a ticking time bomb and were it to become law the income tax reduction proposed in the bill would eventually blow a huge hole, we believe, in the state budget. Ms. Fry talked about the annual cost of LB357. I think the fiscal note bears that out. A cost of, over the lifetime of the bill, nearly \$1 billion in lost revenue. Second point I want to make is that, in our experience, we've gone through a severe budget-cutting process before with the Legislature during recessions. And it always seems that a large chunk of the necessary budget cuts fall very hard on rural people and rural communities. And that's why I say this bill is catastrophic for rural Nebraska. Since education aid represents the largest part of the state budget, it's likely that any budget cuts caused by LB357 would be largest on education. That is a critical part of any infrastructure in a rural community. And if you have a large budget cut to a local school district, that has a large price to pay in any rural community. Rural communities would be presented with a fairly simple choice at that point: raise their property taxes, which we've talked about all day today; or close or consolidate your school. Those are all bad choices. They're simple, but they're bad. They're all bad choices. And rural citizens have rejected those choices time after time after time. Most notably in the last decade when they voted overwhelmingly against Initiatives 413 and 423, which would have forced these kind of cuts on their communities. The third point I want to make, just because of what I do and what the Center for Rural Affairs does, I was always interested to read all of the promotional items about LB357. Yes, it promises economic growth, which Ms. Fry talked about is magic tax cuts that never seems to happen, has not happened probably ever in the history of any tax cut proposed by Congress or state legislature. But I was most interested in the promise that it's going to increase population growth across Nebraska. As you all know, rural Nebraska has faced a demographic challenge for decades, way back to the beginning of the twentieth century. Cuming County was mentioned. I live in Cuming County. Senator Brasch lives in Cuming County. Cuming County hit its peak population I think in the 1930s and it's been going down since. So this is not a new problem. This is probably about a century-old problem. And to think that relatively small tax cuts to most people will suddenly surge rural population, frankly to me, I find that insulting. The Center for Rural Affairs is 42 years old. Since day one in 1973 we have worked on these issues. We have worked on ways to address this demographic problem in rural Nebraska. I've worked at the center for nearly 17 years, have spent every day since I've been there on public policy to address this issue. It's not easy. Somebody once told me if I can figure out a way to address the depopulation of rural Nebraska I would win the Nobel Prize. I don't have a Nobel Prize in my office so nobody has figured this out. But there's a lot of ways we can work on this and continue to work on it. And I think it's insulting...I found it insulting to myself and to the center that a simple tax cut would solve this problem. I have worked with thousands of people, hundreds of communities on this problem. Not one, not one rural person has ever said to me, wow, we could really increase the population in our community if we just had lower income taxes. That has never happened. One final thing I want to mention, along with my testimony you have two other handouts. These are charts that are data on the tax cuts from the Institute on Taxation and Economic Policy. They give you the average annual tax cut by income group and the total benefit

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of tax cuts by income group. Both of these represent when this bill would be fully implemented. As you can see, most of the tax cuts and most of the benefits go to the higher income levels. For the lowest income level, they would receive a tax cut of about \$2 to \$13 per month on average. Higher income groups get much bigger tax cuts, as you might suspect, given our progressive tax structure. So I think that gives you some information and some clues what this bill is really about is just another version of trickle-down economics going to certain income levels and leaving most Nebraskans out of any economic benefit from this bill. Thank you. [LB357]

SENATOR GLOOR: Thank you, Mr. Bailey. Questions? Senator Davis. [LB357]

SENATOR DAVIS: Thank you, Senator Gloor. Thank you, Jon, appreciate your being here. You probably can't answer this question, but the Platte Institute handed out a document which categorized a single mother of two at poverty level with an income of \$19,790 and then the taxes before and after and a savings \$139.15. According to this document you gave me, their savings would be basically \$22. But have you got any explanation for that? [LB357]

JON BAILEY: I don't, no. I don't. [LB357]

SENATOR DAVIS: Thank you. [LB357]

SENATOR GLOOR: Senator Scheer. [LB357]

SENATOR SCHEER: On the form the majority of LB357, the tax cuts that I think is in total...the total is the \$4 million or \$12 million...are you on the one...this one? Right. [LB357]

JON BAILEY: The one that has the aggregate? [LB357]

SENATOR SCHEER: Yeah, I'm assuming that by the lowest 20 percent, that means the 20 percent of the total number of tax returns, that would be the lower 20 percent? [LB357]

JON BAILEY: Right. I'm assuming that's what that is, yes. [LB357]

SENATOR SCHEER: Okay. Can you tell me what percent of the total tax...income tax came from that group? [LB357]

JON BAILEY: I can't, no. [LB357]

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SENATOR SCHEER: So we don't know that these may be... [LB357]

JON BAILEY: Ms. Fry might be able to tell you that, but I can't tell you that. [LB357]

