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Revenue Committee
March 04, 2015

[LB26 LB470 LB495 LB559 LB608]

The Committee on Revenue met at 1:30 p.m. on Wednesday, March 4, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB470, LB495, LB559, LB608, and LB26. 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 and welcome to the hearing of the Revenue Committee. I'm Mike Gloor. I'm the senator from the 35th District, Grand Island. I'm the Chair of the Revenue Committee. I'd like to welcome you. We will take up the bills today in the order posted in the back of the room and a few other locations around the Legislature. To better facilitate today's hearings, we have a few general rules. Please turn off your cell phones, electronic devices, or put them in the silent mode. I want to make sure I cover the process for hearing bills. We'll start with the introducer. We will then go to proponents of the bill, then opponents of the bill, then those in a neutral capacity, and we'll allow the presenter, if he or she chooses, to close on that bill. We have a five-minute rule for those of you who are testifying. Light system up here if you're not familiar with it: Green light when you start; when there's a minute left it goes yellow; and when you're five minutes are up, it turns red and at that point in time we'd ask you either to stop or make a quick wrap-up before I move you as politely as I can in that general direction. When you do testify, we need you to fill out one of the green sheets that are in the back of the room as a testifier. Hand that to the committee clerk over here to my left. You do not need to testify if you want your stand on this bill to be known, especially if somebody has already made your points. But there is a white sheet in the back of the room and you can sign on that white sheet whether you're in favor or opposed to a specific bill. So you also have that particular opportunity. When you get up here, we need you to spell your name if you would, please. State it and spell it so that we have correct spelling for the record. Written materials, we need 11 copies of written materials. If you don't have 11 copies, now would be a good time to get one of the pages involved in making copies for you. We'd ask that you speak into the microphone so that we get things clearly for the record. And that's a reminder I always put out there not just for testifiers but also for committee members. I'm going to start with introduction of staff. Committee counsel is Mary Jane Egr Edson who is on my right; Krissa Delka is the clerk; and Kay Bergquist is our research analyst and she's on the far end on the right hand side. And with, I would ask the members of the committee to introduce themselves. Senator Brasch, please. [LB470]

SENATOR BRASCH: Lydia Brasch, Legislative District 16, Burt County, Cuming County, and Washington County. [LB470]

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SENATOR HARR: Burke Harr, Legislative District 8, Douglas County. [LB470]

SENATOR DAVIS: Al Davis, District 43 which is western and north-central Nebraska, a 13-county area. [LB470]

SENATOR SCHUMACHER: Paul Schumacher, District 22 which is Platte and parts of Stanton and Colfax County. [LB470]

SENATOR SULLIVAN: Kate Sullivan of Cedar Rapids, representing District 41, a 9-county area in central Nebraska. [LB470]

SENATOR GLOOR: Our pages are Colin from Wayne and Caitlin from Omaha who are here to help us out. And we may have a bit of a change in pages as time goes by. I would also point out that we have other commitments as senators to present bills. And because of that, you may see people come and go. I know we have at least a couple of senators who will yet be with us this afternoon, but that also may mean a few senators leave. Don't read anything to the fact that somebody gets up and leaves before your bill. It is just part of our ongoing commitments. And with that, I think we'll start with Senator Hansen, LB470. And could I see a show of hands of people who wish to testify in any capacity on LB470? Just a couple, okay, thank you. Senator Hansen, welcome. [LB470]

SENATOR HANSEN: Thank you. Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Matt Hansen, M-a-t-t H-a-n-s-e-n, and I'm here representing Legislative District 26 which is located in northeast Lincoln. I'm here today to introduce LB470. This bill is designed to provide support for family caregivers who are providing care for a person with disabilities in their home. It is my intent for this tax credit to help family caregivers supporting individuals who would otherwise need to move into a long-term care facility or receive some other significant assistance. The tax credit would be available to a person whose income is less than 400 percent of the federal poverty level, who resided and provided care to an individual with disabilities at least six months during the year. The individual with disabilities would need to be physically or mentally incapable of self-care and have an income of less than 200 percent of the federal poverty level. This tax credit would be refundable for those caregivers whose income is less than 200 percent of the federal poverty level and would be nonrefundable to those caregivers between 200 percent and 400 percent of the federal poverty level. This bill not only provides tax relief but also helps keep people in their homes. We have seen and heard time and time again that when dealing with long-term care and other health and aging issues that keeping people in their homes is both the cheaper and best option. This bill would help thousands of Nebraskans' families do just that. With that, I would close my introduction and answer any questions. [LB470]

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SENATOR GLOOR: Thank you, Senator Hansen. Are there any questions for Senator Hansen right now? Senator Harr and then Senator Davis. [LB470]

SENATOR HARR: Thank you, Chairman Gloor. Senator Hansen, how much is 400 percent of the federal poverty guidelines? [LB470]

SENATOR HANSEN: Four hundred percent for a household of two is currently \$62,920. [LB470]

SENATOR HARR: And so 200 percent is probably about \$31,000. [LB470]

SENATOR HANSEN: Yes. [LB470]

SENATOR HARR: Okay. Thank you. [LB470]

SENATOR GLOOR: Senator Davis. [LB470]

SENATOR DAVIS: Thank you, Chairman Gloor. Thank you, Senator Hansen, for bringing this bill. Question, how is the assessment going to be done as to the needs of individuals that are going to be cared for? [LB470]

SENATOR HANSEN: That is a good question, Senator Davis, and that is something we had been thinking about in our drafting of the bill. That is something I'd be...I don't necessarily think has been 100 percent resolved, and I'd be interested in working with the committee to hear their perspectives and certainly be willing to help decide that issue. [LB470]

SENATOR DAVIS: Thank you. [LB470]

SENATOR GLOOR: Senator Schumacher. [LB470]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you, Senator Hansen, for bringing this. Essentially what we're doing here is giving \$500 to somebody who fits in this category. [LB470]

SENATOR HANSEN: Basically. [LB470]

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SENATOR SCHUMACHER: Okay. And instead of doing it through an appropriation, we're doing it through a tax credit. [LB470]

SENATOR HANSEN: Yes, in the sense of it would be nonrefundable for certain classes. So that would be different than, say, appropriating them money. They would just simply get the nonrefundable tax credit. But, yes. [LB470]

SENATOR SCHUMACHER: But if you're below 200 percent then you'd get basically the check. [LB470]

SENATOR HANSEN: Yes. [LB470]

SENATOR SCHUMACHER: And why wouldn't we just do that through an appropriation, say if you're below 200 percent, make an application and we'll give you a check? Why a tax credit as the mechanism? [LB470]

SENATOR HANSEN: You know, I don't necessarily have a specific answer to that. I will say personally I had not considered just making it an appropriations. I would imagine that with the tax credit, part of the desire there and the reason I initially thought about it was that that's a form we all have to fill out yearly and is common for, you know, providing or requesting applications as well as money out of our own accounts and the state's accounts. So that seemed like a place that caught my attention as to where to address this. [LB470]

SENATOR SCHUMACHER: But if you're below 200 percent of poverty, you might be in a condition where you have no other income and you actually have no income and wouldn't have to fill out a tax form anyway. And then those people might miss out on this because they don't fill out a tax form normally. [LB470]

SENATOR HANSEN: Yes, to speak to that, certainly if this is a policy that, I think, has support and traction, I would consider some sort of appropriation as well. I guess here today I don't know if that's within the power and purview of the Revenue Committee. But I would certainly be interested in going more in that direction as a possibility. [LB470]

SENATOR SCHUMACHER: Thank you, Senator. [LB470]

SENATOR GLOOR: Yeah, don't discount the all-powerful nature of the Revenue Committee to do things at times. But that may be beyond our call. Questions, any other questions? Thank you, Senator Hansen. [LB470]

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SENATOR HANSEN: Thank you. [LB470]

SENATOR GLOOR: Are you going to stay to close? [LB470]

SENATOR HANSEN: I plan to, yes. [LB470]

SENATOR GLOOR: Okay. We'll now move to proponents of this bill. Good afternoon, Mark. [LB470]

MARK INTERMILL: (Exhibit 1) Good afternoon, 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. We do support LB470. This is an issue that about a week ago we were dealing with something similar in terms of looking at what sort of incentives we can provide to individuals to either provide or help to prevent cost that the state might incur in terms of long-term care expenses. There are a couple of different ways that we can do this. One is through the long-term care insurance approach, is to try to preserve assets so when a person does go into a facility that they will have some sort of means of paying for that and thereby delaying the point at time at which they exhaust their resources. The other approach is to try to prevent that point of entry for as long as possible, which is what this particular bill would do, by providing incentives to caregivers to continue to provide that care. The bill, I think, does a good job of targeting the assistance to those individuals who are most likely to become eligible for Medicaid upon admission to a nursing home or soon after admission to a nursing facility by limiting the credit to those individuals both in terms of the income of the person providing care, but also the person who is receiving care. It does target the benefit to those who are most likely to rely on Medicaid at some point. One of the things I did want to bring to the committee today is the third sheet that I've got...is a table. And I wanted to talk a bit about Medicaid and long-term care. I think there are some maybe misperceptions about the direction that the cost of long-term care specifically for older Nebraskans is taking. And the chart I have shows you the Medicaid expenditures by eligibility category. The first one is the 65-plus population. It starts in 1985. I came to Nebraska in 1990 to work at the Department on Aging. At the time we were seeing remarkable increases in Medicaid expenditure, particularly for those individuals over the age of 65. At that time, 42 percent of Medicaid spending was going to--and this is for vendor payments--for people who are over the age of 65. As you can see, that number has declined to the point in 2014 it was half of the percentage it was in 1985: 21 percent of Medicaid vendor payments were made on behalf of people over the age of 65. You'll see in about 1999 where that change from 1985 to 1999, the annual growth was about 10.4 percent. Since then it's been about less than 2.5 percent, well within the growth of revenue for that same period of time. When I look at the increased cost of Medicaid expenditures for people over 65, if it had grown at the same rate as revenue had grown for the last 7 years, we would have spent \$50 million more last year than we actually did. So we

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have done a fairly decent job of containing the cost of Medicaid for people over the age of 65. What begins to concern me is if you look at the four numbers, we're not going down any more. In fact, we're starting to creep back up. The cost containment measures that we have...really took effect in the early 2000s may have run their course. And I think we need to be looking at new alternatives to try to make sure that we can continue to provide these services in a cost-efficient manner. I think the bill before you is one option. And I guess if you look at the end of my statement, my recommendation is that the committee consider this bill and also the long-term care insurance bill in an interim study to try get a better handle on what the costs might be, what the benefits might be. I did notice that there was a \$12 million fiscal note. I think that brings my tab at the Revenue Committee to \$275 million. (Laughter) [LB470]

SENATOR GLOOR: You're close. We're keeping a running tab on you. [LB470]

MARK INTERMILL: I figured as much. But I think there is some merit in looking at these things as a way of encouraging people to take responsibility for their families and for themselves. So with that, I will close and see if I can answer any questions. [LB470]

SENATOR GLOOR: Mark, could this shift--and thank you for your testimony--could this shift have to do with what I've heard is a pretty dramatic growth in the early 2000s in the number of assisted-living facilities in the state? [LB470]

MARK INTERMILL: That was part of it. In the early 2000s, you will see a growth, a spurt. In 2001, 2002, that's when that occurred. It's also when we expanded the Medicaid home and community-based services waiver. So we were building that system at the same time we were maintaining the nursing home system. But if you look, after...from 2003 onward, there's very little growth at all. I also need to...as a disclaimer, 2006 was the year that Medicare Part D went into effect which, in terms of vendor payments, reduced our expenditure in Medicaid for people over 65. So those were factors that occurred as well. [LB470]

SENATOR GLOOR: Yes, Senator Sullivan. [LB470]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you for your testimony. Does your association have any data that shows how many families are caring for their family members in the home? [LB470]

MARK INTERMILL: We do, and I should brought that but I didn't. I can certainly...we do...every year, every other year we do some surveys within the state but also some national surveys are done that we try to extrapolate. But we have done some surveys of members where

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we ask people their experiences with care giving, what they...if they are a caregiver, what type of services. So let me pull that together and I can share that with the committee. [LB470]

SENATOR GLOOR: Thank you. Get that to us and we'll make sure it gets to all committee members. [LB470]

MARK INTERMILL: Okay. Thank you. [LB470]

SENATOR GLOOR: Seeing no further questions, thank you, Mr. Intermill. Other proponents of this bill? Anyone in opposition who wishes to speak? Anyone in a neutral capacity? Senator Hansen, you're recognized to close. [LB470]

SENATOR HANSEN: Thank you, Chairman Gloor. I guess I'll just close by simply saying the issues of caring for our population, whether it be disabled children, disabled adults, is going to be kind of as we've seen already a very long and challenging task. And I had introduced this bill as a one portion of possibly helping that, as a way of giving some support and a tax credit to those who are taking care of people in their homes. So I'd ask the committee to consider that as part the overall goal of keeping Nebraskans healthy and well. And with that, I would be happy to work with the committee if there's any interest. And I'll close my testimony. [LB470]

SENATOR GLOOR: Thank you. Any final questions? Seeing none, thank you very much. [LB470]

SENATOR HANSEN: Thank you. [LB470]

SENATOR GLOOR: And that will end the hearing on LB470. I don't believe we have any notes on that. We'll now open the hearing on LB495, Senator Pansing Brooks. We do have and I'll read into the record letters of proponents: Terry Werner, National Association of Social Workers; and Tessa Foreman, Nebraskans for Peace, both proponents. Good afternoon. (Exhibits 1 and 2) [LB470 LB495]

SENATOR PANSING BROOKS: (Exhibits 3-5) Good afternoon, Senator Gloor and members of the Revenue Committee. For the record, my name is Patty Pansing Brooks; it's P-a-t-t-y P-a-n-s-i-n-g B-r-o-o-k-s. I represent Legislative District 28, right here where we are sitting in Lincoln. And I'm privileged and honored to be here to introduce my first bill to you in front of the Revenue Committee. I am passing out...having a couple charts to pass out. And I also have passed out my testimony. Sometimes I feel that I'm a visual learner. And so if you just want to hear me say it instead of reading along, that's fine. But I do want to make it part of the record and

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wanted to read this to you. So I campaigned for two years going door to door in my district. It quickly became clear that poverty is probably the one key critical issue in my district. And I would venture it's becoming more so in our state. In Legislative District 28, there are 36 percent who live at or below a \$25,000 household income per year. Most people think of this area as a pretty affluent area--not right by the Capitol but certainly in the rest of the district. I know that people are working and that they're working hard to be employed and to fight the possibility of acquiescing to their, at times, desperate circumstances. An overwhelming preponderance of our citizens are working and many are working two to three jobs. Meanwhile, who are the people falling through the cracks? It's the children. LB495 and the earned income tax credit, EITC, helps break the cycle of intergenerational poverty because the EITC instills in kids the experience and the value of employment. It provides the knowledge that with work, a life can improve. It generates hope for the future. That is what this bill is about: the value of bringing people up and out of poverty by encouraging work, a benefit to our state that cannot be measured. One way that that can be done...one way or the other, we will pay. And I think that we should bet on our future. This is one of the important things that can be done in the state. While campaigning, I pledged to fight for the earned income tax credit. In 2011, the U.S. Census revealed that 5.7 million people were lifted out of poverty; 3 million of those people were children. This is much more important than the increase in the minimum wage. In my district, I met working families. I met working mothers who were holding two to three jobs. I know that 46 percent of the LPS students are on free and reduced lunch, yet the unemployment rate in Lincoln is only 2.8-3.6 percent. So what does that show? It shows that people are working and that people are struggling significantly. There is a disconnect. LB495 would increase Nebraska's earned income tax credit for low-income working families from 10 percent of the federal earned income tax credit to 13 percent for 2016, and 15 percent for years 2017 and thereafter. The earned income tax credit puts money back into the hands of low-income wage earners. It was first signed into law by President Ford and was praised and expanded by President Reagan. It has been recognized by conservatives and liberals alike as perhaps the most effective antipoverty program in the country because it both incentivizes employment and supplements earnings. It rewards people for working, encourages personal responsibility, and puts money back into the economy. The earned income tax credit has many benefits beyond directly helping low-income wage earners. It has been found to be a major force in encouraging employment. In fact, a 2003 study found that the EITC did more to increase employment among single mothers than the 1996 welfare reform law did. It also has been found by researchers to aid in children's learning and helps these children eventually attain higher incomes as adults. It helps balance the tax burden on low-income payers who typically pay a greater portion of their income as taxes than higher income individuals. This is a refundable credit meaning that in order to receive it, the taxpaying family must file a federal tax return establishing eligibility and then claim it even if no tax is owed because of the taxpayer's low income. If a tax is owed and the credit applies, the credit reduces the taxes owed. If the credit exceeds the taxes owed, the remainder is refunded to the taxpayer. In order to be eligible to claim the credit, the taxpayer must meet the following

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requirements: The taxpayer must have earned income, typically wages; the taxpayer must have filed a federal tax return; and the taxpayer must have income less than the maximums allowed. Due to the fact that the recipients of the EITC do not typically have savings or investments, the money is typically put back into the economy in the form of spending, thus creating higher demand for goods and services and indirectly supporting the creation of jobs. Nebraska is 1 of 5 (sic--25) states that piggyback on the federal EITC to supplement it locally. As shown in the chart which I shared with you, at 10 percent of the federal credit, Nebraska's EITC is a bit on the low side among the states that offer it. The highest EITC is Maryland at 50 percent; neighboring state Iowa's EITC is at 14 percent of the federal EITC; Kansas at 17 percent; and Minnesota's rate is about 33 percent. In 2012, the EITC put about \$272 million into Nebraska's economy, \$272 million. Money paid to the taxpayer is quickly spent. If it is not spent within 30 days of receipt, it may be counted as an asset that could disqualify the recipient from public benefits. Since the recipients are low-income families, they typically have pending bills that could be paid with the refund, further encouraging the money to be spent promptly. As the fact sheet I provided to you demonstrates, in 2012 approximately 121,000 Nebraska households received the EITC. It is estimated that approximately 9,000 of those households included veterans or service members. I hope you'll all look at your district because it has...we've broken out your district. During 2010 to 2012, approximately 50,000 Nebraskans were lifted out of poverty by the combined earned income tax credit and the child tax credit including 27,000 Nebraska children. The EITC has been found to be very effective in encouraging low-income families, particularly single mothers, to find and keep jobs. Boosting the EITC can further benefit Nebraska working families. For each additional \$3,000 in annual income that a family with a child under 6 receives, the studies show that that child, when an adult, will work 137 more hours per year and their annual income will rise by 17 percent, thus limiting generational poverty. Boosting Nebraska's EITC would require hardly any administrative expense as the Nebraska individual income tax form 1040 would require only the change of the percentage in line 33. The revenue expense of the credit itself would rise with the amounts of money refunded, but that money would be quickly spent back into Nebraska's economy. The handout which I provided to you includes a review of the EITC's impact on the committee's districts together with the estimates of the amounts that would be paid out if the EITC is increased as proposed. With all other benefits of the EITC, that is a small investment, I believe, to make in Nebraska's future. In summary, the EITC puts money back into the hands of working, low-income families. It rewards low-income people who work, even if at low-paying jobs. The EITC puts money back into the economy because once it is received, the money is quickly spent. Increasing Nebraska's EITC would create greater incentives for low-income families to get and keep jobs. Increasing the EITC would benefit Nebraska's children of low-income households both immediately and later in life. And increasing Nebraska's EITC would boost Nebraska's economy. With that, I urge your favorable consideration of LB495 and try to answer any questions you might have. [LB495]

SENATOR GLOOR: Thank you, Senator. [LB495]

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SENATOR PANSING BROOKS: Thank you. [LB495]

SENATOR GLOOR: Questions? Senator Sullivan. [LB495]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Senator Pansing Brooks. Just one note on your testimony, and I was following along, I think you spoke that Nebraska is one of five states that piggyback. It's 25 states, right? [LB495]

SENATOR PANSING BROOKS: Oh, yes. I'm sorry. [LB495]

SENATOR SULLIVAN: That's just to make sure that that correction was made. [LB495]

SENATOR PANSING BROOKS: Yes, that is right. I'm sorry. I misspoke. [LB495]

SENATOR SULLIVAN: You said that you heard...you campaigned on this. So I presume you've heard personal testimonies. [LB495]

SENATOR PANSING BROOKS: Yes, I had a lot of testimony...just a lot of discussions with people who are really working to try to make ends meet and trying to not fall back on to taking government assistance, but going forward. And this, the amount that's credited back is on a graduated level so that as somebody would make more money, then the reimbursement is lower. And people without children are really not given any significant amount. This is for working families. So that's why it helps the children so much. [LB495]

SENATOR SULLIVAN: Okay. Thank you. [LB495]

SENATOR PANSING BROOKS: Thank you. [LB495]

SENATOR GLOOR: Any impact...or what is the impact of the minimum wage increase do you think? [LB495]

SENATOR PANSING BROOKS: On this? [LB495]

SENATOR GLOOR: On this. [LB495]

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SENATOR PANSING BROOKS: It's very interesting because I think that as I was learning about this, and I think others can speak to that, but the minimum wage increase is helpful to a certain group of people. This is actually helpful to more of the lower-middle class people that are really trying to struggle along and trying to work to make a difference in their lives and in their families and stay away from getting government help. I understand that it's a significant fiscal note. And I just wanted to say that, of course, there's no evidence of what happens when people get off of the governmental assistance. I would argue that those kinds of numbers are...we can't even really deal with those. But many of the studies nationwide show that these are significant dollars that we save by allowing people to have an incentive to work. [LB495]

SENATOR GLOOR: Thank you. Senator Davis. [LB495]

SENATOR DAVIS: Thank you, Senator Gloor. Thank you for bringing this bill, Senator Pansing Brooks. It looks to me like you must have cooked the books for the Chairman's sake since he seems to make out like the bandit of all of us here. (Laughter) [LB495]

SENATOR GLOOR: I'll trade you. [LB495]

SENATOR DAVIS: In light of the fact that we passed a bill by referendum last year to raise the minimum wage, do you think the fiscal note is accurate or do you think it would be reduced because of that? [LB495]

SENATOR PANSING BROOKS: I felt that the note was high, but I understand that that's sort of something people don't like to talk about, whether or not the fiscal note is correct. And I'm certainly not one to be able to fully criticize what they have done. I do believe that there are great advantages that are not being considered in this. I think there are great monetary advantages, as I mentioned, in people getting off of assistance and being able to make a difference and inject dollars into the economy. So that's...I guess those are hard numbers to deal with. I'm willing to work with the committee if you've got some other suggestions or ideas. But anyway, I think this is really an important bill. I think you've heard it before. I will be a bad penny and keep showing up, I guess, because it is important to the people in my district. And I think it's important to encourage work. That's what this does. [LB495]

SENATOR DAVIS: Thank you. [LB495]

SENATOR GLOOR: Senator Harr. [LB495]

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SENATOR HARR: Thank you. Do you it would be possible to get the breakout for my legislative district when get a chance, too, please? [LB495]

SENATOR PANSING BROOKS: Oh, I'm sorry. That was...yes, we didn't get that. You bet. I will. [LB495]

