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Revenue Committee  
February 22, 2017

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[LB312 LB313 LB535 LB563]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 22, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB535, LB312, LB313, and LB563. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Tyson Larson; Brett Lindstrom; and Paul Schumacher. Senators absent: None.

SENATOR SMITH: Welcome to the Revenue Committee public hearing. My name is Jim Smith. I'm the chair of the committee. I represent the 14th Legislative District in Sarpy County. And just we're going to leave the doors open on the room because it's pretty warm in here and hopefully it will not be too disruptive or distracting to the person testifying so I'll try to keep an eye on that. But we're going to try to leave the doors open. And just as a course of business as well, there's an overflow room in 1126 and they're watching us closed-captioned so they can actually hear me and I'm just letting them know that there are actually seats still available in this room so if they would like to come and find a seat in this room they can feel welcome to do that. And if this does get really full later, then probably after certain people have testified I would ask maybe to rotate out to the overflow room and let those folks come in that want to testify. But right now it looks pretty good and there's plenty of seats available. To best...the committee will take up the bills in the order posted on the outside of the room today. To best facilitate today's proceedings, I ask you to abide by the following procedures. Please turn off cell phones and other electronic devices so as not to interrupt or interfere with the person testifying. If you're testifying and there's an empty seat up near the front if you can move forward so we can move you into the testifier's seat as quickly as possible. The order of testimony will be the introducer of the bill, proponents, opponents, neutral testimony, and then closing remarks of the introducer of the bill. If you will be testifying today, please complete the green form and hand that to the committee clerk when you come up to testify. If you have written testimony or exhibits for the committee and you would like to distribute those, please hand them to the page to distribute. We will need 11 copies for all committee members and for staff. If you need help making those copies, please let us know. Let the pages know. We can help you get those copies made. When you do testify, we will ask that you both state and spell your name. That's so that we can get it transcribed into the record correctly. We are going to use the light system today: three minutes for testimony on all of the bills. So what that means is the green light will be on for two minutes and then for the third minute it will turn to amber, at which time we ask you try to wrap up your testimony so that when the red light comes on we can close out your testimony. If you would like your position to be known but do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. The microphone on the testifier's table is not to project your voice. It is simply to capture your testimony to be transcribed into the record. So you will need to speak well enough that you project to the people that are behind you that will want to hear your testimony. I'd like to introduce committee staff. To my immediate right is legal counsel, Mary

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

Jane Egr Edson. To my immediate left is research analyst, Kay Bergquist. To my left at the end of the table is committee clerk, Krissa Delka. The committee members with us today, I think we have all the committee members here, and I'm going to let them introduce themselves to you, starting with Senator Larson.

SENATOR LARSON: Tyson Larson, District 40.

SENATOR GROENE: Mike Groene, District 42: Lincoln County.

SENATOR LINDSTROM: Brett Lindstrom, District 18: northwest Omaha.

SENATOR FRIESEN: Curt Friesen, District 34: Hamilton, Merrick, Nance, part of Hall County.

SENATOR BRASCH: Lydia Brasch, District 16: Burt, Cuming, and Washington Counties.

SENATOR SCHUMACHER: Paul Schumacher, District 22: that's Platte and parts of Colfax and Stanton Counties.

SENATOR HARR: Burke Harr, Legislative District 8, representing portions of Douglas County, midtown Omaha.

SENATOR SMITH: And pages that will be with us today to help you and help us are Alexi Richmond from Milwaukee, Wisconsin, and Sarah Wearne from Topeka, Kansas. Please remember that the senators here today may come and go. They may have other obligations in other committees so that may cause them to have to pick up and leave and come back, so please be patient with us regarding that. And I think with that we're going to get started. Our first hearing is LB535 to be introduced by Senator Hughes. It relates to providing an exemption for filing a statement with the register of deeds when recording an oil, gas, or mineral lease. Welcome.

SENATOR HUGHES: (Exhibit 1) Thank you, Chairman Smith. Good afternoon, members of the Revenue Committee. For the record, my name is Dan Hughes, that is D-a-n H-u-g-h-e-s. I represent the 44th Legislative District. I'm here to introduce LB535. LB535 would exempt oil, gas, and mineral leases which include easements from an existing requirement that a Form 521 be filed with the register of deeds. Such leases are recorded with the register of deeds pursuant to state statute 57-208. And because such leases do not affect the ownership or the value of the land, filing a Form 521 is unnecessary. An easement is simply a right granted by a landowner for the use of real estate for a limited purpose. An easement does not affect the ownership of the

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

land. Recent amendments to the definition of deed in state statute 76-203 perhaps unintentionally caused easements to fall under the definition of deed in state statute 76-203, which now includes every written instrument by which any real estate or interest therein is created. Therefore, the Department of Revenue instructs county register of deeds to require real estate transfer statements, commonly referred to as Form 521s, be filed with easements, in this instance, an oil, gas, or mineral lease. At the same time, they are recorded even though the ownership of the property is not transferred nor does the value change. Form 521 identifies the owner or the purchaser, any documentary stamps, any documentary tax exemptions, a description of the property, and the price paid. The reported price becomes part of the property tax valuation mechanism. For oil and gas and mineral leases, the lease itself does not trigger a change in property value. Only when oil, gas, or mineral has been actually found to exist can a value for that oil, gas, or mineral be determined. Oil, gas, and mineral companies file numerous lease agreements and argue that the Form 521 filings serve no useful purpose and are overburdensome. LB535 would exempt oil, gas, or mineral leases from Form 521 filing requirement. After this bill was introduced, someone mentioned maybe an amendment should be included to explicitly exempt assignments of oil, gas, and mineral leases. I have provided a copy of the proposed amendment to the committee. There are some people who will be following me who will be able to answer more specific questions, but I would be happy to try and answer any questions that you may have of me. Thank you. [LB535]