SENATOR SCHEER: So we don't know that these aren't proportional in the amount of the taxes paid? [LB357]

JON BAILEY: No. They're just based on income groupings, so they'd be based on income in each one of those groups. [LB357]

SENATOR SCHEER: Well, I understood that but from my vantage point, they also could be proportional, then the part of the amount that is paid by each individual group as well. Could it not? [LB357]

JON BAILEY: It could, but I don't think it is. [LB357]

SENATOR SCHEER: Well, I don't know. That's why I was asking you. You provided it, so. [LB357]

JON BAILEY: Yeah, I don't think it is. I think it's the lowest 20 percent of income. [LB357]

SENATOR SCHEER: I think it's probably going to be 20 percent of the tax returns, if I had to guess. But we don't know the answer so I'm not going to...we have no answer. But I appreciate your taking a stab at it. [LB357]

SENATOR GLOOR: Senator Schumacher. [LB357]

SENATOR SCHUMACHER: Thank you, Senator Gloor. I should know the answer to this but I don't. How is the center funded? [LB357]

JON BAILEY: How is the center funded? [LB357]

SENATOR SCHUMACHER: Yeah. [LB357]

JON BAILEY: Primarily through private...we're a nonprofit so through private grant funding. [LB357]



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SENATOR SCHUMACHER: Different foundations, you apply for grants or something? [LB357]

JON BAILEY: Different foundations. Some of our programs are funded primarily from programs...public funding. You, the Legislature, provides a lot of the funding for our small business development program through the Business Innovation Act. They also get money from SBA. There's a lot of public funding from agencies like SBA and USDA. [LB357]

SENATOR SCHUMACHER: Thank you. [LB357]

SENATOR GLOOR: Thank you, Jon. [LB357]

JON BAILEY: Thank you. Don't stay up too late. [LB357]

SENATOR SCHEER: I suppose you're leaving now? [LB357]

JON BAILEY: I have to drive like 90 miles. [LB357]

SENATOR SCHUMACHER: I feel sorry for you. [LB357]

JON BAILEY: So you'll be snug in your homes and apartments before I'm even home. [LB357]

SENATOR GLOOR: No, that's not completely true. [LB357]

KATIE PITTS: (Exhibit 14) And I will be brief as well. Good evening, Chairman Gloor and members of the Revenue Committee. My name is Katie Pitts, K-a-t-i-e P-i-t-t-s, and I am the director of public policy at Nebraska Appleseed and I am here to testify in opposition to LB357. Our primary concern with LB357 is focused around the reduction in the state's revenue stream this bill creates with the changes proposed to the personal and corporate income tax rates. We believe that our working- and middle-class families are the engines of our state's economy. And we need our public policy, and especially our tax policy, to strengthen these working families. We have concerns that by depleting a portion of the revenue for the state that LB357 will jeopardize various programs and services provided to many working families and will add additional stress to middle- and lower-income earners. We also want to see our state continue to invest in education and work-training programs that will build a strong work force to continue to boost our economy. In the last several years, we think the Legislature has really been forward thinking in how it's invested in education and training. And we fear that LB357's reduction in

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revenue will limit our state's ability to continue to make these investments efficiently and productively. So with that, we're opposed to LB357. And thank you for your time. [LB357]

SENATOR GLOOR: Any questions for Ms. Pitts? [LB357]

SENATOR SCHEER: Thank you for your brevity. [LB357]

KATIE PITTS: You're welcome. [LB357]

SENATOR GLOOR: Thank you. [LB357]

KATIE PITTS: Have a good evening. [LB357]

JULIET SUMMERS: Good evening or good night if we've reached that point. [LB357]

SENATOR GLOOR: Not quite. [LB357]

JULIET SUMMERS: (Exhibit 15) Thank you, Chairman and members of the committee. My name is Juliet Summers and I'm here on behalf of Voices for Children in Nebraska to testify in opposition of LB357. I've brought copies of my written testimony so I will spare you reading it along with me as we're all hungry and ready to go home. I do just want to highlight, most of the data in my testimony you've already heard from Ms. Fry or other opponents. And you may get answers to some of those questions from people following me as well. What I want to highlight, the piece that Voices for Children brings to this is the attachment, the chart that's page 3 of the document you have, where we take those numbers from the Institute for Taxation and Economic Policy and we break it down into what it would realistically mean for families in the different income brackets in Nebraska. As you can see, for the lowest earners in Nebraska this wouldn't represent significant relief. It would be approximately the same as two extra bags of carrots at the grocery store per month. Compare that with the highest brackets when fully implemented. The highest brackets would receive everything on the chart plus 100 pounds of sirloin steak every month would be the value of taxation for them. Given that Voices' work is to be the voice for children in Nebraska, we fear that these cuts wouldn't provide significant relief to those low- and middle-income families who represent 80 percent of Nebraska earners, but would mean significant cuts to important services for children and families. And that's why we are here to oppose this bill. Thank you. Oh, I'm sorry. Juliet Summers, J-u-l-i-e-t S-u-m-m-e-r-s. [LB357]