SENATOR HARR: Thank you. [LB495]

SENATOR PANSING BROOKS: We will get that and we'll send it to everybody so they can see it. [LB495]

SENATOR HARR: Thank you. [LB495]

SENATOR PANSING BROOKS: Thank you. I'm sorry. [LB495]

SENATOR GLOOR: Senator Schumacher. [LB495]

SENATOR PANSING BROOKS: Oh, they put Ken Haar. Sorry. Sorry. [LB495]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for bringing this bill. Is there an asset test in association with this? Can you own a farm and get this assistance? [LB495]

SENATOR PANSING BROOKS: I think that...I know that you have to meet certain requirements. And I think I've got...I think I'm going to let some of the people behind me speak to that. I know that you have to meet certain requirements. I don't think that you get to own lots of other property and then... [LB495]

SENATOR SCHUMACHER: And then likewise if someone else maybe knows or could get ready to answer it, if you have a considerable income but have a large net operating loss carryforward that reduces your taxable income, can you also get benefits under this program? [LB495]

SENATOR PANSING BROOKS: The types of credits and amounts have to do with whether or not...one example is if you have \$14,590, \$20,020 if married and filing jointly with no qualifying children. So these are federal poverty levels. [LB495]

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SENATOR SCHUMACHER: But my question is let's just say you had a large operation. You made \$200,000. You have a \$200,000 loss carryforward from a prior loss in prior years. And even though you made \$200,000, carried that forward, officially your income is zero or \$20,000 or whatever. Can you claim the credit? [LB495]

SENATOR PANSING BROOKS: I will let federal Magistrate Piester speak to that if you wouldn't mind. [LB495]

SENATOR SCHUMACHER: Thank you. [LB495]

SENATOR PANSING BROOKS: He's really the expert in that. I don't think so, but... [LB495]

SENATOR GLOOR: I see no further questions. Thank you. [LB495]

SENATOR PANSING BROOKS: Thank you so much. [LB495]

SENATOR GLOOR: And I'm assuming you're staying to close. [LB495]

SENATOR PANSING BROOKS: I will. Thank you. [LB495]

SENATOR GLOOR: Can I see a show of hands of the number of people who wish to testify. We have about a half-dozen. Thank you. Let's start with proponents, please. [LB495]

AUBREY MANCUSO: (Exhibit 6) Good afternoon, Senator Gloor, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm here on behalf of Voices for Children in Nebraska. We're in support of LB495 because the EITC is one of the most effective tools we have for addressing child poverty and it provides a tax cut to lower income working families. In 2007, Nebraska expanded the state EITC to 10 percent of the federal credit. LB495 would take the next step to increase the credit to 15 percent and put us on par with our neighboring states. The EITC helps keep working families and children above the poverty line. In spite of a strong economy, our child poverty rate in Nebraska has continued to climb from 10 percent in the year 2000 to 17.7 percent, or almost one in five kids, in 2013. And as Senator Pansing Brooks mentioned in her opening, without the impact of the EITC, our child poverty rates would be significantly higher. It's actually estimated that nationally the number of poor children would increase by one-fourth without the EITC. It also reduces the severity of poverty for an additional group of families. Nationally, that's about 21.6 million people including 7.8 million children. In 2013, over 137,000 households in Nebraska, or almost one in six tax filers, claimed the state EITC, and over \$31 million was put back in the pockets of Nebraska's low-

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income working families. The average adjusted gross income of those claiming the EITC was just over \$15,000 per year. So for families in this income level, every penny counts. And LB495 would be significant in helping families meet basic needs. Over 177,000 children live in Nebraska households who benefit from the EITC. And studies show that the impact of these tax credits on children goes beyond just the extra income for their family to meet basic expenses. An increase in income from these credits is also associated with increases in student achievement and future earnings as an adult. And the EITC has even been found to be associated with positive impacts on child health. Studies have also found that the EITC has been found to be associated with higher rates of private health insurance and lower rates of public health insurance among children. And EITC expansions have also been associated with better birth outcomes for infants. Finally the EITC is a tool for promoting savings among lower income families. One study of those that received EITC of greater than \$1,000 found that 39 percent saved some portion of their tax return. In conclusion, the EITC is one of the most effective tools we have for addressing child poverty and it has several benefits for children that extend beyond just additional income. We would urge the committee to advance this bill. And I thank you for your time today. [LB495]

SENATOR GLOOR: Thank you, Ms. Mancuso. Any questions? I don't see any right now. Thank you, Aubrey. [LB495]

AUBREY MANCUSO: I was just going to mention, Senator Schumacher, that there isn't a limit on owning property per se, but you can't have more than \$3,300 in investment income to qualify for the EITC. So if you have any investments in excess of \$3,300 you wouldn't be eligible. [LB495]

SENATOR GLOOR: Yes, Senator Schumacher. [LB495]

SENATOR SCHUMACHER: Senator Gloor, just to follow up, that's investment income. You could \$1 million in investments, but if you had a down year in the market and your income was below \$3,300 you'd still qualify. [LB495]

AUBREY MANCUSO: I believe if you have any amount, if you had more than \$3,300 that was invested anywhere, even if that number...not investment income. So I think I misspoke on that. So if you have more than \$3,300 in a savings account that accrues interest, that would be considered investment income or \$3,300 in a stock portfolio. [LB495]

SENATOR SCHUMACHER: But there is a difference between investment income and the amount in your portfolio. [LB495]

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AUBREY MANCUSO: Right. So I think it's the amount of the portfolio that they're actually looking at. [LB495]

SENATOR SCHUMACHER: So does that apply to houses, cars, and farms? [LB495]

AUBREY MANCUSO: No. No. [LB495]

SENATOR SCHUMACHER: Just investments? [LB495]

AUBREY MANCUSO: That would just apply to cash--cash and cash equivalents. [LB495]

SENATOR SCHUMACHER: Okay. I will have to check into that definition. Thank you. [LB495]

SENATOR GLOOR: Senator Davis. [LB495]

SENATOR DAVIS: Thank you, Senator Gloor. Aubrey, good to see you. So how does Department of Revenue ascertain if these people have \$3,300 in assets, or nonresidential...you know what I'm asking? [LB495]

AUBREY MANCUSO: Right. Well, supposedly when they're, you know, filling out the tax return they're looking at those gains and losses from investment incomes. So they would hypothetically be bringing that information at tax time if they had it available. [LB495]

SENATOR DAVIS: Well, they'd have to bring their 1099 reportable income. [LB495]

AUBREY MANCUSO: Right. [LB495]

SENATOR DAVIS: But if it's the amount of intangible wealth that they have, how is that assessed? [LB495]

AUBREY MANCUSO: I mean as far as like intangible wealth, they don't look at things like home ownership or vehicles or those kind of assets. [LB495]

SENATOR DAVIS: That's personal property though. [LB495]

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AUBREY MANCUSO: Right. [LB495]

SENATOR DAVIS: So intangibles would be like stocks and bonds. And as I understand it, there's no way the Department of Revenue knows how much that is. And if you don't know, I just... [LB495]

AUBREY MANCUSO: I'd have to look into that further, but I think some of that information is provided at tax time. But I'm not sure how they verify all of that. [LB495]

SENATOR DAVIS: It might be good to know that. [LB495]

SENATOR GLOOR: Seeing no further questions. [LB495]

AUBREY MANCUSO: Thank you. [LB495]

SENATOR GLOOR: Thank you, Aubrey. [LB495]

JAMES GODDARD: (Exhibit 7) Good afternoon. My name is James Goddard; that's J-a-m-e-s G-o-d-d-a-r-d, and I'm the director of the Economic Justice and Health Care Access Programs at Nebraska Appleseed. Nebraska Appleseed is a nonprofit legal advocacy organization whose mission is to fight for justice and opportunity for all Nebraskans, here today to testify in support of LB495. The structure of our tax system has a critical impact on Nebraskans and all that makes our state the good life. And an important component of that is the EITC. LB495 would help more low- and moderate-income working families by increasing Nebraska's EITC from 10 percent to 15 percent over the next few years. This will allow more families to keep more of their wages, and this is a wise decision, especially with many in our state struggling despite working hard. According to a census estimate, one-fourth of Nebraskans work for wages that fall below the poverty line. LB495 would ensure working families can keep more of their wages, helping them make ends meet. In fact, research has shown that most families use the EITC to pay for life's necessities that are critical to work like vehicle maintenance. The EITC has also been shown to have even farther-reaching positive impacts, especially for children in areas including better access to prenatal care and better odds of finishing high school and going to college. In short, LB495 would help working Nebraskans move ahead, and for these reasons we would urge the committee to advance the bill. Thank you. [LB495]

SENATOR GLOOR: Thank you, Mr. Goddard. Questions? I don't see any, James. Thank you. [LB495]

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JAMES GODDARD: Thank you. [LB495]

SENATOR GLOOR: Additional proponents. [LB495]

AMBER HANSEN: Good afternoon, Senators. [LB495]

SENATOR GLOOR: Good afternoon. [LB495]

AMBER HANSEN: (Exhibit 8) My name is Amber, A-m-b-e-r, Hansen, H-a-n-s-e-n. I'm the executive director for Community Action of Nebraska. Nebraska is served by nine Community Action agencies who collectively serve all 93 counties. Community Action agencies have nearly 50 years' experience serving Nebraska with the goal of creating economic stability for our community's families and individuals. Toward this end, Community Action agencies administer the Volunteer Income Tax, or VITA program. Through these tax, or so-called VITA sites, Community Action agencies serve thousands of families in the preparation of their tax returns. During the last tax season, rural Nebraska alone saw \$2.8 million in refund brought into their communities through the assistance of our volunteers and agencies. Of that, over \$1 million was earned income tax credit. And that is just outside of Lincoln and Omaha. So if you look at total statewide numbers and just those Volunteer Income Tax Assistance sites, you're talking about...more than 3,500 returns completed that include an earned income tax credit and a total credit of more than \$5.8 million. And again, that's just through these Volunteer Income Tax Assistance sites. Through our experience, Community Action agencies recognize the value of the earned income tax credit as a means for helping families with economic stability, and thus we're here today in support of LB495. We do not just prepare taxes. We offer a number of other economic stability services including financial literacy, budgeting, credit counseling, individual development accounts, and other services that assist families with the achievement of economic stability. Tax law is intimidating and complicated. As one of our clients put it: When I do my taxes on my own, I don't know what I'm doing and I can't ask anybody. Community Action knows what they're doing and have been doing it for a long time. Many people like this client do not have the means or resources to do their taxes themselves or pay a fee-for-service provider and rely on our agencies and VITA volunteers to help demystify the process and meet an important annual legal requirement. People who benefit from the earned income tax credit are people like Kim Robbins from Fairbury, Nebraska. Kim came to Fairbury after domestic violence left her and her two children hungry and homeless. She sought the help of the Blue Valley Community Action Partnership who provided her a number of services, including free tax preparation. She qualified for and received the earned income tax credit and used it to pay off debt and help her family start a new life. Today, Kim is thriving and credits the assistance of Community Action for her success, but notably, Kim credits the earned income tax credit as an important tool for helping her get back on her feet. Other families who benefit from the earned

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income tax credit include the Weible family from Nebraska City. A family of four, both Roxanne Weible and her husband work full time. At home, Roxanne and her husband have a 3-year-old and a 4-month-old. The Weibles plan to use their earned income tax refund this year to purchase a new car so that both she and her husband can get to work regularly and reliably. Roxanne says: The car I have now, nothing works. The car itself runs, but nothing else does. This year, we're getting a new car in which all the windows work, air conditioner, defrost all work. And the dealership put new tires on the car so it's better on snow and safer for my family. I feel better about taking my little one to doctor's appointments knowing that the new car is safer. When asked what her family would do if the earned income tax credit was greater, Roxanne stated: I would get more things my family needs. Her long-term goal is to use the future refunds to make a down payment on a home. Working Nebraska families all across the state use their refund in a similar fashion: to pay off debt, make down payments, start savings, and provide financial security to themselves and their families. There are thousands of people like Kim and the Weibles who need the money and use it wisely. The earned income tax credit is often recognized as one of the largest and most effective antipoverty programs. Not only does the observations of Community Action support this, there is also research to confirm it. According to the Center on Budget and Policy Priorities, recent research found that children living in households that receive the earned income tax credit perform better in school, are more likely to attend college, and earn more as adults. In 2013, poverty rates in this state will be 3 percent higher as a whole and 6.4 percent higher for children if not for the earned income tax credit. It is a valuable investment. And if you ask Community Action agencies and staff at them about...the kind of people who work with low-income individuals on a daily basis, the thing that they tell you they like about the earned income tax credit is that it goes to people who need it the most, the people who most deserve it, those working families. It brings money into Nebraska, lifts people out of poverty and supports economic stability. For those reasons, we urge you to support LB495. I welcome any questions. [LB495]

SENATOR GLOOR: Thank you, Ms. Hansen. Great timing. Are there any questions? I see none. [LB495]

AMBER HANSEN: I will say to some of your more technical questions, I have a tax preparer who's certified at my office. And I'll go back and ask him and get you some answers for that. [LB495]

SENATOR GLOOR: Thank you for that. [LB495]

AMBER HANSEN: Thank you. [LB495]

SENATOR GLOOR: Good afternoon. [LB495]

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DAVID PIESTER: (Exhibit 9) Good afternoon. Senator Gloor, members of the committee, my name is David Piester, P-i-e-s-t-e-r, and I live in Lincoln. I appear here today as an individual and as a volunteer for the Center for People in Need, a nonprofit organization in Lincoln that serves poor and low-income people, mostly in Lancaster County. The Center offers food, clothing, educational courses, ESL classes for refugees, computer skills training, job skills training, and direct services to assist people in their day-to-day struggles to self-sufficiency. In 2014, the Center was visited by over...visited over 21,000 times by clients for services of one kind or another, over 10,000 of those clients were children. To be eligible for services from the Center, a client must be living on income less than 150 percent of the federal poverty line. A majority of the Center's clients are themselves employed. About 90 percent live in households where at least one adult is employed in some fashion. A majority of those employed are employed at one full-time job, and over a third are employed at one part-time job. Even with employment considered, however, a majority of the Center's clients live on household incomes of less than \$1,250 a month. Many of them have to choose between paying bills and buying food. Many have childcare expenses which barely make it economically advantageous to work at all. To say that these people live from hand to mouth would be an understatement. Even when employed, the wages they earn don't allow them to save any money. All of their earnings are spent and usually well before the next paycheck. They are consumers. LB495 would give back to these workers some of the money they pay in income taxes by increasing Nebraska's earned income tax credit. The Center for People in Need urges you to support this bill for several reasons. First, the money credited or refunded to these taxpayers will help them in meeting expenses. Those eligible for this credit are the working poor. They are sometimes working at more than one job to make ends meet. They are struggling. Although...allowing them to keep more of their earnings would go a long way toward keeping them afloat financially, potentially raising their standard of living. Second, increasing the earned income tax credit gives these taxpayers incentive to work more hours, work toward higher paying jobs, and earn more knowing that a larger portion of their income will stay in their pockets. When working low-income paying jobs, the wage earners' living expenses quickly gobble up those wages. Increasing the amount those people will keep will encourage them to continue to work their way out of poverty. And national statistics do show that most do work their way out. Sixty percent of those who benefit from the earned income tax credit use it for less than two years. Third, increasing the earned income tax credit would help balance the tax burden among income groups. Poor and low-income people pay a higher share of their incomes in taxes than do people with high incomes. And there's a fact sheet attached that demonstrates that. Lessening this discrepancy would help balance the playing field for those at the lower ends of the income scale. Fourth, increasing the earned income tax credit would inject money into Nebraska's economy. As I said earlier, the people who benefit from the proposed increase in this credit are consumers. Everything they earn is typically spent on monthly expenses before the next paycheck arrives. While it is true the state would lose revenue by refunding a larger amount of this credit, it is also true that that money would be spent and multiplied as all other spending is when injected back

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into the economy, raising other income and accompanying tax receipts and stimulating the creation of jobs, not to mention the savings of having fewer people on public benefits. Fifth, raising Nebraska's earned income tax credit to 13 percent and 15 percent is modest. There are 25 states and the District of Columbia as well as some local governments which grant a state or local credit as a percentage of the federal credit. Those range from 3-50 percent of the federal credit. Increasing the Nebraska percentage to 13 percent and 15 percent would place Nebraska somewhere in the middle of those states that grant the credit. I would suggest a 20 percent would be a lot fairer to the low-income people. But the bill says 13 percent and 15 percent. Simply put, raising the earned income tax credit is the right thing to do. It has been recognized nationally as one of the most effective poverty-fighting tools the government has implemented, ever. President Reagan in 1986 said it was a sweeping victory for fairness and perhaps the biggest antipoverty program in our history. Increasing this credit will assist those fighting to work their way out of poverty, encourage low-income people to work, and stimulate the economy. So the Center for People in need urges your support of LB495. Senator Schumacher, in response to your questions regarding assets, I don't have anything definitely that addresses the operating loss situation. However, the definition of earned income is that it has to be earned. That would exclude investment income from consideration. That's a federal law question and I've never been a tax attorney so I won't venture to guess out on that. But the information I have from the IRS is just that. [LB495]

SENATOR SCHUMACHER: Thank you. [LB495]

DAVID PIESTER: Questions? [LB495]

SENATOR GLOOR: Thank you, Mr. Piester. Do you happen to have any idea of what percentage of the clients of the center have debt of any kind? Do we have any idea? [LB495]

DAVID PIESTER: I would probably say 100 percent, but I don't have that actually in black and white. We don't...we survey the clients several times a year. And they're always in debt. The last time we surveyed, there were something like one-third of them who had received a utility shutoff notice in the last year. There were, I believe, 10 percent who had then-pending utility shutoff notices. So that's the level of operation at which they're living. [LB495]

SENATOR GLOOR: That helps. Thank you. Other questions? Senator Sullivan. [LB495]

SENATOR SULLIVAN: Kind of following along those lines, Senator Pansing Brooks said that this particularly impacts families with children. [LB495]

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DAVID PIESTER: Yes. [LB495]

SENATOR SULLIVAN: So in terms of your clientele, what kinds of occupations are they involved in? [LB495]

DAVID PIESTER: Minimum-wage jobs, anything they can get. I would...I think it might be a stretch to call them occupations because they keep jumping. And I don't know that...there are a lot of people who have a certain skill set, say, an automobile mechanic or something. And so they'll jump from job to job still doing the same thing. But as far as professionals, nothing, although I will say in that regard, the level of education of our clients has been rising over the last several years. And there are more people who have bachelor's degrees now than five years ago when we started that. So it indicates that that may be a reflection on the economy. It could reflect on any number of things. But that's, if you want to say occupation, maybe that would lead into that. [LB495]

SENATOR SULLIVAN: Possibly. And she also made the case that this is a way out of poverty. So do you see some upward mobility among your clientele who have taken advantage of the EITC? [LB495]

DAVID PIESTER: Yes. We don't have that specific survey question, but the national figures are 60 percent earn their way out of poverty within two years so they're no longer getting it. [LB495]

SENATOR SULLIVAN: Thank you. [LB495]

SENATOR GLOOR: Seeing no other questions, thank you. [LB495]

DAVID PIESTER: Okay. Thank you. [LB495]

SENATOR GLOOR: We'll continue with proponents. [LB495]

JOHN CAVANAUGH: (Exhibit 10) Mr. Chairman, members of the committee, I'm John Cavanaugh, J-o-h-n C-a-v-a-n-a-u-g-h, from Omaha, Nebraska, and I am here on behalf of the Holland Children's Movement, a nonprofit organization established by Dick Holland to advocate for policies to improve the lives of children and families in poverty. I want to...I'm here today in support of LB495. And I want to commend Senator Pansing Brooks first for introducing it and secondly for the obvious homework that she did in presenting to this committee. It's going to shorten my testimony. I do have written testimony which cites much of the research that has been

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cited before. So I don't need to repeat that. The heart of the matter here is children and families in poverty. This is a widely recognized most effective, most efficient way for the government to provide a stairstep out of that poverty. We do...the overwhelming academic evidence and evidence of all who work with the families in poverty, the key is education, and the problem is education. Families in poverty represent those children who are struggling in our schools. And we see that in every measure that we apply to our educational system. This tool...and we were, our organization was very active in the minimum wage effort in this state, which of course you recognize was overwhelmingly supported by more than 60 percent of Nebraska voters in the last election. And it is important to focus on what is the role of the minimum wage in terms of this struggle on income inequality. It's at the very bottom of the ladder of working people and working families. So increasing the minimum wage takes an individual working full time from somewhere below \$13,000; to at \$8 in the range of \$15,000; and at \$9, \$17,000. They're still at the bottom of the economic pyramid of this country. And in the last 30 years, what we have seen is a huge shift in the distribution of income in our country. Thirty years ago, the bottom 50 percent of the population received over 20 percent of the income. Today, the bottom 50 percent receives less than 12 percent of the income. So that income has flown...has moved tremendously to the top. That's the core of the problem that we're dealing with. So we have 80 percent of our... 88 percent of our population working, but they're working at wages that don't allow them to succeed economically or socially in our society. This is a tool that you can use that has broad popular support across the political spectrum and has real, positive impacts and consequences for families at these low-income levels. So I commend Senator Pansing Brooks, and I urge this committee to advance LB495 and for the Legislature to pass this. Thank you very much.
[LB495]

SENATOR GLOOR: Thank you, Mr. Cavanaugh. Are there any questions? Seeing none, thank you for your testimony. [LB495]

JON BAILEY: (Exhibit 11) Good afternoon. 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 LB495. As you all know, your committee has received numerous pleas for tax relief and tax treatment so far this session. Senator Gloor, I was especially interested in your most recent weekly column in the Grand Island Independent that broke down the topics of all of the tax bills that your committee is looking at this year. It was very interesting. But a group of Nebraskans that has been generally missing from the tax policy discussion are low-income working Nebraskans. And that is why LB495 is so important. It's the one piece of tax policy that truly benefits these families. The main reason...the main information I want to give you today is the report that is attached to my testimony. This is a copy of Earned Income Tax Credit and Rural Families, a report we released in October 2014. This report looks at the usage of the federal earned income tax credit throughout the country. But since Nebraska's earned income tax credit