SENATOR GLOOR: Thank you. Questions for Ms. Summers? Seeing none, thank you. [LB357]

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JULIET SUMMERS: Thank you. [LB357]

JOHN HANSEN: Chairman Gloor, members of the committee, for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of the Nebraska Farmers Union. Good evening. I do remember a late evening a couple of years ago. I think it was the last time that I remember Mr. Henchman and Mr. Vokal being represented at the committee. Mr. Henchman supported LB405. And at that time they were in support of...as was the Platte Institute, of getting rid of the income tax, both individual and the corporate income tax. And I remember that because I remember how they made up the revenue and it was pretty much at the expense of manufacturing, agriculture, and the healthcare industry. I do not depend on them for direction on how it is we get to property tax relief. But I would say that LB357 goes the opposite direction of property tax relief. And in my view, we can't go that direction and do what this bill would ask us to do over an eight-year period and expect to have enough available revenues to be able to fund all other necessary services and still provide any real, meaningful, sustainable property tax relief. And so if we go this direction, property tax relief is off the table in our view. The results of the Revenue Committee tour around the state and their work mirrors that of mine. And that is that the number one problem that needs the attention and the focus of this committee and the Legislature is property tax relief. And LB357 would not be helpful in that end because of what it does to revenues. And our organization has consistently, despite some of the beatings we have taken over time, been a cheerful defender of the Cash Reserve Fund because we've been through the cycle enough times to know and appreciate the fact that when push comes to shove and revenues go in the tank, that if you don't have a healthy Cash Reserve Fund, that you're going to make the kinds of cuts that in the end of the day cost you a lot more money. And so what we were able to do the last time we were seriously in the tank is to do not only cuts but go to the Reserve Fund and do a minor tax increase, which is very politically difficult and painful to do. But that's how we survived in the most cost effective way. And when you lower the Cash Reserve Fund it assumes that you're not going to need it at some point. And I think that view is unreasonably optimistic. And I think that keeping the Cash Reserve Fund in this ballpark, or maybe a little smaller number, is a very reasonable thing to do. And so with that, I will close my testimony and answer any questions if you have any. [LB357]

SENATOR GLOOR: Any questions for Mr. Hansen? I see none. Thank you. [LB357]

JOHN HANSEN: Thank you. And again, good luck. [LB357]

SENATOR GLOOR: (Exhibits 16, 17, 18, 19, 20, 21) Any final testimony in opposition? Anyone in a neutral capacity? Senator Smith, you're recognized to close. While he's working his way up here, we have letters. Proponents: Doug Kagan, Nebraska Taxpayers for Freedom. Opponents: Tessa Foreman, Nebraskans for Peace; Anne Hindery, Nonprofit Association of the

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Midlands; Terry Warner, National Association of Social Workers. Ken Boswell, Nebraska Soybean Association in a neutral capacity. And then I believe we were handed a letter from Lincoln Independent Business Association that was in support (Exhibit 25, LB280). And you'll recall that NSEA handed us testimony in opposition to this also, several bills ago. And with that, Senator Smith. [LB357 LB280]

SENATOR SMITH: I will be brief. Finally...because... [LB357]

SENATOR GLOOR: You know, we have a bet going here that we'll meet until 8:00, so you have ten minutes until then. [LB357]

SENATOR SMITH: Because we...do we have to beat Education Committee's record? [LB357]

SENATOR SULLIVAN: We already have. [LB357]

SENATOR GLOOR: No, you don't. [LB357]

SENATOR SMITH: All right. Well, I'm sorry for that, but not entirely my fault. [LB357]

SENATOR GLOOR: Absolutely. [LB357]

SENATOR SMITH: I just wanted to summarize a couple of things and clarify. Senator Davis, there was...you had asked one of the folks what happens after two years, I think it was Mr. Vokal. And I think you were asking about property tax. And his response was, what happens after two years with the income tax. And so I want to be clear that the bill that's in front of you, LB357, it has two years of funding through the reserves for property tax relief that's provided then through their Property Tax Credit Fund. After those two years, there would be no more funding on the property tax side. But what we're trying to do is provide a two-year point in time to when we could better address and further address the issues with property taxes. So we understand that the property tax component is not long-term as is the income tax component. But it does give a period of time...it buys us some time to further address it for the long-term. On the income tax side, the first two years it's funded through the reserves and then years three through eight is funded through reductions in expenditures which are roughly equivalent to 1 percent growth in government. So...and then after that eighth year, then there would be triggers in place to get us further towards the ultimate targets of the low end, zero percent, the high end--on the personal, that is--high end 5 percent. And on the corporate, 5 percent and 3.5 percent, respectively on the high and the low. So I hope that clarifies. I didn't want to mislead you on that. I think, Senator Davis, you and Senator Brasch, you brought great points about priority. You know, what's our