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is connected to the federal tax credit, the analysis and findings are the same for both credits. This report analyzes the usage of the federal earned income tax credit for tax year 2012, the most recent IRS data that is available, by county types for each state. We looked at three county types. First, metropolitan counties--Douglas, Lancaster, Sarpy County, and some other counties that are surrounding those counties. These counties are part of a metropolitan statistical area that is defined by the U.S. Census Bureau. Second, we looked at micropolitan counties--counties that are based on having at least one core urban area of 10,000-49,999 population. So these are our mid-sized cities: Norfolk, Columbus, North Platte, for example. And, Senator Gloor, for the period we looked at, I think Hall County is still included as a micropolitan county, though they're now a metropolitan county. And third, rural counties which is essentially every county that's not one of the other two counties. So nationally we found that micropolitan and rural counties, the two smallest counties...categories in terms of population have the largest use of the federal earned income tax credit as a percentage of all federal tax returns claiming the credit. And on the top of page 2 of my testimony, you can see the table from the report that outlines the data for the entire country. So you'll see in the United States, just a little bit over 19 percent of all tax returns claimed the earned income tax credit. Metropolitan counties claimed a little bit lower, just under 19 percent. And then micropolitans and rural counties, over one in five tax returns claimed the earned income tax credit. Nebraska data reveals a similar pattern. And I have broken down there the percentages by county types that claim the earned income tax credit, the federal earned income tax credit in Nebraska. So statewide, 16 percent of all federal tax returns claimed the earned income tax credit; metropolitan counties had a little bit lower than that; micropolitan counties, about 17.5 percent; and then rural counties, just under 16 percent of tax returns claimed the federal EITC. The report that is attached to my testimony also details many of the benefits of the earned income tax credit in alleviating poverty. And for many aspects of family life, these are the data and the research that other testifiers have talked about so I won't repeat them. But the bottom line is all research has shown that the earned income tax credit is the most effective antipoverty policy we have in this country and has been for nearly 50 years. The credit is also unique, as Senator Pansing Brooks testified to, it's unique in domestic policy in that it is totally bipartisan. It has been bipartisan since its start. It was introduced by President Nixon, implemented by President Ford, praised by President Reagan, expanded by President Clinton. So Presidents of both parties, officials in both parties have praised the earned income tax credit throughout its history. So clearly the earned income tax credit is important to many families in rural Nebraska and in our mid-sized cities. Many families depend on the credit for its poverty alleviation benefits, and a stronger tax credit will enhance those benefits. Research has also shown that the stronger the connection between the federal credit and the state credit--which the strong connection means the higher the percentage of the state credit compared to the federal credit--the stronger the effects on families and individuals in poverty. So we, for all of those reasons, we are respectfully requesting that you advance LB495. And I might be able to shed some light on some of the questions asked by Senator Schumacher and Senator Davis from personal experience. [LB495]

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SENATOR GLOOR: Thank you, Mr. Bailey. Are there questions for Mr. Bailey? Senator Davis. [LB495]

SENATOR DAVIS: I would appreciate that. [LB495]

JON BAILEY: All right. Back in the day, I was a small-town lawyer in Colorado and shared an office with an accountant. And during tax season we did tax returns. And a lot of those tax returns claimed the federal earned income tax credit. And this was in Colorado. They did not have a state credit at that time. So as was testified before, the key point of the earned income tax credit is any income has to be earned. So it has to be earned. So passive investment income does not qualify in your calculation of income for this credit. You also have to have children, though now there has been some revisions to the credit that have expanded a small credit to childless, low-income people. So the key points are the earned income and the existence of children in the family. So it's been a federal credit for almost 50 years, all of these issues that you brought up in your questions I think have been addressed or don't apply to the credit. So the Nebraska credit connects to the federal credit, so those rules on earned income and child...families with children exist for the state credit too. The report that I gave you, on the first page it has a little summary of how the credit works. And it's basically a sliding scale of the more income you reach up to a point, the smaller your credit. It also depends on the number of children you have in the family. So there's a lot of factors that are very individual for different families, different households that go into figuring this credit. If you ever do a federal tax return, you'll notice that there's a separate form for the earned income tax credit that you have to provide all this information. You come up with a bottom-line figure that you qualify for. And as I understand it, the Nebraska credit is simply a percentage of what you get from the federal credit. [LB495]

SENATOR GLOOR: Senator Schumacher. [LB495]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. But the two questions I had relative to that, is there an asset test? [LB495]

JON BAILEY: Not that I'm aware, not on the federal credit. I don't know about the state credit. [LB495]

SENATOR SCHUMACHER: As long as it isn't producing income, or at least income on paper, you can be a multimillionaire and get the credit, and you've got kids and the other things. [LB495]

JON BAILEY: Earned income again is the key. [LB495]

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SENATOR SCHUMACHER: Yes. And in order to depress your earned income, you can take a net loss carryforward to make your income on paper be zero for a year when it was rather substantial, provided you have a loss carry forward. [LB495]

JON BAILEY: There are a lot of ways around the income. (Laugh) [LB495]

SENATOR SCHUMACHER: Finally, though, away from the tax angle, people who are working, drawing a low wage get a bonus check from the government basically. [LB495]

JON BAILEY: Correct. [LB495]

SENATOR SCHUMACHER: Okay. So isn't that just a wage subsidy for employers? And could it be viewed that that is a reason employers do not have to raise wages, because the government is making up the spread? [LB495]

JON BAILEY: That's an interesting angle on it. I've never really seen anybody else make that argument. So it's interesting, and it's...in some respects, I mean, my initial reaction is, yes, that's probably true. [LB495]

SENATOR SCHUMACHER: Thank you. [LB495]

SENATOR GLOOR: Seeing no...Senator Brasch. [LB495]

SENATOR BRASCH: Thank you, Chairman Gloor, and good to see you again, Jon. [LB495]

JON BAILEY: Good to see you. [LB495]

SENATOR BRASCH: What I'm thinking now as I'm hearing this testimony and especially yours, is that the need has been there for 50 years at least. Poverty is present and most likely will continue and we will work to continue to help those who have the greatest need. And I'm wondering, in the rural areas versus the urban areas when we addressed poverty 50 years ago it could be that we tried to grow a bigger garden, can a little more food, you know, that our means of stretching that dollar perhaps has changed significantly over time. And is that increasing the urgency of poverty, or is it that the culture is individuals tend to live paycheck to paycheck regard...? The more you make, the more you spend. I don't know, you know, help me out here, what you're seeing. [LB495]

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JON BAILEY: Well, rural poverty and urban poverty are certainly different. I mean if you're only using the definition of poverty as a lack of income, I think it's oversimplifying it. [LB495]

SENATOR BRASCH: Okay. [LB495]

JON BAILEY: Rural poverty certainly has unique characteristics just like rural communities have unique characteristics. The distance that people have to go in rural communities for basic services certainly plays into that. The ability of people to find jobs in rural communities, the opportunities that are available to people in rural communities, certainly different than the jobs available in Lincoln or Omaha. The ability of people to get to those jobs is certainly different in rural communities. If you have to travel 50 miles, say, from our hometown to Sioux City or Norfolk to find a job that pays you enough to live, that can be a real barrier and can be a real hardship on people in rural communities. And not to say that transportation and distance aren't barriers for people in Lincoln or Omaha, but they might have more options to look at. So it's certainly different and it exists in both. It exists in great numbers in both rural and urban areas as the data we found show. And it's just different. It's different in rural areas, and certainly our culture has changed in the last 50 years about what we spend our money on and definitely how much it costs. Interesting data, I've also found very interesting recent...in the last few years from the Department of Agriculture, when I was starting this work, rural families had much lower household expenses than urban families because they did not have access to certain things. You know, you didn't have cable TV, for example, on the farm. Now, everybody has available everything. And so expenses in rural areas and in urban areas are on average pretty much the same. But incomes are not the same. [LB495]

SENATOR BRASCH: And your statistics here are very good. And I don't dispute the fact. You just brought some thoughts about how I believe there's a culture change as you've said. But you know, the priorities change, and what we're looking at are children who are addressing a shortage in their family causing more stress. But thank you, and I'll read this thoroughly. [LB495]

JON BAILEY: But this is...the earned income tax credit is one way that applies to any family in this circumstance. And it's one way, a fairly easy and simple way to get more income that you've heard that people use and spend and it's a stimulus to the economy by these families. [LB495]

SENATOR GLOOR: Thank you, Mr. Bailey. [LB495]

SENATOR BRASCH: Thank you. [LB495]

SENATOR GLOOR: Thank you, Senator Brasch. Senator Sullivan. [LB495]

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SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you for your testimony. Following up on Senator Schumacher's comment, but also if in fact the EITC is helping people move out of poverty but it's...the balance is becoming worse in terms of where the income is going. And it's not going on an even spread. [LB495]

JON BAILEY: Yeah. [LB495]

SENATOR SULLIVAN: Can you venture a guess why. [LB495]

JON BAILEY: I think it's fair to say if you look at the data on the earned income tax credit, it doesn't make anybody rich. [LB495]

SENATOR SULLIVAN: Right. [LB495]

JON BAILEY: It lifts people who are under the poverty level, it lifts them, enough people above the poverty level. So datawise, statisticwise, it lifts people out of poverty. But it's not making them wealthy by any means. And that was not its intent, to make people wealthy. It helps. It helps people. It helps families. I think the issues around inequality are probably broader than the time we have this afternoon. I mean they're certainly big, major, global, structural issues in our economy and are important, but we don't have the time really to get into all of those, I don't think. [LB495]

SENATOR GLOOR: Thank you. Senator Smith. [LB495]

SENATOR SMITH: Thank you, Mr. Chair. I'm trying to remember the floor discussions that we had last year around increasing minimum wage. And were not the individuals and families that would benefit from an increase in the earned income tax credit the same ones that we were identifying that would benefit from an increase in the minimum wage? [LB495]

JON BAILEY: Yeah, some of the previous testifiers spoke to that. I think we're talking about probably two different sets of people. I think the minimum wage, the people that will benefit from the minimum wage are on the very low end of the income scale... [LB495]

SENATOR SMITH: Are we not talking about the same people with this? [LB495]

JON BAILEY: In some...I mean, they may be in both categories. Some of these people that qualify for the earned income tax credit, as some of the earlier testifiers talked about, are people

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that are working multiple jobs, and maybe multiple minimum wage jobs. The income level, as you can see in the report where I give a summary of what the federal EITC is, they don't make large amounts of household income. But they're in the...you know, can be in the \$20,000, \$30,000 range depending on the makeup of their household. So they may be above minimum wage making that kind of money. So we're talking about similar groups of people, but not in a lot of cases exactly the same people. [LB495]

SENATOR SMITH: So in your opinion which benefited that group of people more, the increase in minimum wage or the increase in earned income tax credit? [LB495]

JON BAILEY: I don't know. I think it's too early to say on the increase in the minimum wage. I think we'll have to let that...you know, it just went into effect in January. [LB495]

SENATOR SMITH: Other than a dollar per hour relative to what we're seeing here... [LB495]

JON BAILEY: Right. [LB495]

SENATOR SMITH: ...and the equivalent dollar per hour. [LB495]

JON BAILEY: Yeah, we have almost 50 years of data on the earned income tax credit. So we have a pretty good idea, as I outline and as others have outlined today, the effects of that. So I don't think there's any denying the positive effects of the earned income tax credit. I suspect as we gather more data over more time on the minimum wage, we'll find similar effects. But I think it's too early to say yet on that. [LB495]

SENATOR SMITH: Thank you. [LB495]

SENATOR GLOOR: Seeing no further questions, thank you, Jon. [LB495]

JON BAILEY: Thank you. [LB495]

SENATOR GLOOR: Any final proponents? Are there any opponents to LB495? Anyone in a neutral capacity? Seeing none, Senator, you're recognized to close. [LB495]

SENATOR PANSING BROOKS: (Exhibit 12) Thank you. Just for the record, we were able to find Senator Harr's numbers, so we did have those passed out so that he could look at those. Okay, well, LB495 is critical in my opinion to our state and it's vital to my district. I think it's

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vital to each of yours, too, when you look at the numbers that we have. This has been recently verified as well. The Lincoln Community Foundation has a Vital Signs report on poverty that came out last year. And many of the major businesses and organizations are working on that right now. There was a bubble of poverty that occurred in 2008 and people are still trying to pull themselves up and out of that. We've heard testimony that without the EITC, we'd have a quarter increase in poverty, that 88 percent of those are working but the wages are not helping them to succeed socially or economically. Sixty percent of the people receiving the EITC earn their way out of poverty in two years, sixty percent. That's a claim that the minimum wage has not made, has not been able to make. Obviously, with the minimum wage as people's incomes raise, then the earned income tax credit would decrease. So I hope that you will look at this favorably. I know there's a large fiscal note again. I'm willing to work with you. Again, I think this is important to all Nebraskans as we've heard across the state. And I want to thank the kind people who came from Omaha and all over the state to testify today. Thank you very much for your time. [LB495]

SENATOR GLOOR: Any final questions for Senator Pansing Brooks? I see none. Thank you. [LB495]

SENATOR PANSING BROOKS: Thank you. [LB495]

SENATOR GLOOR: And that will end the hearing on LB495. We will now move to LB559. Senator Schumacher. Anytime you're ready, Senator. [LB495]

SENATOR SCHUMACHER: Thank you, Senator Gloor and members of the Revenue Committee. My name is Paul Schumacher, S-c-h-u-m-a-c-h-e-r, here today to introduce LB559. LB559 deals with an interpretive issue of a bill passed, I think, three years ago called the New Markets Act. A brief overview for those of you who maybe have forgotten what the New Markets Act was is the federal government back in one of those bipartisan years that are probably long gone, Jack Kemp and Bill Clinton came up with the notion of allocating a bunch of federal income tax credits to various community kind of development organizations whose job it was to then take, apply for, show they were qualified to administer, take the fistful of the credits that were allocated each year. And then go raise private income...private investment from insurance companies, from banks, from individual investment organizations and leverage that and deploy it in low-income zip codes. In Nebraska, that's a good chunk of some of the Omaha areas and many of the rural communities including communities like Lexington, for example. And the idea was that you could take these credits and apply them against your income tax or any other tax for that matter, a pretty broad, general definition of a federal tax at that time, and thus get an extra bonus for your investment. And it went on for ten years at the federal level. I think something like \$30-plus billion were invested at the federal level, and Nebraska got

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virtually none of that because businesses, the investors were smart and they looked at places where they could get more bang for their buck. And if you had the federal credits and if the state offered state credits, that's where you went because you could get a little extra by doing it that way. Well, Nebraska three years ago said, okay, let's create a Nebraska New Markets credit system to team up and match up with the federal system. And we did that and we applied, I think it was like \$15 million a year for a total of five years, \$75 million to the program. And people quite successfully began to acquire the Nebraska credits in addition to the federal credits and make investments in these low-income zip codes, and it's been a successful program. The rub apparently comes in is our law says something to the effect, you can take some of these credits and apply them toward any number of other taxes including the premium tax and depository tax and income tax...corporate income tax, and you could apply them. Well, we also have another provision of law that says when an insurance company pays its premium tax, it can take that receipt for that premium tax, take it over and apply it toward its corporate tax so that it doesn't pay double. So you pay your premium tax, you can take your receipt for that and that will function as a receipt for your corporate tax or a portion of your corporate tax. Where the rub comes in is what happens if you use your new Markets Credit to pay your premium tax and then take the receipt, so to speak, from your premium tax over to pay your corporate tax. In the end you take advantage of, you don't come out ahead, but you get to take advantage of the New Markets Credit that you get to begin with and channel it through the premium tax, channel it through to the corporate income tax. Well, for some reason, the Department of Revenue has a little heartburn with that and says, no. The way they interpret it even though you can take the New Markets Credit against your premium tax, you can't then take your premium tax receipt for tax paid, so to speak, and apply it towards your corporate tax which then raises the question, why would we ever have allowed the corporate...or the New Markets Credit to be applied to your premium tax if it didn't do you any good, if you couldn't use it to its ultimate destination, the corporate tax? And what this does is allows and makes it clear that if you use your New Markets Credit to pay your premium tax, that counts as a premium tax payment for you to take against your corporate tax. And so you really get benefit of it. And I think that's the long and short of it. There's some folks that will follow me who probably are more familiar with the intricacies of the details. But this, I think, is corrective legislation. And it is not asking to increase the amount of the \$15 million. That was in a fiscal note from years ago. I'm not sure how that interacts with the little fiscal note that's on this right now. But nevertheless, we're not allowing any more tax credits than we previously allowed, and presumably, if the insurance companies don't use them, they will be used by somebody else. But insurance companies are a big chunk of organized money and capital and would seemingly be one of the targets of what was intended by this bill to begin with. So they should be allowed to use the credits. I'd be happy to take any questions. [LB559]

SENATOR GLOOR: Thank you, Senator Schumacher. I believe in my personal notes, I've called this the "Who's on First" bill that we have. [LB559]

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SENATOR SCHUMACHER: That might be a good way of doing it. [LB559]

SENATOR GLOOR: Senator Harr, a question. [LB559]

SENATOR HARR: Yeah, first of all, thank you for being the one to introduce this bill because I don't know if anyone else could have explained this better because it is rather confusing and technical. And you've addressed some of my issues about the fiscal note. I'm looking at the fiscal note from your original bill, LB1128. And we don't change the amount any. You know the cap is still \$15 million a year. And this is the department's own fiscal. Where they write their analysis it says: "Credits for pass-through entities are divided among the owners. The credit can be used against the financial institutions tax, the insurance premiums tax, and income taxes." So you know, you kind of answered that question because it's that extra step is where they're having the heartburn is what you described. But I go up to, you know...we did this so the first two years there's no tax credit...or there's no payment. And then it's in year three which would be fiscal year '14-15. And in their fiscal analysis they have the fiscal note for the whole thing less than what they have for next year alone for just a section of it because they have this year for '14-15, they have the fiscal note at expenditures of \$47,000 and revenue of \$25,000 because there's a \$5,000 application fee, which means there would be only five people that apply. Now the fiscal note on this one is a whole heck of a lot higher. [LB559]

SENATOR GLOOR: Almost a \$1 million. [LB559]

SENATOR HARR: And yet it shows a loss of, you know, almost \$1 million. Can you explain this fiscal note to me or why it is how it is. [LB559]

SENATOR SCHUMACHER: I've spent some time trying to figure out exactly why they're thinking this is costing more than what was originally projected. I think some of the magic in the numbers is that in the first two years of the program that the credits weren't available. [LB559]

SENATOR HARR: Yeah, but I'm looking at year...this would be...'14-15 would be year three. [LB559]

SENATOR SCHUMACHER: Okay. And quite honestly, Senator, I don't know. All I do know for sure, and perhaps some of the mystery can be unravelled by folks coming behind me, is the overall authorization of credits is not changing. [LB559]

SENATOR HARR: Okay, because a matter of fact, they say in their fiscal note: "Because these credits can't be earned until two years after the loan, no credits can be taken before tax year

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2014, which means that no credits will be paid before FY 2014-15." And then we go to fiscal year 2014-15, that's where we get the numbers I just said to you as opposed to these large numbers we have here. [LB559]

SENATOR DAVIS: These are '15-16. [LB559]

SENATOR HARR: Those are '15-16, but how do we jump so far from one year to the next if all we're doing is fixing one part as opposed to all of it? Okay. Well, thank you. [LB559]

SENATOR SCHUMACHER: Okay. [LB559]

SENATOR HARR: I'm glad I was able to stump you. I think that's the first and only time. [LB559]

SENATOR SCHUMACHER: Well, I'm glad you were too. I thought you had the answer. (Laugh) [LB559]

SENATOR HARR: Oh, gosh, no. [LB559]

SENATOR GLOOR: Thank you, Senator Schumacher. [LB559]

SENATOR SCHUMACHER: Thank you. [LB559]

SENATOR GLOOR: Can I see a show of hands of those people who wish to testify in any capacity on this bill? Okay, about three or four. We'll start with proponents, please. Good afternoon. [LB559]

JASON MAUS: Good afternoon, Senator Gloor, members of the Revenue Committee. My name is Jason Maus; that's M-a-u-s. I'm from Omaha. And thank you for giving me the opportunity to come down here and testify as a proponent for LB599 (sic) which would correct the technical problem with the statutory construction of the New Market Job Growth Investment Act and treat the credits available under the act--I'll refer to them as New Markets Tax Credits--that are paid by...that are to be used by insurers as tax credits paid against their premium tax. I'm a partner at the law firm Stinson Leonard Street in Omaha, Nebraska, and we do...we're a national law firm, but the heart and the headquarters of our tax credit finance group, which is primarily what I do, is in Omaha. And I say primarily. It's exclusively what I do is tax credit finance, and the vast majority of that is the New Markets Tax Credit world. My group and I have been involved with,

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have been helped facilitate, and have helped close hundreds of deals in the New Markets Tax Credit world, be them federal New Markets Tax Credits and in many of the 13-plus now states that have also implemented a New Markets Tax Credit program. I give all this background to substantiate the couple points I want to make for you today. And that is, number one, in my experience, these New Markets Tax Credits work. They create business-driven expansion of investment, create jobs and economic opportunities in distressed communities. And I'm proud to say that my team and I have now had the opportunity to close three of these deals here in the state of Nebraska. There are some untapped markets in these distressed communities, and it's programs like our New Markets Tax Credit program that help cultivate these markets and bring investments into our state. To give a little bit of background, Senator Schumacher did a good job of introducing the way that the Nebraska New Markets Job Growth Investment Act works, or I'll call it the Nebraska New Markets Tax Credit Act works, is...and I think we touched on it a little bit when talking about the fiscal note. And that is that it is a...it is a 39 percent credit based on 39 percent of a qualified equity investment. And it's spread out. The credit period is over a period of seven years. The credit itself is taken beginning with the second anniversary of the date at which such qualified equity investment is made at 7 percent in that year, and then 8 percent for the anniversaries three through six. The credit can be applied to various tax credits...various taxes, as discussed earlier, and relevant here is the premium tax paid by insurers and the corporate income tax. And again, as discussed, what happens is when a different revenue, a different statute in...a revenue statute provides that insurers that pay premium tax are allowed a deduction on their corporate income tax for the same amount of that premium tax. And so if we have, for example, two...a taxpayer, an insurance taxpayer who has \$1 million in premium tax liability and \$1 million in corporate tax liability, as they pay the premium tax liability, the corporate tax liability is reduced by that same amount. Now, if that same insurer wants to participate in the New Markets program and the credit is taken against the premium tax, there is no tax then to...there is no credit against the corporate income tax and they're still left in the same position they would have been in had they not participated at all. I also want to point out that, as also mentioned by Senator Schumacher, there is a cap on the amount of credits that can be utilized in any given year. And that's at \$15 million. The commissioner is able to limit that by limiting the amount of those qualified equity investments that are able to be made in any given year so that if you look at it as a staggered process as these credits are being claimed, at no point will the percentage of the aggregate amount of the credits that are being utilized exceed that 15 percent...\$15 million. What LB599 (sic) does is it doesn't change anything in regards to that \$15 million limit, and it doesn't change any of the mechanics that are behind the utilization of the New Markets Tax Credit here in Nebraska. But what it does do is it broadens the pool of investors that are eligible to utilize the credits. And in my experience, some of the greatest investors and the most willing investors we've seen across the country have been insurance companies and insurers. So I see here that my time is running short and I know your time is valuable, so I'll allow you to ask some questions here. And I just want to thank you again for the opportunity of letting me come down here and speak to you about the positives of LB599 (sic). Thank you. [LB559]

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SENATOR GLOOR: Thank you. Are there any questions of Mr. Maus? Senator Harr and then Senator Davis. [LB559]

SENATOR HARR: I just want to make sure for the record, this does not make the tax transferable, right? Just because we allow it to go from a...and what that means is it's not...well, just because we allow it to go from a premium to a corporate, it still stays within the same entity, that's not allowed the tax credits to transfer. [LB559]

JASON MAUS: That's correct. None of those rules will change at all. It still is not a transferable credit. [LB559]

SENATOR HARR: Okay. Thank you. Or refundable? [LB559]

JASON MAUS: It's a nonrefundable credit, yeah. [LB559]

SENATOR HARR: Okay. Thank you. [LB559]

JASON MAUS: The credit can only be claimed to the amount of the tax liability. [LB559]

SENATOR DAVIS: Thank you, Senator Gloor. So have you had clients who have gotten into this bind without realizing that until now? This is just... [LB559]

JASON MAUS: I have not had clients yet, but there are...you'll hear in some of testimony that's going to be provided subsequent to mine I believe that there are some opportunities out there that may be missed if this is not corrected. [LB559]

SENATOR DAVIS: But we're not...we're trying to fix the program for the future, not trying to go back and retrofit what's already happened. [LB559]

JASON MAUS: Correct. [LB559]

SENATOR DAVIS: Thank you. [LB559]

SENATOR GLOOR: Senator Harr. [LB559]

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SENATOR HARR: And one more question, are the whole \$15 million being used right now? [LB559]

JASON MAUS: No. In fact...so the \$15 million which is again the limit on the authorization of credits to be utilized in any given year, and since the credit is somewhat new yet and it's based...we had discussed earlier that the first two, what are called the credit allowance dates, we don't actually have any credits taken at that point. So they're kind of just being phased in, if you will, right now. So we're not at \$15 million in utilized credits at this point. And another note is that we won't hit that really in the beginning years at all because remember, at any given time, the allocation cannot allow for \$15 million...more than \$15 million in utilized credits. So you kind of have to trickle in your qualified equity investments really in the middle period. And I don't know the numbers for sure. There's probably going to be a couple years where that \$15 million is being...is approached, you know, but on the outsides of that, as credits build up and trail off over the six-year utilization. [LB559]

SENATOR HARR: Yeah. I'm just trying to figure out this fiscal note, that's why I asked. Okay. Thank you. [LB559]

JASON MAUS: Thank you. [LB559]

SENATOR GLOOR: Seeing no further questions, thank you, Mr. Maus. [LB559]

JASON MAUS: Thank you very much. [LB559]

SENATOR GLOOR: And I'd invite our next proponent forward. Go right ahead. [LB559]

SHANE McCARTHY: (Exhibits 1-4) Good afternoon, Chairman Gloor and the rest of the Revenue Committee. My name is Shane McCarthy, S-h-a-n-e M-c-C-a-r-t-h-y. I am here today representing Enhanced Community Development. We are one of the six or seven participants in the program that received allocation from the Department of Revenue, and I am the CFO of the company. Thank you for allowing me the opportunity to testify in support of LB559 which would treat Nebraska New Market Tax Credits as taxes paid. Again, this was a program that was originally passed in 2012 that encouraged private investment in businesses located in Nebraska low-income communities which historically the intent of the program is to attract private capital that otherwise these companies and these jurisdictions have historically been underserved by the capital markets. The program provides a 39 percent tax credit based on the qualified equity investment, the total equity amount made by a taxpayer through a qualified community development entity, which our firm is. We're a four-time allocatee under the federal program, and

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have participated in numerous other state programs across the country that are similar to the Nebraska New Markets Job Growth Act. To date, we've received a little over \$41 million of total allocation. The total program size is \$187.5 million; 39 percent credit equals roughly \$73 million tax credit cost to the state. Again, that credit is spread out over five years. The first two years no tax credits are available, and then year three through six where credits are available to investors to utilize. We have deployed \$31 million of our total allocation. We did those in three businesses last year. The first one was a healthcare facility in Lexington, Nebraska: Lexington Regional Health Center. Our capital helped the project expand its operations, its facility, added 25 inpatient beds, 3 operating rooms, 14 exam rooms, 2 general procedure rooms. You know, the hospital currently employs 170 persons within that community. And with this expansion, it's expected to create 24 new direct permanent jobs in the healthcare field as well as in the administrative side of the business. We also closed another transaction in Lexington, Nebraska. It's an agricultural equipment manufacturer where they are utilizing the proceeds to expand and build a new manufacturing facility. The company has seen a significant amount of growth internationally in sales of their equipment and needed the additional facility in order to increase their manufacturing operations in order to fulfill those orders that are now going overseas. The project is expected to create 100 manufacturing jobs within this low-income area, 80 construction jobs with the construction of the facility, as well as help retain the 65 existing jobs the employer has. The third project that we closed was located in Kearney, Nebraska. It's an engine manufacturing facility. They again, have recently sustained increased growth and needed a new facility to help increase their manufacturing operations which will in turn hire new employees. The project is expected to create 45 additional jobs with the construction of the facility. Their increased growth, because some of their competitors have terminated the business and the types of engines that they're manufacturing, and so they're seeing increased demand from their own manufacturing operations. These three transactions we don't think would have taken place but for the new markets capital. This was able to provide the additional capital that these businesses need in order to complete their financing costs of the projects and their capital expansion. The Nebraska New Markets Tax Credit can be applied against various taxes, insurance premium tax, corporate tax, and financial institution tax as well. There's another provision of law that allows tax credit against corporate income tax, the amount of any insurance premium tax paid by the taxpayer. Unfortunately, the interaction of these two provisions can lead to insurance companies who wish to make investments under the Nebraska New Markets program being unable to realize the value of New Market Tax Credits. And we work with a lot of insurance companies across the country. The reason that they put value on an insurance premium tax is the tax income is not as volatile as an income tax because the tax is based on the amount...it's the gross receipts for tax paid based on the amount of premiums written in a given year. So it's a much more predictable revenue stream for them as well as, you know, since these taxes are available in the outer years, years five and six, they put more value there because they know they'll have the tax credit appetite to utilize against them. And the unintended consequence of this ruling is that there are a handful of insurance companies that we work with that are not

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able to utilize the Nebraska tax credit because their corporate tax is about equivalent to their premium tax. And the premium tax that they normally pay washes out the corporate tax that they pay. So if they utilize this against premium then they would still be subject to a corporate tax and effectively paying more than if they otherwise have not invested in this program. So I appreciate your time, and we urge you to consider this further and happy to answer any questions you may have. [LB559]

SENATOR GLOOR: Mr. McCarthy, I'm a little surprised to see that one of the projects was a not-for-profit hospital. And in the interest of full disclosure, I used to run a hospital. So... [LB559]

SHANE McCARTHY: Okay. [LB559]

SENATOR GLOOR: ...the comment is these transactions would not have been able to take place but for the support of Nebraska New Markets Tax Credits. I had assumed that the program was going to encourage programs like the manufacturing projects in Kearney, as an example, but not a hospital that really fits into the category of a service industry and not your traditional manufacturing industry. Comment about that if you would, please. [LB559]

SHANE McCARTHY: Yeah, I mean from the federal program standpoint, there's not restrictions on funding not-for-profits. And at the federal level, there are a lot of not-for-profit organizations that do get funded. A lot of times they aren't able to raise the capital that they need for any type of capital expansion that they may have. So this program helps fill the capital gap that they have in order to complete their projects. So that's...it is...the program allows for investment in both for-profit and not-for-profit entities. [LB559]

SENATOR GLOOR: Okay. Thank you. Senator Davis and then Senator Harr. [LB559]

SENATOR DAVIS: Well, kind of along the same line that Senator Gloor had but I guess I need to have you help me, walk me through how this benefits the insurance company to invest with the non-for-profit entity in Lexington. [LB559]

SHANE McCARTHY: Because they will receive the tax credits that they're able to utilize against their tax return. [LB559]

SENATOR DAVIS: So they're only doing it for the tax credits. [LB559]

SHANE McCARTHY: That's the primary, the primary purpose. [LB559]

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SENATOR DAVIS: And the other two projects, just out of curiosity, do you know if they were built with tax increment financing? [LB559]

SHANE McCARTHY: I don't know offhand. I'll have to research that and get back to you. [LB559]

SENATOR DAVIS: If you could, I'd appreciate that. And then, so the entities that are going into these other projects I'm assuming will be on the tax rolls at some point if they aren't already for property tax purposes. [LB559]

SHANE McCARTHY: Correct. [LB559]

SENATOR DAVIS: But not so at the hospital because that's a tax-exempt entity, correct? [LB559]

SHANE McCARTHY: Right, I believe that's correct. I'm not certain on that, but I believe that's correct. [LB559]

SENATOR DAVIS: Thank you. [LB559]

SENATOR GLOOR: Senator Harr. [LB559]

SENATOR HARR: Thank you. You made a reference to the federal program, but that program doesn't exist anymore, does it? [LB559]

SHANE McCARTHY: No, it does. It does exist, and there was a recent reauthorization in the extenders bill that just passed. [LB559]

SENATOR HARR: How recently? [LB559]

SHANE McCARTHY: December of '14. [LB559]

SENATOR HARR: Okay. [LB559]

SHANE McCARTHY: It authorized another \$3.5 billion of allocation. [LB559]

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SENATOR HARR: Okay, and how long is that through? [LB559]

SHANE McCARTHY: What happens at the federal level is you go through an application process, so CDEs like ourselves and others go...submit an application and then the CDFI Fund, which is a division...an agency of the U.S. Treasury, goes through an allocation process of what CDEs are successful. So we submitted our application and other CDEs last fall. It needed the...it need to pass the extenders bill to be reauthorized. And now the CDFI Fund is going through the allocation process now. [LB559]

SENATOR HARR: Okay. Thank you. [LB559]

SENATOR GLOOR: Seeing no further questions, thank you. [LB559]

SHANE McCARTHY: Okay. Thank you. [LB559]

RON SEDLACEK: Good afternoon, Chairman Gloor and members of the Revenue Committee. For the record, my name is Ron Sedlacek, R-o-n S-e-d-l-a-c-e-k, and I'm here on behalf of the Nebraska Chamber of Commerce in support of LB559. The State Chamber tax council reviewed this legislation, recommended to the board of directors for support which they did. This is legislation...you heard from one particular investment entity and there are others. This is one of those situations where there's a benefit we see throughout the state of Nebraska both rural and urban. And we see this more as a technical change than anything else. It's interesting that you have a program like this in which we can actually import investment money as well in Nebraska. So we're not just dealing with Nebraska money but actually money from outside of the state to bring it in to better our communities and particularly in those distressed zip codes that Senator Schumacher talked about. If they have economic nexus here, are taxpayers, they can claim our credit. They don't have to be located here or headquartered here, but they can be doing business in the state. And then with their unitary tax situation or whatever form then they can utilize this particular program. From what I understand in reviewing other states and trying to get a handle on the situation, it appears that our Department of Revenue's interpretation may be unique in the sense that the taxes that are earned as credits then are not considered taxes paid so that they can offset the corporate tax liability due. So what we're trying to do is essentially say, okay, we have this kind of cookie-cutter legislation that was passed in regard to New Market Credits in all these other states, but we've ended up with a little bit of a different interpretation locally. And so how do we resolve that interpretation so that we're within the spirit and the intent of the law? But for that matter, we were surprised to see a fiscal note on the legislation and we've been trying to figure this out scratching our heads, particularly if you're an insurer who is going...wants to invest in the program but seeing how it is currently interpreted saying, well, we really can't do it because we have to pay a \$5,000 application fee. We've got fill out all this paperwork. We've got

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to go through all these audits, but we get no tax credit for it. In fact, we could incur tax liability for being an investor in the program. So this doesn't make a lot of sense. And then you take a look at it and you say, well, gee, if you're new to the program then...and so we make this legislative change, you don't get the credit for the first two years anyway. You can't claim anything, so why is there a fiscal impact? So we're still trying to figure out if we're not understanding the program correctly, or if someplace there's a misunderstanding of how this all works. But we'd like to continue to kind of work on that issue from the fiscal point of view. Nonetheless, we would support the legislative change because \$15 million is something the past Legislature has agreed to, they approved, it's out there. We have insurers that would invest additional dollars in Nebraska...premium taxpayers. And so we'd just like to see the original intent of the program continue and allow for those investors to do so. And with that, I'll conclude my testimony, if there are any questions. [LB559]

SENATOR GLOOR: Mr. Sedlacek, the fiscal note is the fiscal note. Are you saying you want us to hold this bill until you keep working on the fiscal note? [LB559]

RON SEDLACEK: No, no, no. [LB559]

SENATOR GLOOR: Okay. [LB559]

RON SEDLACEK: I'd rather... [LB559]

SENATOR GLOOR: You were pretty emphatic about the fiscal note being wrong and wanting to work on it. But I want to make sure... [LB559]

RON SEDLACEK: I'd like them to work on understanding it is the point I'm trying to make and to perhaps have a second look in regard to the program, if I could get an explanation as to why. [LB559]

SENATOR GLOOR: Okay. [LB559]

RON SEDLACEK: No, we'd like to see the bill advanced for further consideration by the full Legislature and hopefully adoption. [LB559]

SENATOR GLOOR: Okay. Thank you. Any further questions? I see none. [LB559]

RON SEDLACEK: Thank you, Senator. [LB559]

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SENATOR GLOOR: Thank you. Any more proponents? Anyone in opposition? Is there anyone in a neutral capacity? Senator Schumacher, you're recognized to close. [LB559]

SENATOR SCHUMACHER: Thank you, Chairman Gloor, members of the committee. The program is what the program is, and it's covered by a fiscal note from a couple of years ago. As I listed to Senator Harr's questions, I'm wondering if somehow this particular fiscal note was generated by back calculation of some underutilization of the program or how much more utilization there would be to take it right up to its max levels if the insurance companies were allowed. But the big picture is that there's nothing that can be done to change the fiscal note assuming that the program has full utilization. What's going to be spent on it is going to be spent on it. And the fiscal note says the implementation cost, you know, any technical computer programming isn't an issue here. So somebody did a mathematical calculation of something to come up with that number. And it was done regardless to a very simple question of whether or not we want to have what appears to be the clear intent of the bill, that this be able to be used effectively against a premium tax and so that the insurance companies can invest in the program. So I'm happy to take any further questions, but I think that's what it boils down to. [LB559]

SENATOR GLOOR: I see no questions. Thank you, Senator Schumacher. [LB559]

SENATOR SCHUMACHER: Thank you. [LB559]

SENATOR GLOOR: And that ends the hearing on LB559. We'll now move to LB608. Senator Mello, welcome. [LB559]

SENATOR MELLO: (Exhibits 1-3) 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 this afternoon to introduce LB608, a bill that would create work force development zones on higher education campuses providing environments where education and entrepreneurship are given an opportunity to innovate together. The committee should have all received a copy of AM658 which is a white copy replacement of the bill and the version of the bill I will be addressing in my testimony. In my seven years in the Legislature, I've focused a good amount of time seeking out innovative and creative policies designed to expand economic development in our state. LB608 as amended is an effort to bring some new ideas to the table in how to capitalize on two of Nebraska's most dynamic forces for economic development: our entrepreneurial talent and our technologically savvy student population. LB608 provides a robust tax incentive system designed to attract and encourage the development of business while immersing them in the culture of intellectual advancement. Let me provide you with a little rundown of how the components of the bill through the amendment AM658 will achieve these goals. To create a work force development zone, the higher education institutions

would apply to a three-person board composed of the Governor, the Director of Economic Development, and the Tax Commissioner. The application must demonstrate the potential for a successful partnership with businesses by describing the geographical area of the work force development zone, their plans for the creation of a work force development zone board, as well as a listing of the objectives that the zone would strive for and how they will work with the academic institution to achieve them. The state board would then have 90 days to decide if the application meets all the requirements listed in LB608 including the potential that the zone will attract businesses capable of technological development, enhancing the number of quality jobs in our state, and promoting career development and vocational training for all Nebraskans. The work force development zone application must also show its benefits to students attending that academic institution including providing internships and employment opportunities before and after graduation and giving students unique opportunities to enter into high-wage, quality career programs. There's also an important protection in the bill that will prevent the potential abuse of this process laid out. The zone application must pass the "but for" test that we often hear about. The application must show that these business activities would not occur in this state but for the benefits granted to them under LB608. Now the question is going to be is what are those benefits? And as I mentioned before, LB608 as amended is a complementary system of incentives designed to attract new, innovative public and private organizations to locations on college campuses that have the greatest impact for developing our work force. To entice these highly desirable enterprises which the bill dubs as work force development pioneers, LB608 as amended provides for a sales and use tax exemption and a personal property tax exemption. To assist the educational institution in developing a partnership with work force development pioneers, educational activities connected to the work force development zones would be exempt from sales and use tax and tangible personal property taxes. To further promote the development of these zones, work force development partners, entities investing in or doing business with work force development pioneers will be granted some benefits as well. Real property developers would be allowed to take a 10 percent tax credit on contracts to make improvements along with the sales and use tax exemption on building materials for use in the work force development zone. These two provisions would make the startup phase a much cheaper process for the participants in the work force development zone allowing for further investment in the real work of economic development and work force enhancement that we're trying to encourage in the bill. Additional benefits for the work force development partners are the exclusion of sales within the zone from their tax apportionment formula as well as a 10 percent credit on research and development in testing services. These two provisions will ensure that services provided within the work force development zone are affordable and targeted towards innovation. Finally, for individuals invested in a business that resides within a work force development zone that is dedicated to technological or a business innovation model, they may subtract dividends and capital gains from their taxable income. Now what we're going to get from this innovative incentive package I'll lay out a little bit: The activity that would be produced under the amended version of the bill accelerates our state economic development; it kick-starts innovative, driven

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startup businesses; and most importantly, it enhances students' experience and career preparation at that academic institution while raising the prestige of Nebraska's higher educational systems. Students and innovative businesses will have an unprecedented opportunity to develop and grow together on a college campus. LB608 is an attempt, colleagues, to start a conversation and encourage members of this committee and other members of the body to think about a new creative way of looking at public policy to spur economic development in our state. It's my hope that members of this committee and the Legislature as a whole will continue to explore the ideas outlined in the amendment as we continue to seek out new perspectives and unique policy proposals to provide the Legislature in the future to grow our economic development potential and our higher education potential. Testifiers after me will speak to the importance of creating work force development zones as well as explain the amendment in greater detail as those who worked with us in drafting it. Thank you for your time, and I'd be happy to answer any questions you may have. [LB608]

SENATOR GLOOR: Thank you, Senator Mello. Are there any questions at this time? Senator Davis. [LB608]

SENATOR DAVIS: Senator Mello, you railed off a number of credits, exemptions, pluses, minuses, etcetera, etcetera, but the fiscal note doesn't reflect any of that. Can you explain that to me? [LB608]

SENATOR MELLO: I'll do my best, Senator Davis. As in the process of the Legislature, there are times that you have to introduce a shell bill because the bill that you would like to introduce is simply not finished yet. And LB608 as drafted kind of took the general concept that we were looking at of trying to create a public-private partnership zone on a college campus and it only involves the personal property tax exemption in the LB608 version of the bill. The amended version has a number of other tax-related changes regarding sales and use tax, research and development tax credit, as well as capital gains and dividends tax exemption as well for investors into work force development zones. So you will not see any of that material on the fiscal note in front of you. If the committee so chooses to work on this bill with me over the remainder of the session and for some reason we're not able to come to it on our own of what that fiscal impact would be, I believe your legal counsel as well as the Legislative Fiscal Office would likely, with the bill coming to the floor or being amended as it's currently right now, or any other amendment the committee put forward, there would be a new fiscal note drafted by both the Department of Revenue and the Legislative Fiscal Office after the adoption of a committee amendment to the underlying bill. So just processwise, we won't see a fiscal note until a new amendment would be drafted to the underlying bill. [LB608]

SENATOR DAVIS: Thank you. [LB608]

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SENATOR GLOOR: Other questions? Senator Sullivan. [LB608]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Senator Mello. All credits and exemptions aside, this model sounds like Innovation Campus. [LB608]

SENATOR MELLO: It's not...I would hope that it doesn't sound like Innovation Campus because, once again, I think that is purely a location, and it is a unique public-private partnership with... [LB608]

SENATOR SULLIVAN: I should have said the model. [LB608]

SENATOR MELLO: The model, the model has kind of been...we've...I know there will be a testifier after me who can speak to some of the components that we've evaluated in other states. A number of other states have considered this kind of model. START-UP NY is a well-known model in the state of New York that creates a similar kind of concept like this focusing on private sector development on college campuses that are being done in conjunction with college campuses, where it changes the tax climate and the regulatory climate on that college campus to make those businesses flourish a little quicker than otherwise being located outside of that college campus. A lot of that is driven obviously by academic research and the connection to academic research and development. So to some extent, I wouldn't say this is directly related to any one project in the state of Nebraska or any one college or campus. It takes a model that a number of other states have kind of looked at and tweaks it our own way for us to start the conversation with the committee. [LB608]

SENATOR SULLIVAN: But is it fair to say that what is going on, on Innovation Campus, could take advantage of what you're talking about in your bill? [LB608]

SENATOR MELLO: I'm sure that if, with the amended version we have now, if the committee adopted the amended version it would probably apply, I know...I would imagine it would consider applying. Now, part of the way we have it drafted though is there can only be one work force development zone within the University of Nebraska system. And so that would be left up to the University of Nebraska to make the determination of would that be at Innovation Campus? Would it be at UNMC? Would it be at UNO? That's a decision that's left up to that higher education institution since they could only apply to have one work force development zone. [LB608]

SENATOR SULLIVAN: Thank you. [LB608]

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SENATOR GLOOR: Seeing no other questions, thank you, Senator Mello. [LB608]

SENATOR MELLO: Thank you. [LB608]

SENATOR GLOOR: And are you remaining here? [LB608]

SENATOR MELLO: Yeah. [LB608]

SENATOR GLOOR: Okay. Can I see a show of hands of the total testifiers for this bill. Just a couple it looks like. Good enough. Welcome. [LB608]

ZACH WIEGERT: (Exhibit 4) Thank you. Good afternoon, Chairman Gloor, members of the Revenue Committee. My name is Zach Wiegert, Z-a-c-h W-i-e-g-e-r-t. I'd like to thank Senator Mello for introducing this bill. And I would like to talk a little bit about LB608 and the amendment AM658 as regards to work force development in the state of Nebraska. I am the CEO of Tetrad Property Group. Some of the projects that we're currently doing in the state are the Fred and Pamela Buffett Cancer Center, the arena at UNO. We're doing a work force development project, what I would call, on the campus of Metropolitan Community College. We're doing multiple projects with Hastings College, and are the developer of record for Innovation Campus. I'm not going to get into the technical part of it or the procedural parts of it because I don't know much about those. But I would like to, since you haven't--my understanding--haven't had a great deal of time to even look at the amended version of this, I don't want to get into too much detail. But it was interesting, we were reading this earlier. This is a magazine called Site Selection. I don't know if anyone knows what this is, but this is a national publication that private companies use to find areas to locate either workers or their businesses, where is the beneficial places to locate their businesses. And the title of the...is work force development just happens to be that because that's what all companies are looking for currently in the United States. Part of what working on many public-private partnerships, we're in a unique position in Nebraska. We have a...we put a lot of money into our educational system to get an educated work force. And we have a very strong business climate in our state as well. There was...neither lack of those being money thrown at either one of those. The issue is the collaboration between the two. And working on projects in seven different states, every state is trying to find the best solution to create that collaboration between the two. The model is definitely moving more toward the public-private partnerships. At what level of the public-private partnership is, is still up for negotiation. There's easily as building a building for a university on their campus where...to owning, managing, and running those buildings for the university. It's...everyone is looking for the best solution to build buildings at the best price and operating them most efficiently. What I want people to take away from me in this bill is this bill benefits all higher education in Nebraska. There is not one that should benefit more than another