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priority? We've heard a lot of bills and I know everyone tells me, you asked to be on Revenue. Well, I did ask to be on Revenue because I know it's a fantastic committee to sit on, but we do hear a lot of requests for tax relief. A lot of issues come before this committee and it's very hard to decide. And I think it comes down to a prioritization, how can we most affect the broadest amount of Nebraskans? And that's what I'm attempting to do with LB357. Through the income tax, we addressed the personal and the corporate. And again, I go back to saying that a lot of our small businesses pay their income taxes through the personal tax brackets. And then we get a little bit of a time on the property tax side to further address that particular issue. I'm very thankful for Mr. Henchman being here. He's a fantastic person to listen to, a wealth of knowledge. And I really appreciate the knowledge he brings to the table and I hope you take advantage of him before he leaves here tonight if you have any questions for him. And I'm certain he would be more than happy to follow up any further questions you have of him. Risky business, I heard that. Again, the intent is to be responsible, reasonable, cautious, careful. And that's what LB357 is. We heard testimony throwing around the \$280 million as if there's an immediate hole in the budget of \$280 million. The \$280 million that you're seeing referenced in the fiscal note is after the eighth year and it's a funded...it's funded through reductions in those expenditures. I do believe, to a large extent, we've chosen our sides. We've heard testimony here tonight, not that it necessarily changes anyone's mind, certainly not anyone that's in the audience, but it does provide a very strong contrast between bills we've heard. I know we're all trying to find ways of leading our state into the future with the right tax policy. But I think four simple truths and I was just trying to jot them down: One, we are keeping more of the taxpayers' money than we need. We have a reserve that's well over \$700 million. Our taxes are higher than neighboring states. In many ways we are not as competitive as we can be. Our families and our businesses benefit from keeping more of their own money. And government can operate more efficiently. I believe those are four simple truths. And I heard some comments made about an insulting...opportunity...that this bill is insulting, that it's a simple tax relief. I think what's insulting is to ignore those four truths that we have in front of us and to do nothing at all. So with that, thank you for letting me speak before you on LB357. I'm more than happy to stay here and answer any questions but that concludes my testimony. [LB357]

SENATOR GLOOR: Thank you, Senator Smith. [LB357]

SENATOR SCHEER: I've got a three-minute question. [LB357]

SENATOR GLOOR: Sure. Senator Scheer has a three-minute question. [LB357]

SENATOR SCHEER: Hypothetically, can LB357 and LB280 coexist together? [LB357]

SENATOR SMITH: No. [LB357]

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SENATOR SCHEER: I tried. [LB357]

SENATOR GLOOR: Senator Davis. [LB357]

SENATOR DAVIS: So Senator Smith, we lose the two...the \$40 million at the end of two years? And you say that's just to buy us enough time to figure out what we're going to do? [LB357]

SENATOR SMITH: No. [LB357]

SENATOR DAVIS: We've had lots of time since 2013. You know, we're already a year and a half away from the Tax Modernization Committee and we still haven't found the fix. [LB357]

SENATOR SMITH: Now if we're speaking on property tax, it is property tax that is returned to property owners that pay the taxes. It's not lost, it's given back to those that have paid those taxes. [LB357]

SENATOR DAVIS: I recognize that, but... [LB357]

SENATOR SMITH: But we do have a longer...we do need a longer view of how we're going to address property taxes. [LB357]

SENATOR DAVIS: I agree, we need to fix the problem. My point is, you know you said we're going to have \$40 million per year to buy us time to figure out how to solve the property tax problem when that is the most urgent problem we've got in this state. We've heard it over and over, so why aren't we trying to solve that now? [LB357]

SENATOR SMITH: Senator, a tax shift is not the answer. [LB357]

SENATOR DAVIS: I'm not talking about my bill, Senator Smith. I'm just asking you that question. I think it's a legitimate question. [LB357]

SENATOR SMITH: Well, again, property taxes are a local issue. We can cap, we can reduce mandates, we can change valuations, and we can provide it back through credit funds. I believe those are the options we have. One of my bills includes one of those options, but we do need to address those other options going forward. [LB357]

SENATOR DAVIS: Thank you. [LB357]

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SENATOR GLOOR: Seeing no more questions, thank you, Senator Smith. [LB357]

SENATOR SMITH: Thank you. [LB357]

SENATOR GLOOR: That ends the hearing on LB357. My thanks to all of you for your patience. And my thanks, especially, to the committee. [LB357]