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from this. It's to create a platform that the business sector will partner with those higher educational facilities. The community colleges would have just as much benefit if not more because it's about creating jobs. It's not about any specific campus or university. So I would say the bill goes to create the platform on which this collaboration can take place. And it's not specific to any campus. The other thing that I wanted to talk about is the youth of our state. Like I said, there's an extraordinary amount of money that we spend on educating the youth of our state. And unfortunately, many of them choose to find work elsewhere after college or university or whatever their trade is. The interesting thing when you do business all around the country, you'll say...you'll be in New York and you'll say, hey, where are you from? And you'll say I'm from Nebraska. Oh, man, we have this person that works for us who's from Nebraska, if we could get ten more of them, you know. It's inherent in our DNA, I guess, as Nebraskans to work hard. So these companies are actively trying to take our graduates out of our state. And if we don't do something to keep them here and create the jobs that they're looking for after they're a graduate, that's going to continue to happen. So, yes, we have low unemployment. But is that...what are those jobs we are offering to the youth of our state to keep them here? That's the question you need to ask yourself. My opinion, if we don't lead on this and do something to correct that problem, it's going to get worse and then other states are going to keep continuing to take the talent out of our state. And then we're going to be trailing, and that's not a position you want to be in. So I appreciate everybody's time. That's what I came here to say. Thank you, and I'll answer any questions if you have any. [LB608]

SENATOR GLOOR: Are there any questions for Mr. Wiegert? Seeing none, thank...oops, we do. Senator Harr. [LB608]

SENATOR HARR: What type of private enterprises are you looking to come into these zones? [LB608]

ZACH WIEGERT: Well, just in the few years working on Innovation Campus, there's been two large companies that tried to locate to Lincoln to go to Innovation Campus, and they got more incentives from other state. And I'm a numbers guy, and I would never say, hey, give a company the farm to get them to move to your state. This is just basically creating a platform to say, hey, private sector, put your money in to help these companies come to our state, instead them coming in and say, okay, city of Lincoln, state of Nebraska, give us a free building for, you know, 20 years which some states are doing which I don't think we should do that. They're saying, hey, state, university, let's work together, city, and all come up with the best plan. This gives the opportunity for...deliver that building at a lower cost. It gives you the opportunity for people to invest in that building so if there's research going on in the building, they can invest in that and get a tax credit to do so. And the company itself by building the building there can write-off the personal property. It's...the benefit of having that company there far outweighs, with the jobs

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created and the partnerships being created with the university, far outweighs any cost to do those types of things. [LB608]

SENATOR HARR: But are you looking for private dorms? Are you looking for biotech companies? What is it that we're looking for? [LB608]

ZACH WIEGERT: I would say that this...I wouldn't say there's any industry. An example I could see, millions of dollars are spent by large companies in Omaha to train work force. So UP comes...we can use them as an example because they're a staple of our state. Some kind of new technology comes out for an arm on a crossing across the country. Well, they have to send hundreds and hundreds of technicians somewhere to get trained to know how run that new arm, right. Well, they currently are working with people like Metro now to do that. Well, it would be very easy for a private company to come in, partner with those industries, build buildings on Metro's campus so that they wouldn't have to build them out of their own pocket. And then they could partner with them to use the innovation and teaching staff they have there to work with them and train those people on an annual basis. And that's...obviously the research part of it is a big part of it. I was fortunate to hear a person that ran a very large company's research division for 20 years speak at the Med Center the other day. And he just says you can tell what people's focus are. The big companies that do really well and believe in what they're doing, they throw 25 percent of their money back into their own research because they believe and that's their business plan. They believe in that's what they should be doing. But he also says to get...it's not that people won't locate to Nebraska to do those jobs, it's that they have to be offered meaningful jobs. It's not...people say, oh, we can't compete with the coasts and we can't do this. He says he ran his biggest one in New Mexico. So he said we didn't have the ocean to offer. We didn't have...we paid them a fair wage to what they were versus the market. And we gave them meaningful work to do. And they were more than happy to locate their businesses there. [LB608]

SENATOR HARR: Thank you. [LB608]

SENATOR GLOOR: Senator Schumacher. [LB608]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. In many rural Nebraska communities, there's no shortage of jobs. So the idea of job creation when what we're looking for is employees to fill what in some cases are decent jobs, I can see where that might work in Omaha and Lincoln where you have a migration to those areas or a potential. But in rural Nebraska, there are jobs. There just aren't people to do them. [LB608]

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ZACH WIEGERT: Yeah. Well, I would call that work force development needed as well. I mean there's jobs, but there's no work force to fill the jobs. So I could see this working very well. I spent a lot of my childhood out in Scottsbluff. And I could see Chadron State benefiting something great from this, the opportunity. I could see in Norfolk there would be a huge opportunity to benefit from this. Kearney, there would be a huge opportunity to benefit from this. It's all over the state. It's creating partnerships to...for higher education, which they're already spending a lot of dollars to educate the people there, and private business to work together. That could be...you know, you could be a welding plant. It doesn't have to be...I think we're focusing too much on higher ed research and biological, things like that. It works across all industry. [LB608]

SENATOR SCHUMACHER: But isn't part of the problem is that we don't have the desire by managerial people outside of the Omaha, Lincoln, maybe somewhere along the interstate area, to settle in those communities, to develop an industry there? And part of that ties back to there isn't the available work force or the available organization of capital. [LB608]

ZACH WIEGERT: I would say...the rural Nebraska, there is probably a lack of work force. But I would say there's probably a lack of meaningful jobs too. [LB608]

SENATOR SCHUMACHER: Thank you. [LB608]

SENATOR GLOOR: Any final questions for Mr. Wiegert? Seeing none, thank you, Zach. [LB608]

ZACH WIEGERT: Thank you. [LB608]

SENATOR GLOOR: And we apologize for the size of our chairs, but I'm sure you're used to that. [LB608]

ZACH WIEGERT: (Laugh) Yeah, a hard time getting out of it. [LB608]

SENATOR GLOOR: Good afternoon. [LB608]

NICHOLAS NIEMANN: (Exhibit 5) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Nick Niemann; that's N-i-e-m-a-n-n. I'm a partner in the Omaha law firm of McGrath North, and I'm here as a proponent for the bill as proposed to be amended. My involvement in this has been to draft the initial bill that you see in front of you as the amendment. The reason I've been involved, I'm here on behalf of Tetrad. They had visited

with me several months ago and said they'd like to create a platform here in the state that would offer a better opportunity for collaboration between the business community and our higher education institutions while at the same time provide an opportunity for work force development here for our younger kids to stay and learn, to develop new jobs and better careers here within our state. So that was really the impetus for looking to say how could we do that? I've been involved with economic development for the past 30 years, had the opportunity to design and develop and visit with a lot of the senators here in the past as well as the business community on some of the legislation that Nebraska has used over the past few decades. As I looked at this proposal, what we did is we studied what was occurring in other states and looked for ways to really improve on that. What we found is that there are about 174 research parks. Whether you call it innovation campuses or zones, there's about 174 of those types of collaborations that exist around the U.S. today. And they've been around for several years, really starting back in the 1950s. The one that was mentioned earlier that we might...we've all seen different ads for on TV is this START-UP NY which is a collaborative effort between the schools, the higher education institutions in New York, and the business community to do very similar to what we're talking about here. We might look at the process in terms of how this was designed. I have a report here that has some additional information that I'll leave with the committee that shows some of our research. It also summarizes the proposed approach for how this would work. Senator Mello gave a good description as to how this works. Essentially, there would be a state board that would be established that would consist of the Governor and the Director of Economic Development and the Tax Commissioner. There's precedent for this type of board being established with other economic development proposals in the past. That board would then accept applications from those schools, higher education institutions that would like to apply to create a zone. The intention is that in any fiscal year, this state board could approve one zone at the state university level, one zone for a state college, one zone for a metropolitan college, and one zone for a private college. And then in later years it could approve additional zones. Senator Mello mentioned the various criteria that would need to be in that application so that the state board could come to some conclusion as to whether this particular zone would meet the objectives of the statute. Once that zone is approved, there would be an agreement entered into between that school or a designated nonprofit corporation that that school would establish. There would be an agreement between that school and the state that would approve and certify that zone to actually be developed and then to be...for these tax features to be used at the zone. The intention under the bill is that that school would establish a board as well that would accept applications from companies that are interested in working together with the school on a collaborative basis. And at that point, the board could then make a decision as to those companies that it wants to enter into agreements with on the zone. The tax features for this, there's really a couple different levels. One is those companies that would locate on the zone are considered...are designated in the legislation as the work force development pioneers. Those are really the new pioneers that we're looking to bring to the state to develop further jobs and further opportunities here for Nebraskans. In order to make that happen, there's certain companies that

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work with those companies that would work on the zone. And we've called those work force development partners. And those are companies that would work to help either to build the facilities, provide equipment, provide resources, and interact to help make this successful. The agreement that would be entered into between the board and each of the pioneers would be a ten-year agreement, up to ten years. And that's intended to be how long this tax...these tax features would exist for that company. I see that my time is up, but I'm happy to answer any questions that the committee may have. [LB608]

SENATOR GLOOR: Thank you, Mr. Niemann. Are there any questions? I see none right now. Thank you very much. [LB608]

NICHOLAS NIEMANN: Thank you. [LB608]

SENATOR GLOOR: (Exhibits 6-8) Other proponents? We'll move to...hang on a second. We have four letters in support: Thomas O'Neill with the Association of Independent Colleges and Universities of Nebraska; Dennis Baack, Nebraska Community College Association; Stan Carpenter, the Nebraska State College System, Senator Mello's Exhibit 2; and Michael Chipps, Northeast Community College. Anyone in opposition who wishes to speak? Anyone in a neutral capacity? Senator Mello, you're recognized to close. [LB608]

SENATOR MELLO: Thank you again, Chairman Gloor, members of the Revenue Committee. As I mentioned earlier, obviously it's a very lengthy bill and there's a number of components in there that I know we will likely want to sit on and talk at a later point in time to discuss the idea. More than anything else it's the possibility of starting the conversation about looking at this unique idea that a number of other states have ventured into in regards to developing a stronger partnership between their higher education institutions and their business community in respects to growing and developing their state's economy. My simple hope is that we can continue that conversation throughout the remainder of the session and beyond. Thank you, Senator Gloor. [LB608]

SENATOR GLOOR: Any final questions? Seeing none, thank you, Senator Mello. [LB608]

SENATOR MELLO: Thank you. [LB608]

SENATOR GLOOR: And that will end the hearing on LB608. We are going to take a few minutes for the committee members to stretch their legs and take a short break. We'll reconvene at 4:00. That should also give Senator Krist an opportunity to get to the hearing room. [LB608]

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BREAK

SENATOR GLOOR: Before we get started with Senator Krist's bill, LB26, because there's so many new faces in the room, let me start with some of the general protocols that we have. We start with the introductory comments from the introducer of the bill, in this case Senator Krist. Then we go to proponents, opponents, and those in a neutral capacity and then Senator Krist will have an opportunity to close. If you wish to provide testimony, there is a green sheet in the back of the room you need to fill out that goes to the clerk. When you come up, we ask that you give us your name, state your name, spell your name because we want to get it right, but more importantly the transcribers who are taking this down for the record need to get it right. If you have any handouts, we need 11 copies. Those 11 copies you'd give to the pages and they'll get them distributed for you. We ask--and we have a light system here--that you be as brief and concise as you can in your comments. The light system is a five-minute light system. And it's green for the first four minutes. And then we give you a heads-up with the yellow light for a minute. And then when it goes to red we need you to stop or at least wrap up your comments as quickly as you can before I steer you in that general direction. If you've heard your comments made by somebody else and don't feel a need to state it again for the second time, you can give us an abbreviated comment. Or there is a white sheet in the back of the room that says write your name down, I'm in support, I'm not in support of this and I'm an opponent. And it will show up in the permanent record. So you also have that opportunity to make your statement as it relates to this bill. And with that, we'll start with LB26 hearing. Senator Krist, welcome.

SENATOR KRIST: Thank you, Senator Gloor. Members of the Revenue Committee, for the record, my name is Bob Krist, B-o-b K-r-i-s-t, and I represent the 10th Legislative District in northwest Omaha along with north-central portions of Douglas County including the town of Bennington. I appear before you today in support of LB26 or the Choice for the Advancement of Nebraska Children in Education Act, or CHANCE. This bill would establish and make available to private donors--individuals, businesses, trusts, or estates--a limited tax credit for contributions to a state-certified, nonprofit scholarship-granting organizations. A tax credit would be claimed for 60 percent of the contributions to these organizations made during a tax year. A credit would be nonrefundable, but the credit amount exceeding the taxpayer's liability could be carried forward for up to five years. The bill proposes an initial aggregate tax credit cap of \$10 million, which would increase automatically by 25 percent conditionally if credits in the given year equal or exceed 90 percent of the cap. The most important aspect of LB26 is that it would give more of Nebraska's low- and middle-income families the ability to choose the educational institution that is best for their children. With this legislation, Nebraska would join 43 other states and Washington, D.C. Let me say that again, we would join 43 other states and Washington, D.C. that offer the possibility of school choice to their children, including 14 states that have tax credit scholarship programs. As written, scholarship eligibility under LB26 would be limited to students in households with incomes not exceeding two times the federal eligibility requirements

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for school reduced price meals. First-time scholarship eligibility would also be limited to children who would be transferring from a grade in a public school to a nonpublic school, or those entering kindergarten or 9th grade in a nonpublic school. Siblings of current scholarship recipients also would be eligible. The scholarship-granting organizations would be required to use no less than 90 percent of their revenue for scholarships. The percentage would go up to 95 percent if the aggregate tax credit cap were to exceed \$20 million. In addition to distributing almost all of the revenue as scholarships, scholarship-granting organizations also would be required to award scholarships in conjunction with at least two different schools. A nonpublic school qualified to receive students with scholarships would have to be approved or accredited under the applicable laws and regulations of the state of Nebraska. Proponents of LB26 will be speaking to you today about the benefits the legislation could bring to our state in terms of budgetary impact and economic development. But again, the most important consideration in my mind is the children of the state and school choice. By providing their parents with the educational choice that will maximize their potential, we will be serving the best interests of those children as well as the future of this great state. I thank the committee for your indulgence in trying to put this on a date that I tried to drive for priority reasons. Thank you to your legal counsel for making that happen. And I would make only one other comment. Many of you have sat through the increases and the fluctuations in TEEOSA and education funding at the time that you've been here. If we don't do something to curb educational costs in this state, we will be well over \$1 billion within the next few years. This is an alternative to providing choice and not...and to maximize the choice would also not put a burden on the education system as it currently exists in this state. With that, I would stand for any questions, although the technical folks are right behind me. [LB26]

SENATOR GLOOR: Thank you, Senator Krist. Any questions at this time? Senator Harr.
[LB26]

SENATOR HARR: Thank you and thank you, Senator. I'm on page 3 of the bill. And it talks about, starting on line 20, what a qualified school is. And it says: "any nongovernmental, privately operated elementary or secondary school located in this state that (a) is operated not for profit" and then (b), so (4)(b) is where I have an issue. [LB26]

SENATOR KRIST: What page are you on again, sir? [LB26]

SENATOR HARR: Page 3. [LB26]

SENATOR KRIST: Okay. [LB26]

SENATOR HARR: Really I'm starting at line 22. [LB26]

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SENATOR KRIST: Okay. [LB26]

SENATOR HARR: "Does not discriminate on the basis of race, color, or national origin." My first question is, doesn't include disability. Would you be okay if we included disability in there? [LB26]

SENATOR KRIST: Absolutely. [LB26]

SENATOR HARR: Okay. And is there an issue, a constitutional issue because it doesn't mirror what is allowed to discriminate? Normally, you know, the state, we have other issues that you can't... [LB26]

SENATOR KRIST: I would be more than willing to harmonize whatever language we'd need to make sure that we're not discriminating against any child for a scholarship effort. [LB26]

SENATOR HARR: Okay. Thank you. I appreciate that. [LB26]

SENATOR KRIST: Thank you. [LB26]

SENATOR GLOOR: Seeing no other questions, thank you, Senator Krist. [LB26]

SENATOR KRIST: Thank you. [LB26]

SENATOR GLOOR: If you're planning to speak on this bill we would ask as you get ready to speak that you move towards the front of the room, unlike church. We try and keep things moving a little faster. I understand there are religious overtones to this bill, but let's not go overboard. We'll start with proponents, please. [LB26]

SENATOR DAVIS: The church of Mike Gloor. [LB26]

SENATOR GLOOR: (Laugh). [LB26]

JOE CONNOLLY: Thank you, Chairman Gloor, members of the committee. I'm Joe Connolly, J-o-e C-o-n-n-o-l-l-y. I'm president of Saint Albert Catholic Schools in Council Bluffs, Iowa. I also serve on the board of directors of an Iowa school tuition organization. My residence is in Iowa, but just so you don't think I'm a total carpetbagger, my wife and I own a home near the Platte River in Butler County and spend our weekends there. So I'm a part-time Nebraska resident and

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Nebraska taxpayer. I'm here today to speak in favor of LB26 and provide experience on how a similar program works for your neighbors in Iowa. The 2006 Educational Opportunities Act created the Iowa School Tuition Organization Tax Credit program. It passed with nearly unanimous bipartisan support. It was signed into law by Democratic Governor Tom Vilsak with a statewide cap of \$2.5 million in tax credits, and has grown to the current \$12 million cap with continued bipartisan support. The Iowa School Tuition program, which we call STO, is administered by 12 school tuition organizations representing over 150 accredited Catholic, Lutheran, Christian, secular, and independent schools. These STOs take responsibility for raising the funds for the programs and administering scholarship grants. Under our program, individual and corporate donors to the program receive a 65 percent state income tax credit. Children in households at or below 300 percent of the poverty level are eligible for STO tuition grants. During the school year, there are 10,254 students utilizing STO tuition grants. There are over 35,000 students in our accredited nonpublic schools. So you can see that a large proportion of our students qualify and need this STO program in order to attend their school of choice. Each year, the tax credit cap has been raised; and each year, we have exhausted all available credits. The Iowa department of revenue is responsible for administration and oversight of the program which works out to be a seamless system. The department of revenue has also commended STOs on their flawless procedures and reporting of the program. Most importantly, the Iowa School Tuition Organization Tax Credit program has made a tremendous difference to thousands of Iowa families. During the life of this program, nearly \$80 million has been awarded in STO grants. In my school, about one-third of the families receive an STO grant. I hear repeatedly from them that without these grants they would not be able to attend the school of their choice. They would not be able to afford the tuition at the school of their choice. We all know that education is not a one-size-fits-all venture. And our STO program recognizes this by extending a choice in education to families who would otherwise not have a choice. Reports from our Iowa department of education Web site indicate that private schools are frequently the academic best-performing schools in their communities. This high academic achievement sparks corresponding high academic achievement in neighboring public schools. The result of this is an increase in achievement by both public and nonpublic schools in a community. Iowa's STO program has made private schools available to a wider spectrum of Iowa families. Since the STO program was created, our private schools have become increasingly more economically and ethnically diverse. Our private schools now serve a larger population of students who qualify for free or reduced lunch than ever before, certainly since the STO program came into existence. The STO program saves the state of Iowa money. Between state and local funding, over \$10,000 is spent on each child in Iowa public schools. If a child is in a private school, they cost the state virtually nothing. The state saves the cost of educating those students who receive an STO tuition grant and attend a nonpublic school. This cumulative savings exceeds the total cost to the state associated with the income tax credit. The School Tuition Organization Tax Credit program has been a great success in Iowa and a great success at my school. Parents are empowered to choose their child's school, children receive their best-fit education, and the state saves money in the long run. For

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Iowa, this has been a win-win situation. After reading LB26, I believe it would create a similar win-win situation for Nebraska. Thank you. [LB26]

SENATOR GLOOR: Thank you, Mr. Connolly. You said the STO program started in '06. [LB26]

JOE CONNOLLY: 2006, yes. [LB26]

SENATOR GLOOR: And it started with \$2.5 million. Was that the cap or was just how its first year...? [LB26]

JOE CONNOLLY: That was the cap. [LB26]

SENATOR GLOOR: That was the cap. When did it increase to the \$12 million? [LB26]

JOE CONNOLLY: Actually this last year it increased from \$9.75 million to \$12 million. [LB26]

SENATOR GLOOR: Has it hit its cap every year that's it's been...? [LB26]

JOE CONNOLLY: Every year it's hit its cap. And every year if you look at...I will tell you the STO that I'm on the board for, we hit our cap in 2014 on December 31 because we had an increased amount since the cap went up. Our portion of the tax credits to collect went up. But it did take us...but typically most of the tax credits in the state are gone around Thanksgiving. [LB26]

SENATOR GLOOR: Okay. Thank you. Other questions? Seeing none right now, thank you. [LB26]

JOE CONNOLLY: You bet. [LB26]

SENATOR GLOOR: Next proponent, please. [LB26]

SCOTT ERNSTMEYER: (Exhibits 1 and 2) Good afternoon, Chairman Gloor. My name is Scott Ernstmeyer, S-c-o-t-t E-r-n-s-t-m-e-y-e-r. I'm the executive director of the Lincoln Lutheran School Association. Our school serves students in grades 6 through 12. I'm speaking in support of LB26. I represent one of the many schools whose students would benefit from this legislation. For more than 130 years, Lutheran schools have served the state and its students in a variety of

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ways, providing an education alternative for families. There are currently 40 schools in the Lutheran School System in the state of Nebraska serving more than 3,700 students. Sixty-five percent of these students live outside the Lincoln and Omaha metro areas. Lutheran schools make up the second-largest nonpublic school system in the state. In the Lincoln area alone, we have six schools that serve nearly 800 students. Our ministry to students currently results in the savings to state and local government of approximately \$9 million based on the current average cost per student in the state's public schools. School funding is a challenge in parochial schools just as it is in public schools. Lutheran churches started schools to educate the children of their congregation and originally funded them at zero cost to their families. In the last 30 years, we've seen a huge increase in the cost to educate students and our churches have not been able to keep up with that increased cost. The financial burden has shifted to our parents. We've also seen more and more families from outside our congregation show interest to enroll in our Lutheran Schools. Many of the middle- and low-income families are put in a tough position. They would like to choose our schools but are not able to because of the cost involved. They simply can't make the math work. With limited scholarship dollars available for our families, it's tough to attract and keep these students enrolled. Nationally, Lutheran schools are closing due to lack of enrollment and funding. And we've started to see hints of this in the state of Nebraska with a few schools closing in the last several years. This is a concern because we have an opportunity to serve students in our local communities, which alleviates the strain on public schools in terms of added enrollment. Nonpublic schools provide a great option for families who would like an alternative environment for their children. LB26 would provide financial resources for families in need, which in turn provides us with opportunity to attract and keep students in our schools. I believe that makes education in the state of Nebraska better for all students, public and nonpublic. Thank you. [LB26]

SENATOR GLOOR: Thank you, Mr. Ernstmeyer. Any questions? I see none. Thank you.
[LB26]

SUE PIRNIE: Good afternoon, Senator Gloor and Revenue Committee. My name is Sue Pirnie, S-u-e P-i-r-n-i-e. I'm from Grand Island, Nebraska, and I represent the Grand Island Central Catholic Middle School, High School, and I serve also on the school board at the school. Grand Island Central Catholic was started back in 1956. Presently, Grand Island Central Catholic has an enrollment of 324 students in grades 6 through 12; 18 percent of this total is minority; 90 percent of this 18 percent is on tuition assistance. We have 32 faculty members with a student-teacher ratio of 12:1. Just in January during Catholic Schools Week, Grand Island Central Catholic had an open house. We had 50 families attend, 28 families signed their child or children up to attend Central Catholic this fall. Twenty families were very interested in sending their children to Grand Island Central Catholic. Ten families asked for tuition assistance, and 12 families found that they could not afford the tuition cost and opt out and will be sending their children or child to a public school. Tuition at Central Catholic 6th through 8th grade registered in a Catholic parish is at

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\$3,360 per year; 9th through 12th grade registered in a Catholic parish is \$3,795 a year; 6th through 12th grade not registered in a Catholic parish is \$4,945 a year. Cost per student runs close to \$6,000 a year. As you can see, we only charge about half of the dollar amount to assist our...for the tuition at school. We run fund-raisers to help us out with that extra money that's needed to finance the kids' tuition, as well as our four Catholic parishes in the community support us each month with donations. Our tuition...the families can pay their tuition monthly, quarterly installments and by semester for a full year. We have the FACTS tuition services. This is a tuition payment received that GI Central Catholic has aligned themselves with. To enroll, parents need to fill out a form, meet with the school financial directors, set up a fee which is \$40, and this will take monthly payments out of their checking account. And they don't have to worry about writing a check, and we have the money right away on time. Required academic courses, Central Catholic has a reputation for an outstanding Grand Island college prep high school which requires 228 credit hours in grades 9-12 for graduation, but students typically graduate with between 250-300 credit hours. Each student must carry 30 credit hours per semester. Grand Island Central Catholic Middle School and Grand Island Central Catholic High School is committed to excellence in academic achievement, Christian values, formations, athletics, and fine arts and community service. Above all, we are dedicated to producing well-rounded individuals who will become the strong community leaders for tomorrow. The Grand Island Central Catholic Development Foundation is committed to making an impact in students' lives by providing Catholic-centered academic environment. The foundation provides ongoing financial support for tuition. Grand Island is a blue-collar community. Through the generosity of individuals, families, businesses, Grand Island Central Catholic's future remains strong but is in need of continued financial assistance. Most recently, we've found...foundation landed the Kitty M. Perkins tuition assistance fellowship. The \$10,000 scholarship had ten \$1,000 scholarships awarded in the second semester of 2014-15 school year. Grand Island Central Catholic offers financial aid to low-, middle-income families, plus they also get the reduced lunch rate. The foundation raises that much-needed dollars and has given the school for the past two years \$24,000, and that is interest earned off of the scholarships of Bishop Paschang and Lee (phonetic) Hoelck scholarship fund. There were 35 families with 46 youth apply for the financial aid. A grand total of \$35,000 was awarded to the 35 families. The deficit of \$11,000 coming out of the school funds. Grand Island Central Catholic offers a work study to our students 14 years and older. This involves students working through the year at the school earns them \$290 going towards their tuition. Families need an option for their child or children to attend a private school and have the right to be educated to meet their needs. With the help of LB26, they could send their students to a private school, and in turn, Grand Island Central Catholic could and maybe add more programs and teachers to offer more for the family's students. Thank you for your time. [LB26]

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SENATOR GLOOR: Any questions for Ms. Pirnie? Thank you, Sue. Sorry I didn't notice you earlier. And if you have time today before you leave, stop by my office. You'll see a quilt on the wall that's a Mary Caddy quilt purchased at the Knight. You'd appreciate it. [LB26]

SUE PIRNIE: Thank you. [LB26]

SENATOR GLOOR: Next proponent, please. Good afternoon. [LB26]

RICK BETTGER: Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Rick Bettger; it is spelled R-i-c-k B-e-t-t-g-e-r. I come to you today as a small business owner who lives in Omaha. I also help out on a couple of boards that represent some of the inner-city Catholic schools in Omaha. One of them is known as CUES. And CUES provides operational assistance and financial assistance also to three inner-city Catholic schools in Omaha. And I also serve as the chairman of the board for Holy Name School in Omaha which is one of the schools that CUES supports. I'm here to kind of give you a ground-level view of the schools that would be impacted by this type of legislation. And I want to give you kind of a brief snapshot of who goes to these schools, what kind of population do we serve. So I want to give you a few statistics; I'll keep that brief. But our three schools, one of them is Sacred Heart Elementary which is located in north Omaha. We have an ethnicity of 88 percent African-American, 6 percent Native African, 4 percent Latino, and 2 percent Caucasian and less than 5 percent of the students there are actually Catholic. Another one of our schools is All Saints Catholic School located at 10th and William in Omaha. That school is made up of 45 percent Sudanese who are actually second generation that have moved to our country. We have 30 percent Latino, 14 percent Caucasian, and 11 percent is multicultural. At Sacred Heart, for example, 91 percent of the students there qualify for the federal free and reduced lunch program. At All Saints, that number is 78 percent of the students qualify. And then the one that I'm most familiar with is Holy Name School. That school is 48 percent African-American, 24 percent Caucasian, 17 percent Native African, and 7 percent Latino. We have 63 percent of those students also qualify for free and reduced lunch. Now I give you all those statistics to speak to the results of these schools. It's important to understand the demographics that these children are coming from. They come from...you know, about half of them are single-parent households and they are at poverty level, a good portion of them. Yet despite those kinds of obstacles, our schools' students graduate from high school at a rate of over 98 percent. Now statewide, the graduation rate for African-Americans is about 59.4 percent. Students who are similarly situated socioeconomically to our...where our schools sit are graduating from high school at a rate of 47 percent. So the success rate that we have at these schools is really making a difference in these families' lives. As you can imagine, funding is something that is done primarily by not so much tuition, but CUES is a huge funder for these schools. We have a lot of benefactors that help fund these schools. But the capacity to grow and bring in more of these students to experience these kinds of success rates is possible through your support with LB26. And another factor to

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consider in this is the advantage at work force development because I think all of us know that really the building block for employment is a high school diploma. And we're taking children out of that community and graduating them at the rates that our schools are having the success of, it will impact the work force development in that area. That's all I have for you. Any questions? [LB26]

SENATOR GLOOR: Any questions for Mr. Bettger? Senator Smith. [LB26]

SENATOR SMITH: Thank you, Mr. Chair. Appreciate the testimony and I'm going to ask you a question. I don't mean to put you on the spot, but maybe if you cannot answer it completely someone following you can answer this. [LB26]

RICK BETTGER: Okay. [LB26]

SENATOR SMITH: I certainly appreciate the interest in parental choice and providing different options for education, especially for families that otherwise could not afford that choice. But you heard the exchange a little bit earlier between Senator Harr and Senator Krist on adjusting the language in statute to identify what a qualified school means and harmonizing language here and other places in the statute. Do you believe that there's a risk or do you believe it's a possibility that a religious-based school could have religious operational guidelines that would put it at risk with such nondiscriminatory language? And when I say "operational guidelines," I'm talking about instruction or employment practices. Is that a concern or a risk? [LB26]

RICK BETTGER: Can you give me an example of that, Senator Smith? [LB26]

SENATOR SMITH: I'm thinking in terms of religious discrimination, and if the school is a religious-based school, education and the employment practices there or the lessons that are taught are of a religious nature, is that a concern as to how that might harmonize with the language? Again, what I'm concerned here is that we are...this is coming with strings attached from the state, and I'm not certain that's the intent. And I know it's not the intent. It's to create greater opportunity for education for our families and our children. But is it coming with strings attached? [LB26]

RICK BETTGER: I don't know that I've interpreted the language of the bill that way myself, but of course, I'm just a muffler shop owner so I don't really... [LB26]

SENATOR SMITH: No, you're not just a muffler shop owner. You're...(laughter) [LB26]

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RICK BETTGER: You know, we deal with, like I said in my testimony, for example, at Sacred Heart Elementary we have virtually zero Catholics that come to that school. And we discuss that with our administrators as in how do we handle that because we do have a Catholic identity, and we will never deny that. But the question is how do we assimilate people and students who are not Catholic? [LB26]

SENATOR SMITH: And I don't suggest that you should. [LB26]

RICK BETTGER: Right. [LB26]

SENATOR SMITH: I'm just concerned as to whether this would create strings, and that's all. [LB26]

RICK BETTGER: It hasn't. I mean to this point, we accept all students of all ethnicities, religions. Again, it's the parents' choice. And if the parents know that going in then we don't have a problem generally. [LB26]

SENATOR SMITH: Okay. Thank you. [LB26]

SENATOR GLOOR: Senator Harr. [LB26]

SENATOR HARR: Thank you. And just to clarify, for instance, you can't discriminate normally against sex. I have no problem with that. I went to an all-boys high school. So what I was more or less getting at is the issue of disability. And that was my main concern. I understand Senator Smith's concern, but mine was mostly about disability. [LB26]

RICK BETTGER: When you say disability, Senator Harr, do you mean in an educational capacity? [LB26]

SENATOR HARR: Yeah. You wouldn't discriminate someone just based on their disability. [LB26]

RICK BETTGER: Right, no. [LB26]

SENATOR HARR: Thank you. [LB26]

RICK BETTGER: We have all kinds of children who have IEPs and 504s and such. [LB26]

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SENATOR HARR: Thank you. [LB26]

SENATOR GLOOR: Senator Davis. [LB26]

SENATOR DAVIS: Thank you, and thank you for coming, sir. [LB26]

RICK BETTGER: Sure. [LB26]

SENATOR DAVIS: So when I met with a group earlier on this question I asked this question, but maybe you can clarify it a little because I know that a lot of these schools have foundations that are in place to help them with some of their stability in funding. And people can make contributions to those foundations. [LB26]

RICK BETTGER: Absolutely. [LB26]

SENATOR DAVIS: So what's the tax benefit by doing that, when that takes place, as opposed to a credit? How does a donation to the foundation work? [LB26]

RICK BETTGER: It's like a normal donation to a charitable organization. It's no different than giving to any other charity. [LB26]

SENATOR DAVIS: Can you... [LB26]

RICK BETTGER: So if you give money to CUES, for example, you can...we are a licensed 501(c)(3), so we are a nonprofit organization that you could deduct from your taxes any donation to. [LB26]

SENATOR DAVIS: So if I hypothetically gave you \$100,000 and I had a \$500,000 income, that \$100,000 would be treated as what? A donation, it comes right off the top then? [LB26]

RICK BETTGER: Currently it would be just as if you gave money to your church or the United Way or any other type of nonprofit organization. So you would be able to deduct whatever your tax bracket is. If you gave \$100,000 and you're in a 30 percent tax bracket, you can deduct \$30,000 from your adjusted income. [LB26]

SENATOR DAVIS: But I'm assuming the credits are a higher return. [LB26]

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RICK BETTGER: The credit would be...would actually be...if you gave \$100 to an SGO, you would be able to deduct \$60 from what you owe the state at the end of the day, straight credit. [LB26]

SENATOR DAVIS: Okay. Thank you. That clarifies it for me. [LB26]

SENATOR GLOOR: Senator Brasch and then Senator Schumacher. [LB26]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you for coming forward to testify. [LB26]

RICK BETTGER: Sure. [LB26]

SENATOR BRASCH: And I did hear you say that you will accept all children, correct? [LB26]

RICK BETTGER: Um-hum. [LB26]

SENATOR BRASCH: So legislation could say "all children" and not have to list... [LB26]

RICK BETTGER: Yeah. I mean it... [LB26]

SENATOR BRASCH: ...sizes, shapes, etcetera, etcetera. I get...you know, "all children" I think would encompass all of the classifications of race, etcetera, since that's not a consideration. Are there any cases where you do turn children away and if so, why? [LB26]

RICK BETTGER: You know, sometimes, it's very rare instances, but we do interview families and we interview their beliefs and how they would feel about sending their child to a Catholic school. And if they put requirements on how we teach the faith or something like that then we find that those families are not a good fit. But generally the families, for example, the Sacred Heart families, you know, they are looking for the atmosphere that that school provides. And they...if some religious instruction goes along with it, they're fine with that. But if we find a family that is going to have restrictions as to what we can say in front of their children or how we teach the faith or something like that, we will turn that family away because it's not conducive to the atmosphere. [LB26]

SENATOR BRASCH: Okay. And they come to you knowing that you're a faith-based institution and... [LB26]

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RICK BETTGER: Absolutely. Again, it's a choice. [LB26]

SENATOR BRASCH: Correct. [LB26]

RICK BETTGER: We're not a public school so... [LB26]

SENATOR BRASCH: Correct. I don't object to that, but I was curious if there were situations where for financial restraints, are they turned away for finances? [LB26]

RICK BETTGER: Generally not, no. [LB26]

SENATOR BRASCH: Generally not. That's where the scholarships come in? [LB26]

RICK BETTGER: Right. [LB26]

SENATOR BRASCH: Very good. I don't have any other questions. Thank you. [LB26]

RICK BETTGER: Okay. Sure. [LB26]

SENATOR GLOOR: Senator Schumacher. [LB26]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. Just a follow up on Senator Davis' question, now today without this bill if somebody gives \$100 to a charity and assuming that person is in the highest federal marginal tax bracket plus the 3 percent Obamacare fee, they pay around 40 percent federal tax, and they pay about 6.84 percent Nebraska or roughly, for government purposes, about 47 percent. So giving \$100 saves you \$47 in income taxes because you can deduct the whole \$100. [LB26]

RICK BETTGER: I believe that it takes \$47 off of your taxable income. [LB26]

SENATOR SCHUMACHER: Tax bill. [LB26]

RICK BETTGER: That's how it works now currently. [LB26]

SENATOR SCHUMACHER: It takes \$100 off your taxable income, and if you are in the 47 percent bracket you save, your taxes are \$47 less. [LB26]

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RICK BETTGER: Right, right. Correct. [LB26]

SENATOR SCHUMACHER: So we've got, under today's system, we've got \$47 in savings. And now we throw on top of that a 60 percent, or \$60 credit, which is money in your pocket. We're getting \$107 out of the government for \$100 in contribution. [LB26]

RICK BETTGER: Well, and again I think there's people coming after me that can answer that better, but from my understanding on the state level...you know what, I won't answer that question because I'm not positive. I know that on the federal side you would still be able to take...to declare some kind of deduction. But on the state side I'm not sure. People smarter than me will answer that question. [LB26]

SENATOR SCHUMACHER: But even if we forget about whether or not the 6 percent is deducted, we know you get about 40 percent off your taxes on the federal side because of the deduction and then getting a 60 percent credit that's straight money off your... [LB26]

RICK BETTGER: Well it's not 60 percent, I believe. It's...that's off of what you will eventually owe in taxes. [LB26]

SENATOR SCHUMACHER: Right. So if I donate \$100... [LB26]

RICK BETTGER: Right. [LB26]

SENATOR SCHUMACHER: ...and I get a 60 percent credit, I can claim \$60 less, off of what I would owe in taxes. [LB26]

RICK BETTGER: Sixty dollars off of what you owe. Right. [LB26]

SENATOR SCHUMACHER: Now I turn around and I grab my 40 cents savings off the federal government, not even concerned with the math right now of my 6.84 percent what might be a bonus off the state government. I'm actually making money on the deal. [LB26]

RICK BETTGER: Apparently I did not take the new math. (Laughter) So I'm going to let... [LB26]

SENATOR SCHUMACHER: And I may be making too much of it. [LB26]

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RICK BETTGER: I'm going to let the policy people answer that question. I'm just the... [LB26]

SENATOR SCHUMACHER: Okay. All right, because I just had a question on the money side of things. [LB26]

RICK BETTGER: Yes, please ask that question to somebody smarter. Thanks. (Laugh) [LB26]

SENATOR SCHUMACHER: Okay. And it's my understanding also that these children, even though they are not of the Catholic religion in your particular case, or Lutheran I suppose in the Lutheran case, they would still be required to participate in the Catholic or Lutheran or whatever subject matter as far as the religious education. [LB26]

RICK BETTGER: They are. [LB26]

SENATOR SCHUMACHER: Thank you. [LB26]

SENATOR GLOOR: Any other questions? Thank you. Appreciate your willingness to do math with us here. [LB26]

RICK BETTGER: You bet. Yes. It's much more than I...they told me there would be no math. (Laughter) [LB26]

SENATOR GLOOR: The biggest lie in the Legislature. We continue with proponents. Good afternoon. [LB26]

SANDRA REDING: Good afternoon, Senator Gloor and members of the Revenue Committee. I'm bringing, I think, a unique perspective to our meeting this afternoon because I represent currently the only organization right in the state of Nebraska that issues scholarships for K-8 students. [LB26]

SENATOR GLOOR: Could I ask you to give us your name and spell it, please. [LB26]

SANDRA REDING: (Exhibit 3) Oh, I'm sorry. I've been here a long time and I think I dozed off during that. Pardon me. My name is Sandra, S-a-n-d-r-a, Reding, R-e-d-i-n-g, and I'm the executive director of Children's Scholarship Fund. And I'm just here to talk to you about my organization and what we do currently as it's relevant to this bill. We serve families. We've been around since 1999. And we serve families, low-income families and provide K-8 scholarships so

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that parents can choose the school that they wish to send their children. We are independent. We issue K-8 scholarships. We are destination neutral. And we have no religious affiliation. We provide scholarships, the students select the schools. We don't evaluate schools. It's really up to the parents to choose the school their child will attend. Currently we serve about 1,700 students and they are attending 80 different schools across Omaha and northeast Nebraska. This year our awards totaled about \$2.1 million. What's unique about our program...and we are one of 32 programs, children's scholarship fund programs across the country. And what's unique about our program is, a, these parents, these families all qualify for free or reduced lunch. But every family that receives a scholarship from CSF, Children's Scholarship Fund, has to pay a minimum \$500 for their children to attend their chosen school. They also have to ensure that their children go to school and attend school a minimum 90 percent of the time. And we actually audit those figures twice a year. And so what I'm saying is that these are families, again, low-income families that find it so important to send their child to the school of their choice that they have skin in the game. So it's certainly not a free ride by any means. The other thing that makes our program unique is that once a child receive a scholarship, he or she will receive that scholarship through 8th grade. The other piece of that is that siblings will also receive that scholarship. So what that is doing...and we are actually tracking some of these outcomes, but it's really providing stability in that family. We find that many of these families really have mobility issues. Children might be living in several different homes during the year, but the school piece, this ability to stay in their chosen school really provides some stability for that family. Since we have been in business 15 years now, we've awarded 27,000 scholarships worth \$25 million. We've begun tracking outcomes. For instance, our graduating class, those students eligible for graduation in May of 2014, we had 99.2 percent of our children graduating from high school. And that's based on a 64 percent response rate. So four years after our kids have left the program, our parents are still reporting to us. This past fall, we had a program for new families coming into our scholarship program. And we had about 300 families, 300 families and children attend our program. And during that program, they were asked to share for us what it is about the scholarship, what do these scholarships do for them? And we heard so many different examples, whether it's an issue of a child just not in the right learning environment, falling behind and attending a school like the Phoenix Academy, or it could be a student that wants to stay in their neighborhood school. But parents were really compelled to share those reasons with us and they're very grateful. We really have found that in the last 15 years our demand for scholarships just continues to outpace our available funding. Last year alone we had 622 applications come into our office that we were unable to fund. And I think that's particularly compelling because we do absolutely no marketing for our scholarships. It is strictly through word of mouth. They might hear about the scholarships in their chosen school. But the demand is clearly there. I'm out of time. [LB26]

SENATOR GLOOR: Thank you, Ms. Reding. If you said it I missed it, but it says over the last 15 years Children's Scholarship Fund of Omaha has provided 27,000 scholarships. Is that how long the program has been in existence, 15 years? [LB26]

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SANDRA REDING: Uh-huh, it's been in existence 15 years. Yes. [LB26]

SENATOR GLOOR: Okay. Other questions? Senator Brasch. [LB26]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Ms. Reding, for your excellent testimony. You've said "we" several times. Can you describe who...who is "we?" I mean your organization, but do you have a board of directors? How many members? [LB26]

SANDRA REDING: We do. We do. We have a board of directors that governs our organization. Right now we have a 15-member board. I am the executive director, the first executive director, and I have two staff members that administer about 1,700 scholarships a year. [LB26]

SENATOR BRASCH: And are these volunteers or is this a...? [LB26]

SANDRA REDING: No. There are three paid staff members. [LB26]

SENATOR BRASCH: Oh, okay. Three paid staff members. Very good. And do you feel that...I guess, are you turning away requests? Are there more requests than you have funds for? [LB26]

SANDRA REDING: Absolutely. I mentioned that we had 622 individual students request a scholarship that we weren't able to fund. And that was valued, it was about \$500,000 in scholarship funding requests. [LB26]

SENATOR BRASCH: That you were not able to fund. Okay. [LB26]

SANDRA REDING: We were not able to fund. And that's compelling when we do no advertising or marketing. We don't spend any money on that. [LB26]

SENATOR BRASCH: And then you have various philanthropists from across the state or the nation or internationally, where is...? [LB26]

SANDRA REDING: We have one national funder, and that's the Children's Scholarship Fund of New York that was founded by John Walton and Ted Forstmann. But many of our funders are from northeast Nebraska and the city of Omaha. [LB26]

SENATOR BRASCH: And northeast Nebraska, District 16 is there where West Point... [LB26]

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SANDRA REDING: Yes, West Point, Fremont, Norfolk. [LB26]

SENATOR BRASCH: Okay, all right. And that's why I was curious. West Point does have a parochial school and also a Lutheran school. From individuals, I've learned that they basically...there's philanthropists that if they know there's someone in need, the cost is not there, then the community responds and helps to finance these students. So apparently they're also finance part of your organization then, too, that you reach there. Or have you helped students in say, West Point? [LB26]

SANDRA REDING: Oh, we do. [LB26]

SENATOR BRASCH: You do. Okay. [LB26]

SANDRA REDING: What's interesting...and I had a bias. I was thinking that, you know, the urban demand for scholarships would be much higher. But in fact we...probably a fourth of our funding is for students in rural Nebraska. [LB26]

SENATOR BRASCH: Okay. And yet they also contribute to your organization and you fund it. [LB26]

SANDRA REDING: Donors, yes. [LB26]

SENATOR BRASCH: Very good. [LB26]

SANDRA REDING: Because many of these schools don't have an entity to administer scholarships. Some schools do and some don't. But we're able to do that with absolutely no bias as to school or faith, anything at all. We as a matter of fact, we even have home school families that participate, that applies. [LB26]

SENATOR BRASCH: That's very good. That was one of the questions I had in the back of my mind is can a home school also help offset their expense? [LB26]

SANDRA REDING: Yes, they do. We will reimburse a portion of curriculum expenses. And there are categories based on their income level, whether it's free...whether they qualify for free lunch or reduced lunch. [LB26]

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SENATOR BRASCH: It sounds like a very successful program that's had a lot of good stories to tell. [LB26]

SANDRA REDING: If we had enough time, I probably would have 1,700 different stories to tell you and they're all different. [LB26]

SENATOR BRASCH: Okay. Very good. Thank you for coming forward today. [LB26]

SENATOR GLOOR: Senator Sullivan. [LB26]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you for your testimony, Ms. Reding. So under the explanation of this legislation, would your organization qualify as an SGO? [LB26]

SANDRA REDING: Yes, we would. [LB26]

SENATOR SULLIVAN: And there are limitations or explanations of how you would qualify per this bill in terms of eligible students. Would that change how you divvy up your...? [LB26]

SANDRA REDING: No, it wouldn't. Our requirements actually might be a little more stringent currently, you know, for we currently are awarding scholarships in the free lunch category and reduced lunch category. There is a third category that I would classify--I don't know the exact language--but more of the working poor, might be two-parent or one-parent household, but they just need a little bit of help to get into that school of choice. And so our scholarships are lesser amounts for that. But we would not change our mission. This is our very mission. [LB26]

SENATOR SULLIVAN: So you indicated that you had over 600 applicants that you couldn't respond to or provide scholarships to. So you have the criteria, and that takes precedence over in terms of you making your decisions? [LB26]

SANDRA REDING: Absolutely. [LB26]

SENATOR SULLIVAN: Okay. Thank you. [LB26]

SANDRA REDING: And we try and focus on the neediest families first. As a matter of fact, we even initiated a special fund this past school year where we have so...the schools have so many late applicants coming to schools where they might...oftentimes it's an emergency kind of

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situation where they're trying to get out of a particular school or they move into a new neighborhood. And so we've reserved funding for that, for those families that qualify for free lunch and are trying to make that change. We had just a \$50,000 fund for that purpose and we ran out of funds. There was such a demand that's not included in that 622 that we weren't able to fund. [LB26]

SENATOR SULLIVAN: Thank you. [LB26]

SENATOR GLOOR: Senator Schumacher. [LB26]

SENATOR SCHUMACHER: Thank you, Senator Gloor. A couple of questions, your administrative cost, if somebody gives you \$100 how much of that goes to the school? How much is eaten up at your level? [LB26]

SANDRA REDING: And again, the scholarships are for the student. We just administer them through the school. But right now we probably spend about 15 cents on the dollar, 14 cents. And I will qualify that by saying although we've been in business for 15 years, we have really been instituting some new assessment models so that we can track our students. And so that's been a fairly recent cost just to really respond to our donors. In addition to graduation rates, what we're also trying to study is the fact that we require parents to be involved. What does that mean? How does that affect outcomes? So right now it's about 15 cents on the dollar, kind of a long answer. [LB26]

SENATOR SCHUMACHER: Okay. And the other question is obviously we've got a free public school system. And you're seeing at your level a demand to get away from the public school system that some people have for their children. Do you do any surveys, any type of fact finding as to what is the cause of people being dissatisfied with the public school system and wanting to use an alternative mechanism? [LB26]

SANDRA REDING: You know...and I wouldn't say to get away from the public school system. And our organization is neutral. Whether it's public or private, we want to find the right fit for a family, for a student. But we find...there's one example for instance. We have a single-parent household, a mother, two children. And she has one child who is just thriving in the public school system. But she had a little daughter named Sage who in kindergarten it was very clear she was falling behind, crying every day, refusing to go to school. And she needed to get into a new environment. So she went to the Phoenix Academy. And again, that's a nonreligious school. But you know, so it's really...it could be about small class size. It could be for religious reasons. It could be because the children, one of the kids were being bullied. There's so many different reasons. And we are beginning to track that in our application process. [LB26]

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SENATOR SCHUMACHER: Thank you. [LB26]

SENATOR GLOOR: Senator Brasch. [LB26]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you once again. You had mentioned that you're \$500,000 short of fully funding the need. Have you had any of your donors mention to you that a tax incentive would help bring more donors in or greater contribution? How would this affect your donor community? [LB26]

SANDRA REDING: I think that it would...you know, one of the things, quite honestly, we are probably the best kept secret in our community. So many people don't know about us. So just the fact that there is legislation and new conversation would attract new donors. Rarely do I sit down with a donor prospect and they don't...and they say this isn't a good idea. This organization isn't right. So you know, I do think that it would attract new donors. [LB26]

SENATOR BRASCH: New donors and the ones that you currently have, would it impact them in a better way that it would...? [LB26]

SANDRA REDING: I would say so. [LB26]

SENATOR BRASCH: Okay, very good. Thank you. I have no other questions. [LB26]

SENATOR GLOOR: Thank you, Ms. Reding. Appreciate your testimony. [LB26]

SANDRA REDING: Thank you. [LB26]

SENATOR GLOOR: Continue with proponents. [LB26]

PATRICK SLATTERY: Senator Gloor, members of the committee, thank you for your time. My name is Patrick Slattery, P-a-t-r-i-c-k S-l-a-t-t-e-r-y. I am superintendent of schools for the Archdiocese of Omaha. On September 6, 2013, the State Board of Education here in Nebraska adopted a policy statement on expanded learning opportunities in the state. And the opening paragraph of that policy statement reads: "The Nebraska State Board of Education believes that in order to help prepare future generations of Nebraska youth for success in life, Nebraska's schools, families and communities must work together to provide multiple opportunities for healthy growth, development and academic success." And LB26 does just that. It creates a vehicle in which lower income families are afforded broader educational opportunities. Better

yet, it does so without seeking public school funding dollars. As the State Board of Education recommends, LB26 seeks to better partner with the community, namely private individuals and corporations or the like to donate their money into a private scholarship-granting organization, SGO. That SGO will then go ahead and award those scholarship dollars to lower income families, affording them those multiple opportunities advocated by our State Board of Education. This bill puts the major onus on the community to raise the funds to help support lower income families. As Senator Krist started with, 43 other states in our country and the District of Columbia have passed some form of legislation which speaks to expanded educational opportunities for families. And I realize full well one can take that conversation in many directions, perhaps many even divisive directions. We could talk about academic achievement. We could talk about achievement gaps. We could talk about test scores, graduation rates, college attainment. We could also discuss 20 years of research which evidences that bills like this can and do work. But this is not about creating a public versus private debate. It's not about dissatisfaction, perceived or real, with public schools. Again, many families just seek a religious education in a very strong public school community but just seek that religious education. Nebraska is truly blessed to have wonderful schools both public and nonpublic. I asked Ken Bird, a former Westside superintendent if I could quote him here this afternoon with his permission. He probably summed it up best in a recent World-Herald article that hopefully many of you have seen. The World-Herald was covering the Latino population and having a conversation about poverty in the Omaha metro and in the state as a whole. And looking at some of those trends of what we're looking at with poverty and the impact that's having on the state, Ken Bird stated: When you look at these trend lines, it doesn't bode well for our community, our work force, or everyone's economic well-being. Most importantly, he said, this is everyone's responsibility. And I could not agree more with that statement. This is everyone's responsibility, and LB26 will allow many of our successful nonpublic schools in the state to become more engaged in educating lower income families. States that have introduced such legislation see their nonpublic schools educating a more diverse student body economically, ethnically, and academic-abilitywise. Speaking for the schools in my archdiocese, many of our urban schools are effectively serving the same population of students as our hardworking colleagues in the urban public schools. We have schools that realize a free and reduced lunch population of upwards of 91 percent of students enrolled. We have schools where upwards of 65 percent of the student population are English language learners. We have schools where upwards of 98 percent of the population is non-Catholic. Nonpublic schools are a strong part of educating Nebraska's students and we are willing as well to take on a greater role through this tax credit legislation and that initiative. Other states that have implemented tax credit scholarship programs similar to the one proposed here are expanding those programs because they work, because the research proves they work, because families love the expanded opportunities now afforded to them. Our neighbors in Iowa have experienced this firsthand as you heard previously. State Board of Education to sum up, their parting statement on their policy for expanded learning opportunities read: The Board encourages Nebraska school district partnerships with community stakeholders

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to adopt a vision for quality expanded learning opportunities. LB26 again, answers that call and does so without taxing the public school funding model as might charter legislation or vouchers. We'd like to see Nebraska follow the lead of 43 other states and the District of Columbia and afford our Nebraska families those expanded opportunities. Thank you. [LB26]

SENATOR GLOOR: Thank you, Mr. Slattery. Senator Smith. [LB26]

SENATOR SMITH: Thank you, Mr. Chair. Mr. Slattery, thanks for coming and testifying. I know you and I have had conversations in my office about this. And you understand that I like the idea of parental choice and I like the diversity and education opportunities for families and children. And I think religious education is a fantastic way of going. We experience that in our own family. And you heard my exchange a little bit earlier. And I want to make certain you understand my concern is not for the acceptance of all children. I get it. Religious education, nonreligious education accepts all children. But I'm more concerned rather for the protection of your religious freedoms to be able to teach as you so choose. And you heard earlier the other person testifying mention that there are times when it's determined that a family is not a good fit because maybe they do not like the way their children will be instructed in a religious nature. And understanding there could be harmonizing language here, does that give you concern that there are strings attached to this that could directly impact your religious freedoms? [LB26]

PATRICK SLATTERY: You know, I think those are pieces that we would need to vet and talk through what that looks like. Many of our schools right now again, when it comes time for students seeking admission it's our nature to sit down with families, share the expectations of what it means to be a Catholic School student, and make sure families understand how the program works and what's going to be taught in the classrooms. So certainly if again, we're to have conversations in terms of what that admissions policy looks like. I think those again, are continuing pieces we'd need to talk about. I worry about it a bit more so and I have had conversations with some of you more as we've had conversations on the accountability piece and what that looks like, whether we're talking criterion reference or norm referencing. You know, those are conversations that I think many private schools would again, want to dialogue with, are willing to have some conversations with. But I understand where you're coming from and I think we'd all want to just make sure we're all on the same page with whatever verbiage may be amended to the bill, if I'm answering your question. [LB26]

SENATOR SMITH: Thank you. [LB26]

SENATOR GLOOR: Senator Brasch. [LB26]

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SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Slattery, for coming here today. And it sounds like you've done extensive research, mentioned the other states. Is this program, this legislation, is it a template of the other states, or is there any differences that you see that Nebraska is trying to introduce versus Iowa or another state? [LB26]

PATRICK SLATTERY: I would not say there's too much vastly different. A lot of the nuances that you'll see from one tax credit bill to another is the qualifying family income, you'll see some variances in that regard, the cap amounts as well. There are usually, typically some conversations on the accountability piece. But the bill itself does model pieces that you'll find in just about many of the other tax credit states. Florida was a model that we've taken a close look at as well. Florida has had great success, has expanded the program. Their revenue committee down there is professing huge state savings. So there are aspects to that bill that obviously drew some interest. Indianapolis, again, Iowa, Indiana, Utah all have been looked at. [LB26]

SENATOR BRASCH: And from your research, do you believe that there will be students transferring from public school to private school, and if so, what rate of transferring would that occur at? [LB26]

PATRICK SLATTERY: Absolutely. And I can come at that from a lot of different directions. Having been in the school building, the number of families that are coming and are interested in Catholic education, you know, largely for perhaps religious reasons, finances is one of those critical pieces. But I would look just in our archdiocese alone, in the Omaha metro, there are about 15,000 Catholic students enrolled in public school. You know, even if 10 percent of those families were interested--and I'm sure it's a lot more than that--but even 10 percent would make a significant jump. I look at Assumption-Guadalupe Parish down in south Omaha. Our archdiocese, again, that's been covered in the media recently, trying to make a concerted effort to reach out to the Latino community. We have nearly 1,000 students K-8 in that one parish alone that are currently enrolled in public school that would love a Catholic education--1,000 students from one parish alone. So certainly I believe the need is there. And again, with some added assistance to what many of our schools are able to already do, I think would have a dramatic effect. [LB26]

SENATOR BRASCH: And in the states with similar programs, have there been any amounts given on how much has been donated the first, second, and third year, the contributions that...you know, how has it affected them financially? [LB26]

PATRICK SLATTERY: From what I have seen where research has been done in some of those states, it seems like most states have no trouble hitting those caps, whatever that may be. And again, I think that's why when you look around the country and you look at the fact that many

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states have expanded the program, it's because a lot of the concerns they had prior to introducing that legislation did not prove to be true. And again, just the sheer interest in expanding those programs from residents within the state is what's driving that. Again, we're seeing that in Iowa and many other states where...not every state has had their impact researched. So I can't say definitively all 14 tax credit states have seen that. But where the research has been done, it's positive. [LB26]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB26]

SENATOR GLOOR: Senator Schumacher. [LB26]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony today. Within the last couple weeks this committee heard some rough numbers that on first reading suggested that the 2014 public school cost was about 50 percent higher than the 1990 cost adjusted by inflation to 2014, fairly dramatic increase in cost. You operate a basically competitive system. What cost increases have you had? Do you have data that you could supply the committee taking your 1990 cost, adjusting it for inflation and then comparing it what it is today? Are you as dramatic? [LB26]

PATRICK SLATTERY: I don't have that at my fingertips, but we could make an effort to find that out. [LB26]

SENATOR SCHUMACHER: I mean do you kind of maintain those kind of numbers because side by side we have a dramatic increase in one system. It would be interesting to know whether or not we have a dramatic increase in cost in the other system. [LB26]

PATRICK SLATTERY: Part of the reason why we're able to keep some of our cost down, I mean my central office is staffed with five people for 19,000 students. So, you know, we don't have the data offices and the things like that. But I'm sure that that material is there to find and answer your question. [LB26]

SENATOR SCHUMACHER: Well, let's kind of touch on that a bit. Why is it that your able to do it with...I mean is that the only staff? I assume the schools themselves have got staff. [LB26]

PATRICK SLATTERY: Correct. [LB26]

SENATOR SCHUMACHER: So are you saying that your efficiencies are...you're able to do it with a whole lot fewer people? And why would that be if that's the case? [LB26]

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PATRICK SLATTERY: I can only speak to...you know, I don't have the experience in a public school. And again, I know our public schools do work with a lot of different students and certainly are going to need some additional resources. All I can speak to is the model for Catholic education obviously operates a little different than does public education. I can share just facts as they stand. The average cost to educate in the Archdiocese of Omaha on the elementary side is probably running about \$5,500. I don't know off the top of my head what the public school figures...on the high school side, the actual cost is probably running I'd say about \$12,000. The high schools are probably charging about \$10,000. The elementaries, even though it's a \$5,500 actual cost to educate, are charging probably from \$2,400 to about \$4,000. And then we rely on parish subsidies, donations, a lot of the testimony you've heard before to help cover the remaining costs. [LB26]

SENATOR SCHUMACHER: One of the comments you've just made, that the public schools have got a lot of different other students, in what respects? [LB26]

PATRICK SLATTERY: Certainly, I mean it's as Senator Harr was asking, I think that's to the root of your disability question. It's...you know, are the public schools educating students that have greater needs? Absolutely. Do Catholic schools want to be a bigger part of that? Absolutely. But I understand that reality. I'm not in the least going to try and judge the public school funding model. I'm not a public school educator. I can't speak to that. [LB26]

SENATOR SCHUMACHER: What type of student that the public school is educating would you not permit in the Catholic school? [LB26]

PATRICK SLATTERY: It's not a desire to not permit. But let's hypothetically say right now that you had a student at 8th grade level that needed 100 percent pullout one-on-one time to be successful. Many of our Catholic schools are not outfitted to serve the needs of that student. Would we like to be? Absolutely. Is a bill like this...does it open the door for Catholic schools to perhaps have the resources to better serve that type of student? Absolutely. But as it stands right now, if a student that was at a 1st grade reading level, that needed one-on-one pullout 24/7, could some of our Catholic schools struggle serving the needs of that student? Yes, they would. [LB26]

SENATOR SCHUMACHER: Thank you. [LB26]

SENATOR GLOOR: Let me use another example. In touring one of our elementary schools, there's one student that they have--this is an elementary school--that requires 2 staff: one a professional educator, one an aide for that one student because of the physical violence as a

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result of the disability of that student. Is that the type of student that could comfortably be cared for or be afforded to care for within your schools? [LB26]

PATRICK SLATTERY: Without the funding the public school receives to educate that child, yes, that would be a challenge. [LB26]

SENATOR GLOOR: Okay. Senator Scheer. [LB26]

SENATOR SCHEER: Thank you. With the credit being directly off your tax obligation, from my perspective that is Nebraska dollars then going to private institutions. So if we agree upon that, our public institutions, we have accountability measures. And we can talk about high school graduation rates, but not knowing the competency, saying they graduated doesn't tell me the competency of that child that's graduating. Would you in your case, I know you can't speak for others, but if we're literally going to have state dollars flowing into private institutions then would you find it reasonable for then the state to expect some type of a standardized accountability assessment that all schools that would be accepting students under this program would be accountable to? [LB26]

PATRICK SLATTERY: In a roundabout way I'll answer that question. Let me just preface with, a 2009 U.S. Department of Education study showed that Nebraska is one of only ten states in the country that requires private schools to be approved or accredited by the Department of Education. Being originally from Connecticut, moving to Nebraska, if I were to put Rule 10 right in front of you right now with a highlighter, the vast majority of requirements that public schools are held accountable to, so are the private schools. That is not the reality throughout the rest of the country. So on one end I would argue that the level of accountability that exists with the state already is strong. But to your question, I think if that were, you know, a point that I think a lot of folks within the nonpublic world would be amenable to a conversation on that. We are required by the state to extend norm-referenced testing as well as criterion referenced. So if it was a matter of having conversations about sharing those norm-referenced test scores to the Department of Education to offer some transparency, I think there's a conversation to be had there. [LB26]

SENATOR SCHEER: Well, I think that's really what I'm looking at because from the vantage point of Rule 10, Rule 10 only requires you to offer certain classes. It doesn't require...for example, it would say that you have to offer four years--well, it doesn't--three years of math, 9-12. It doesn't tell you what those three courses are. That's up to the individual school districts to do, or the school system in this case. So it's still important, I think, to have some type of accountability that the level of that education for those children that would be receiving their education wherever it might be then be held to a certain standard so at least the state and the

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taxpayers know that the dollars going into whatever the institution is, whether it's public, private, those students are still reaching whatever that attainment level needs to be regardless if you're accredited by the state or not. I mean that's really what I'm getting at. [LB26]

PATRICK SLATTERY: Sure, sure. And again, while all of our schools, all nonpublic schools, the Lutheran schools, Jewish schools, nondenominational, Catholic, we are required to have those norm-referenced tests, those criterion-referenced tests. So again, I think it's...I think we would find the community, if that's what it's going to take, to be very amenable to that conversation. The data is already there. It's just a matter of sharing it. [LB26]

SENATOR SCHEER: Okay. Thank you very much. Thank you, Senator Gloor. [LB26]

SENATOR GLOOR: Senator Brasch. [LB26]

SENATOR BRASCH: Thank you. Just one more question, have you seen the fiscal note on this? [LB26]

PATRICK SLATTERY: I have. [LB26]

SENATOR BRASCH: And any comments? Or your thoughts on it? Do you think the credit...? [LB26]

PATRICK SLATTERY: You know I could cite...again, it's...my wife would kill me because our basement is littered with research studies from around the country for the last 20 years, but research of other programs shows that states are saving money. We all know TEEOSA is not every other state. And the gentleman coming up behind me I think can speak specifically to that. But I would highlight the fact that research is showing other states with tax credit bills like this are realizing state savings. In the case of an independent report that was done specific to LB26, it does show a break-even point in all likelihood by year two with state savings by year three. So you know, again, looking to the big picture and the long-term impact this would have not only for taxpayers savings but just hopefully the improved socioeconomic impact in the state of Nebraska by having a stronger educated student body. [LB26]

SENATOR BRASCH: Very good. This time I really have no more questions. (Laughter) [LB26]

SENATOR GLOOR: I think we'll move on to that next testifier. Thank you, Mr. Slattery. [LB26]

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ADAM WEINBERG: (Exhibits 4-6) Good afternoon. Thank you, Senator Gloor, members of the Revenue Committee. For the record, my name is Adam Weinberg, A-d-a-m W-e-i-n-b-e-r-g. I'm the communications and outreach director at the Platte Institute for Economic Research, and I'm offering testimony in support of LB26, the Choice for the Advancement of Nebraska Children in Education Act. Tax credit scholarships enabling children to attend private school offer an exceptional opportunity for all Nebraskans. By incentivizing taxpayers to give generously to scholarship-granting organizations right here in Nebraska, we can provide an abundance of high-quality education options for Nebraska families who would not otherwise be able to afford them. There is no question that tax credit scholarships are proving their worth as part of the solution in erasing the achievement gap in the 14 states where they have been enacted. Twelve out of thirteen studies using random assignment of students find that student achievement improves based on a child's receipt of a school voucher or a scholarship. But even families who have no intention of applying for these scholarships or taxpayers who don't wish to donate can benefit. Private schools are of great help to taxpayers. They're doing a job that would otherwise have to be taken on by the traditional public schools. In Arizona which has the nation's oldest tax credit scholarship program, a review of department of revenue figures shows that if all students using scholarships in 2007-2008 returned to Arizona public schools, taxpayers would need to fund traditional public schools with an additional \$241.5 million. We appreciate the analysis offered by the Legislative Fiscal Office on the impact of tax credit scholarships in Nebraska. Certainly, TEEOSA makes Nebraska a unique case on the issue of fiscal structure for this type of program. However, in the study that Mr. Slattery referenced which we commissioned and was published by Nebraska School Finance Strategies, the researchers found a couple of important long-term variables that may not be included in the fiscal note that would be worth the committee's consideration. The first would be the migration of students from public to private schools. The fiscal note seems to portray student migration from public schools to private schools as evenly across the state, but that's not a very likely outcome. Many counties in Nebraska don't have private schools as of today, and parent or student demand for private school options varies considerably from district to district. Secondly, our fiscal impact study accounts for means testing among students receiving scholarships. And that's the standard carried out by SGOs and other state programs as you've heard from the Children's Scholarship Fund and from the gentleman visiting from Iowa. Not all students will receive similar level scholarships because not all students will require the same level of financial support to decide to migrate from public schools to private schools. And as the proportion of students who migrate with smaller scholarship awards in high-demand areas grows, the overall savings to the General Fund for TEEOSA purposes has the potential to increase as well. So the study estimates that with around 4,000 participating students from these high-demand areas like Omaha, Lincoln, and then other communities with private schools statewide, there's the potential for the program to break even in just the second year. Nebraska already offers many generous tax incentives to encourage the growth of industries and to encourage the state to become more competitive with our neighbors in the long term. And we believe there couldn't be a more valuable use of tax credits than

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supporting education programs right here in Nebraska. Today within our immediate region, Iowa, Kansas, and Douglas County, Colorado, already offer some type of private school choice program. If our goal is to become more competitive, if it's to grow our productivity and population and we want secure sources of revenue for the state's future, then why wouldn't we want to incentivize more Nebraskans to invest in education options that are helping kids succeed. LB26 offers the chance to launch new social enterprises right here in Nebraska that can help strengthen communities, that can improve the long-term economic prospects for our young people, and inspire every Nebraska child from the very first day they enter the classroom to succeed. We ask for the Revenue Committee's support in advancing LB26. Thank you very much, and I look forward to your questions. [LB26]

SENATOR GLOOR: Thank you, Mr. Weinberg. Are there any questions for Mr. Weinberg? [LB26]

ADAM WEINBERG: Or maybe not. [LB26]

SENATOR GLOOR: I see none. Thank you. Other proponents. Seeing none, we'll move to...could I see a show of hands. Would you please come up to the front and get settled in there, and that way we'll keep moving along quickly. Thank you. Go ahead. [LB26]

JOE NEUHAUS: (Exhibit 7) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Joe Neuhaus, J-o-e N-e-u-h-a-u-s, and I'm the policy director for Nebraska Family Alliance. I appear in support of LB26 today and hope to provide you some background about how historically the Supreme Court has deferred to parents to direct the education of their children and how Nebraska can uphold the spirit of that deference. In 1923, the United States Supreme Court held in Meyer v. Nebraska that the due process clause of the Fourteenth Amendment grants parents the power to control the education of their own children. Since that decision, the Supreme Court has consistently upheld that right. Two years later, for example, in Pierce v. Society of Sisters, the Court ruled: "The fundamental theory of liberty upon which all governments in this Union repose excludes any general power of the State to standardize its children by forcing them to accept instruction from public teachers only. The child is not the mere creature of the State; those who nurture him and direct his destiny have the right, coupled with the high duty, to recognize and prepare him for additional obligations." This right of parents to direct the education of their children was confirmed in 1944, 1972, and 2000 in the Supreme Court cases of Prince v. Massachusetts, Wisconsin v. Yoder, and Troxel v. Granville, respectively. Many families in Nebraska, despite their best intentions, are unable to truly direct the education of their children because they lack the financial means to do so. More than 40 percent of families right here in Lincoln lives in poverty. Those who are unable to afford tuition for their children are constrained to sending their children to a school based upon their

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geographical location. This may not be the best fit for students. Because the family is the essential societal unit, we should enact laws that strengthen the autonomy of family life. This includes reducing the barriers standing in the way of school choice for low-income families. All families deserve the chance to make thoughtful decisions regarding the education of their children, not just those who can afford to do so. Forty-three other states and the District of Columbia, as you have heard various times today, have already established initiatives to allow families to choose schools that best fit their needs. It is time for Nebraska to do the same. After all, the power of parents to control the education of their children was first recognized by the Supreme Court in 1923 from a case that came out of Nebraska. Accordingly, I encourage you to vote to advance LB26 out of committee, and I thank you for your time and consideration. [LB26]

SENATOR SCHUMACHER: Thank you. Any questions for Mr. Neuhaus? Seeing none, thank you for your testimony. [LB26]

JOE NEUHAUS: Thanks. [LB26]

SENATOR SCHUMACHER: Next witness. [LB26]

MATT LITT: Senator Schumacher and members of the Revenue Committee, my name is Matt Litt, M-a-t-t L-i-t-t. I am the Nebraska director of Americans for Prosperity, and on behalf of our organization, I am here to urge your support for LB26. Families all across our great state are concerned about providing their children with the best education they can. If we take an honest look at the situation, we can all agree that not every child in Nebraska is afforded the same educational opportunities. This is not to say that many Nebraskans are not receiving quality education in our public schools or that every school in Nebraska should be exactly the same. What one family sees as an opportunity for their child, another might not choose. Some families will always choose their neighborhood traditional public school. Some will choose to educate their children at home. Some families desire alternative education options: public charter schools, greater access to on-line education, and more. Some families can afford private school and send their children, and others want to move their children from a public school to a private school but simply can't afford to do so. We must do more to provide greater access to educational opportunities for Nebraska families. LB26 would provide more opportunities for students across the state through tax credit scholarships. This bill would encourage individuals and businesses to invest in Nebraska education. More importantly, this bill would give more opportunity to more students throughout our state. LB26 would allow students to not be hindered by their zip code or family income and to not be stuck in a below satisfactory situation or in a sub par or failing school. States across the country have found tax credit scholarships to be a positive appropriation of state resources. In fact, states across the country are continuing to expand this type of school

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choice and other types each and every year. Nebraska should join the fold. Many Nebraskans receive a quality education at their local public school, but this does not take away from the fact that there are Nebraskans who would like an alternative and whose local school is not serving them as best it could. This bill allows families who are not satisfied with their current situation a new opportunity. LB26 allows us to publicly recognize that each family has unique desires in the area of education and allows us to say to them we want your children to have every opportunity to succeed. This committee can increase the opportunity and make the good life even better by moving LB26 to the general body. Thank you for your time. [LB26]

SENATOR SCHUMACHER: Thank you. Any questions for Mr. Litt? Seeing none, thank you for your testimony. Any other proponents? Seeing none, we'll move to opponents. [LB26]

ROGER BREED: (Exhibit 8) Good evening. Thank you for your endurance. Senator Schumacher, members of the Revenue Committee, my name is Roger Breed, R-o-g-e-r B-r-e-e-d. I'm the executive director of the Greater Nebraska Schools Association, former Commissioner, former principal, former superintendent, and a bunch of other formers. The 24 member school districts of GNSA are responsible for the education of two-thirds of all Nebraska public school-aged children. The purpose of the GNSA is to collectively advocate for all Nebraska public school students. We're here today to oppose LB26. Our opposition to the bill has nothing to do with the quality of education received by students attending private schools. As has been stated, Nebraska is fortunate to have many choices for schooling, including parochial schools, private schools, and home schools and also the processes of option and/or open enrollment for students. For a variety of reasons, some families choose to have their students attend schools other than their public schools. That is well and good, but historically even with all of these choices, 90 percent of Nebraska school-aged children attend their public schools. And the state's obligation here is very clear. According to the Nebraska Constitution, Article VII, Section 1, "The Legislature shall provide for the free instruction in the common schools of this state of all persons between the ages of five and twenty-one years." That is a primary responsibility of the Legislature. To meet this obligation, the Legislature established taxes to provide funding. This bill, LB26, would in essence take funds that have been collected to fulfill a public obligation and instead use them to fund private entities. In no other situation, do taxpayers get to choose to opt out of a tax because they choose to use the funds in the way they see fit and counter to a clear public obligation. Aside from this philosophical and constitutional argument against this bill, there is also a practical argument. With the focus in this Legislature on balancing the tax base to support public schools, it would be counterproductive to also reduce income tax proceeds that are used for state aid. Nebraska already ranks near the bottom--I think 49th of the 50 states--in contribution, state contribution to public education. This bill would only exacerbate that problem. Private schools have been and will continue to be a viable choice in Nebraska. However, the obligation of the Legislature is to provide for public education for the common good. For this reason, we oppose a tax credit for private school scholarships and/or tuition.

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GNSA is and will continue to be opposed to any policy change that would reduce the state's ability to provide adequate and equitable resources to the more than 300,000 students attending our public schools. Thank you much for your time today. Thank you for allowing me to present, and I would be happy to respond to any questions that you have. [LB26]

SENATOR GLOOR: Are there any questions for Dr. Breed? Senator Schumacher. [LB26]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for your testimony today. Right now, this bill is asking for \$10 million basically. And I think the number of what we spend on public education is around \$3,000 million (sic) a year. This is about 0.33 percent to conduct essentially a pilot project to see whether or not this can actually make money for the system and facilitate more money being spent on public education. That teeny, tiny percent certainly can't be a threat to anyone, can it? [LB26]

ROGER BREED: You could make that argument for a variety of programs that sit in the Education Committee right now. We're \$10 million in early education funding, \$10 million in high ability learner education funding, an additional \$10 million in special ed funding could also be argued to make a significant impact. So even though it is a small amount in the \$3.2 billion a year that we spend for public education, it's a start down a path that I do not think this Legislature should take. [LB26]

SENATOR SCHUMACHER: What if we were to tie some of those same obligations to this funding? [LB26]

ROGER BREED: Which...? [LB26]

SENATOR SCHUMACHER: For special ed, same things that the public schools got to do. [LB26]

ROGER BREED: You wouldn't save a dime then. Plus the aspect of accountability, you know, Mr. Slattery talked about it and Senator Scheer brought it up. The private schools, the nonpublic, the private schools, the home schools, whenever at the department we mentioned accountability, would come forward in great numbers to say leave us out of that particular picture. We do not want to assess our students in the same way public school students are assessed. So you know, to say now, if you give us \$10 million in the private school system we're going to go away from that attitude, I don't believe it. [LB26]

SENATOR SCHUMACHER: And that's been your experience in the past? [LB26]

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ROGER BREED: Yeah, I've been there. [LB26]

SENATOR SCHUMACHER: Thank you for your testimony. [LB26]

ROGER BREED: You bet. [LB26]

SENATOR GLOOR: Senator Brasch. [LB26]

SENATOR BRASCH: Thank you, Mr. Chairman, and thank you, Dr. Breed. This is the second day in a row I've heard the, we're 49th in the... [LB26]

ROGER BREED: State contribution to public education. [LB26]

SENATOR BRASCH: Yes. And I'm very curious how that comes to be when...are those other 49 states using something other than property tax? [LB26]

ROGER BREED: No. [LB26]

SENATOR BRASCH: We're like the third highest in the country. There must be funds coming from somewhere we have not... [LB26]

ROGER BREED: Additional sales taxes, additional income taxes, additional use taxes, severance taxes, there's a variety of things. And each state is different. But again, we've relied heavily on our local property taxes. That has been the wealth of this state historically, and that's understandable. It's a stable and a predictable tax source to fund a stable and predictable expenditure. And we've relied on that. And the state has not entered into that fray, although we are far more into the fray now than we've ever been before. [LB26]

SENATOR BRASCH: Sure. [LB26]

ROGER BREED: Other states have found ways to do it in other ways. [LB26]

SENATOR BRASCH: With multiple funds. [LB26]

ROGER BREED: Multiple resources. [LB26]

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SENATOR BRASCH: Nebraska isn't the only ag-based state. We have several agricultural states in... [LB26]

ROGER BREED: Yeah. Right. And I would say no state that I'm aware of, and I got to visit and travel to many states and discuss this very issue as commissioner, no state is satisfied with how they fund their schools. When there's too much state funding, the local entities resent the intrusion of the state into local decision making. When there's not enough funding, then we have the property tax inequities that we see before us now. [LB26]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB26]

ROGER BREED: Okay. [LB26]

SENATOR GLOOR: Thank you, Dr. Breed. Appreciate your testimony. [LB26]

ROGER BREED: Thank you. [LB26]

SENATOR GLOOR: Next opponent. [LB26]

JOHN BONAIUTO: (Exhibit 9) Members of the committee, Senator Gloor, John, J-o-h-n, Bonaiuto, B-o-n-a-i-u-t-o, representing the Nebraska Association of School Boards. And I went second because that way I could let Dr. Breed say a number of the things that I had intended to say and not repeat them. The public school boards, when they discussed this issue in November at their state meeting and delegate assembly, they passed a position which you're receiving that deals with tax credits. And I think that knowing that a good deal of the focus this session would be on tax relief and then looking at the other priorities that you as policymakers would be facing that would require funding, with prison reform and other things, there was a concern of how this would take money off the table. And we're not saying this is money that's coming out of state aid or money that was going to be directed to schools, but it's money that you would not have available as you have to deal with the priorities of the state. And the bottom line for public school board members was that these schools are not state responsibilities and when you start to look at ways to get money to nonpublic or private schools, then do they become quasi-state agencies? And what will that mean for the future? And this may be a pilot now, but there's the potential to have more money taken off the table for this type of funding. So we would hope that this committee would indefinitely postpone LB26. And with that, I'll conclude my testimony. [LB26]

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SENATOR GLOOR: Are there any questions for Dr. Bonaiuto? Seeing none, thank you for your testimony. [LB26]

JOHN BONAIUTO: Thank you, Senator. [LB26]

JASON HAYES: (Exhibit 10) Chairman Gloor and members of the Revenue Committee, for the record, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the Nebraska State Education Association. NSEA is opposed to LB26 because of the loss of revenue if the proposed tax credit is adopted. We are also opposed to spending public tax dollars on private schools, whether it be through tax credits, vouchers, or other such proposals. Public tax dollars should fund public schools. Private dollars should fund private schools. LB26 would result in \$10 million in lost revenue to the state for the first year of implementation. And with provisions in Section 9 of the bill, this amount could increase by 25 percent each year thereafter. I have attached a handout showing the total projected revenue lost over ten years if the tax credit is fully utilized in each year resulting in the annual 25 percent increase. And as the testimony came in today, Iowa has met their cap each year. And I think that would be similar in Nebraska. As a state, we are having difficulty funding education programs already on the books. The Master Teacher Act, which is in Rule 22 of the Nebraska Department of Education, is a program to provide funding for those teachers seeking accreditation as a Master Teacher. It has no funding. There is a teacher mentoring program under Rule 26 to provide funding for mentoring programs to train new teachers. It has no funding. On Monday of this week in the Education Committee, it heard proposals for funding other ongoing programs such as the Excellence in Teaching Act that provides loan forgiveness for teachers enhancing their skills, and also distance learning and early childhood education programs, which if all were fully funded, would exceed the roughly \$11 million of lottery funds available on an annual basis for education. NSEA believe private school tax credits constitute a risk to properly funding public education, especially when we as a state are not funding the education programs we already have. And I thank you for your time today. [LB26]

SENATOR GLOOR: Thank you. Senator Schumacher. [LB26]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for your testimony. We've heard testimony earlier today that suggests that this thing turns the corner at the end of the second year and actually starts producing revenue. What's wrong with that math? [LB26]

JASON HAYES: Well, I'm going based upon the fiscal note. And the fiscal note does take into account the intricacies of TEEOSA, but the bottom line is they still factor in a \$10 million loss in revenue and 25 percent increase thereafter. The second page of the fiscal note it says, "Based upon the size of the credit and the potential pool of eligible students, it is estimated that the cap

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will be reached every year and will increase the aggregate amount of the credits that may be issued annually." So to the extent that a transfer in TEEOSA was calculated in here, I don't see it. [LB26]

SENATOR SCHUMACHER: That's just half the ledger. That's the cost of the credits side of the ledger. But unless I was misinterpreting things, there was a suggestion that this thing turns the corner financially and actually produces a cost saving on the other side of the ledger. [LB26]

JASON HAYES: Well, and I think you raised an interesting point earlier in term of that you're going to get your deduction for the federal tax as well as the income in with a 60 cent on the dollar tax credit from the state. So it's a substantial benefit for the donor. [LB26]

SENATOR SCHUMACHER: It appeared that way at least. Thank you. [LB26]

SENATOR GLOOR: Any other questions for Mr. Hayes? Seeing none, thank you. [LB26]

JASON HAYES: Thank you. [LB26]

TIFFANY JOEKEL: (Exhibit 11) Good afternoon, good evening, Chairman Gloor, members of the Revenue Committee. My name is Tiffany Joekel, T-i-f-f-a-n-y J-o-e-k-e-l, and I am the policy director at OpenSky Policy Institute. Just because of the late hour I will really summarize. Our concerns with the legislation are obviously fiscal impact. While it's \$10 million capped in the first year, it increases 25 percent every year assuming that we meet that cap. And so at the end of ten years, we're looking at \$74 million as the annual cost and the aggregate lost revenue over the decade is \$333 million. So obviously that's a significant amount. We, in general, have some concerns with the claims of cost savings. And I would like to say specifically that my concerns that I'm going to raise are not a critique of the analysis presented earlier. I have not had time to look into it in depth, other than sitting in the back row today. But I would say, generally claims of state savings rely heavily on a couple of assumptions: one, that the scholarships are going to students that wouldn't choose to go to private school anyway...or wouldn't be able to go to private school anyway. And the assumption also rests on that public schools can reduce their costs on a per student basis. Generally the higher the income threshold for eligibility for these scholarships, the more likely it is that we're giving tax-subsidized scholarship to students who may be able to or may have attended private school on their own or absent this policy change at the state level. The eligibility for scholarships set in this bill is two times the free and reduced lunch income rate; that's 370 percent of the federal poverty level. And just for comparison, we provide Medicaid to parents at 57 percent of the poverty level. We say that families can only access nutrition assistance up to 130 percent of the federal poverty level. And as far as other assistance programs such as child health coverage, that's 200 percent of the federal poverty level. So this

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income level does set that significantly higher increasing the likelihood that higher income families would access it. The amount of the scholarship, which is not defined in LB26, will have a significant impact on the diversion of public school students to private school. If is not a significant value of scholarship, there are low-income families who won't find it allowable. They won't be able to afford to make that choice. So the value of the scholarship is an important driver. And in research on this proposal in prior...this idea in prior years, it was quoted: Low scholarship values generate less demand for scholarships because low scholarship values may not reduce the price of private schooling enough to get many families to transfer to private schools. And then finally, the idea that a school...if a child doesn't attend a public school and goes to a private school the school can reduce the amount of cost on an average basis, there is a marginal cost to educating students at some point. If one or a handful of students transfer, we still have to keep the lights on, we still have...we don't get rid of the gym. We still have to heat and cool the building. So there's some level of fixed costs that will always remain relative to a certain number of kiddos in a building. So there isn't a direct one-to-one return to the state, I don't think. Beyond our concerns about budgetary impact, we do have concerns about the tax policy. This does provide favorable tax treatment to charitable donations to certain nonprofits and not to others. As has been noted, under LB26 donors will be able to deduct the amount of their donations from taxable income and also receive a 60 percent credit toward taxes owed. This allows donors to access tax benefits twice for the same donation, making it entirely possible that donors could recoup the entire value of their donation in tax benefits. For example, a family with \$500,000 in income could make a \$10,000 donation, and adding up the deduction on the federal and the state taxes and the credit under LB26, they could receive \$10,644 in tax benefits, so essentially more than 100 percent of what they've donated. Also, you know, this creates a significant incentive to donate to scholarship organization nonprofits and not other kinds of nonprofits. I think that's an intent of the bill but it certainly a result that we should pay attention to making tax policy. Also, you know, with the intent of improving educational outcomes, it doesn't provide the similar tax incentive if someone would want to donate to their public school. OpenSky's work on tax incentive programs we have found that generally policymakers don't have the information available to them to appropriately evaluate whether they're achieving the stated goal. And we have similar concerns about the lack of accountability mechanisms built into this proposal. Are scholarships improving the quality of education available to the children receiving them? Are they improving the quality of education available to all children as proposed in the legislation? And are we seeing savings? Under LB26, we don't think there are any mechanisms to evaluate the value we are getting out of the use of state dollars. So we certainly appreciate Senator Krist's goal of improving the quality of education available to all children, but we are concerned with fiscal and tax policy implications of the proposal. With that, I'd be happy to answer any questions. [LB26]

SENATOR GLOOR: Any questions for Ms. Joekel? I don't see any. [LB26]

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TIFFANY JOEKEL: Okay. Thank you. [LB26]

SENATOR GLOOR: Thank you, Tiffany. Anybody else in opposition, would like to speak in opposition? Anyone in a neutral capacity? [LB26]

MATTHEW EASH: Wow, it's almost good evening, Chairman Gloor... [LB26]

SENATOR GLOOR: Not quite. [LB26]

MATTHEW EASH: ...and members of the Revenue Committee. My name is Matthew Eash; that's spelled M-a-t-t-h-e-w E-a-s-h. I'm here essentially to represent myself and my company Nebraska School Finance Strategies, Incorporated. We are the author of the fiscal impact study that I believe the Platte Institute distributed to everyone. I'm essentially just here as a courtesy. If you have any questions, if you've read the study, if you have any questions about it, obviously it draws a different conclusion than the official fiscal note. And I'm not here to necessarily make any formal statements or prepared statement about why I believe it's different, unless you have any questions. So I'll just, in the interest of time since I'm the last testifier of the night, if you do, I'll just open it up to you right now. [LB26]

SENATOR GLOOR: Any questions of Mr. Eash? I see none. [LB26]

MATTHEW EASH: Okay. [LB26]

SENATOR GLOOR: Thank you. Anyone else in a neutral capacity? Senator Krist, welcome back. [LB26]

SENATOR KRIST: Hey, it's either this or listen to the death penalty, so here we go. (Laughter) First of all, Iowa in their program does not allow both the federal deduction and the state deduction. So all the concerns about adding it up and getting more than it is, it doesn't exist. So we'll have to clarify that with the experts. But that particular program that's so successful doesn't allow the dual. And I can't explain it because I'm not a CPA and I didn't spend the night in a Holiday Inn Express last night either. But we need to get an answer to that. Your resident expert that came up here did the study for the Platte Institute. Senator Gloor, Senator Schumacher, and I and others have discussed the value of our fiscal notes and the nonvalue of a fiscal note. It tells you how much things are going to cost, not necessarily how much they're going to save you in the long run. I believe that two to three years down the road it is going to have savings. At the risk of challenging an institution like Roger Breed, I will just say this. Your question about why do other states fair better in terms of funding, 43 other states have formulas like this on the books

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that help them fund the school programs, and the District of Columbia. So that might be somewhat of an answer. I also think that...I don't know who challenged Mr. Slattery, but it's a good challenge. I personally was on the board, the president of the board of Madonna School which is a diocese school, and I know what our costs were per student. And I know how much they went up in the ten years that I was associated with Madonna, and it didn't come close to the public school system. So I would charge Mr. Slattery to come back and give you those estimates because that will show you the difference between 5 administrators and 150 administrators if that formula is the same. And I'm probably exaggerating that, but I think there's many more administrators in the public school system than there is in the private. And legitimately there may be more tasks to perform, and we'd have to weed through that. The last thing I would say is that when we talk about schools in the state of Nebraska, and Senator Sullivan can talk to this to you in Exec and those of you who are on the Education Committee, this state of Nebraska is an accredited state across the board. You can't have a school teaching kids that's not accredited. I don't understand all the detail and idiosyncrasies of the process, but we're not talking about a fly by night. We're talking about people who are accredited. And again, to Mr. Slattery's point, there is norm testing and criterion testing that's available. If we ask for it, we can get that testing results. And again, not to interfere with the institution of Roger Breed, but I trust that if we try to do something to save the escalating cost in education that those people will come up with the answers that they need. I don't think that 30 years or 40 years of experience may not keep us from doing something to offset and think out of the box in terms of investing in our education process. With that, I thank you for your time, your...lot of time. Sorry. [LB26]

SENATOR GLOOR: Let's see if there are any final questions. There is. Senator Scheer. [LB26]

SENATOR SCHEER: No question, just maybe technical information, all schools have to be accredited or approved, two different classifications. [LB26]

SENATOR KRIST: Okay. Good. Thank you. Now you don't have to talk about it in Exec. [LB26]

SENATOR GLOOR: Any other questions? Seeing none, thank you, Senator Krist. [LB26]

SENATOR KRIST: Thank you. [LB26]

SENATOR GLOOR: And that ends the hearing on LB26, and that ends the Revenue Committee hearings today. Thank you all for attending. Have safe trips home. [LB26]