SENATOR SMITH: Thank you, Senator Hughes, for your opening on LB535. Questions from the committee? Senator Harr. [LB535]

SENATOR HARR: Thank you, Chairman Smith. Thank you, Senator Hughes, for bringing this bill. I have a couple of questions. First of all, was this brought at the recommendation of somebody? [LB535]

SENATOR HUGHES: Yes. [LB535]

SENATOR HARR: Okay. And who was that? [LB535]

SENATOR HUGHES: The oil and gas producers association of Nebraska. [LB535]

SENATOR HARR: Okay. And are they going to be testifying after this? [LB535]

SENATOR HUGHES: I believe there are members associated with that group who will be testifying. [LB535]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: Okay. Do you know if any lawyers are coming up to talk on it? [LB535]

SENATOR HUGHES: Possibly. I'm not sure. [LB535]

SENATOR HARR: Okay. Well, I'll tell you what we'll do then. Because I don't know...are you going to be closing on this? [LB535]

SENATOR HUGHES: Yes, I'll stay for closing. [LB535]

SENATOR HARR: Okay. I will wait for an attorney to come up; and if not, I will pepper you at the end. All right. Thank you. [LB535]

SENATOR SMITH: Other questions? Senator Groene. [LB535]

SENATOR GROENE: I know nothing about this so bear with me. If I go to the courthouse, can I find out on my neighbor who owns the leases to the oil? [LB535]

SENATOR HUGHES: Yes, it is recorded. [LB535]

SENATOR GROENE: And 521 has nothing to do with that. [LB535]

SENATOR HUGHES: No. When you sign a lease with an oil company for exploration, that lease is recorded in the courthouse without filing, without the 521. [LB535]

SENATOR GROENE: The 521 doesn't change that or... [LB535]

SENATOR HUGHES: Right. [LB535]

SENATOR GROENE: ...any accountability or transparency. [LB535]

SENATOR HUGHES: No. It would not make that change. [LB535]

SENATOR GROENE: Thank you. [LB535]

SENATOR SMITH: Other questions for Senator Hughes? I see none. [LB535]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HUGHES: Thank you. [LB535]

SENATOR SMITH: Thank you. We now move to proponents of LB535, those wishing to testify in support of LB535. Welcome. [LB535]

CHRIS PETERSON: (Exhibit 2) Thank you, Mr. Chairman and members of the committee. My name is Chris Peterson, C-h-r-i-s P-e-t-e-r-s-o-n, and I'm here today on behalf of the Nebraska Petroleum Producers Association. I will read a short letter from our association president that's being passed out to you now. The Nebraska Petroleum Producers Association represents the state's oil and gas producers, industry suppliers, and others supportive of the industry. In 2015, the most recent year for which statistics are available, Nebraska ranked 21st among the states for oil production with nearly 2.9 million barrels produced. According to a 2016 study, Nebraska's oil and gas industry is responsible for more than 1,700 jobs and over \$915 million in economic output. Nebraska's oil and gas producers are not household names such as Exxon Mobil or Shell; they are smaller operators and many are family owned. LB535 presents an opportunity to eliminate an unnecessary, burdensome paperwork requirement on Nebraska's oil, gas, and mineral leaseholders. NPPA appreciates Senator Dan Hughes' willingness to introduce LB535 which exempts oil, gas, and mineral leaseholders from a requirement for Form 521 to be filed with the register of deeds. Form 521 provides notification to the county of a change in property ownership whereas an oil, gas, or mineral lease grants an easement but does not reflect a change in property ownership. Therefore, Form 521 is unnecessary paperwork for leaseholders and for county registers of deeds. NPPA urges the Revenue Committee to advance LB535 to General File. I might conclude my opening statement by, just for the record, stating I am not an attorney. (Laughter) I'm happy to attempt to answer questions but also to note that following me will be a member of NPPA who has firsthand experience and knowledge and is currently subject to the requirement to file Form 521 and probably will be most able to answer your questions. And I would also mention Senator Schumacher may recognize this issue as last session he had LB725 which exempted utility easements from Form 521 filing. Thank you, Mr. Chairman. I'd be happy to answer questions. [LB535]

SENATOR SMITH: Thank you, Mr. Peterson. Do we have questions from the committee? I see none. Thank you for your testimony. Next proponent of LB535. Welcome. [LB535]

TOM BAKER: Thank you, Chairman Smith and members of the Revenue Committee. My name is Tom Baker, T-o-m B-a-k-e-r, and I reside at Trenton, Nebraska. I am a member of the NPPA and a member of the board of directors. I've been working as a petroleum land man for many years. During the past couple of years, various county clerks that I deal with have required that we file a Form 521 real estate transfer statement when recording oil and gas leases. This was never a requirement in the past and, to this day, I have not heard an answer as to who or why

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

exactly, why all of a sudden this became necessary, as there is no transfer of real estate on an oil and gas lease. It's simply a lease. When taking an oil and gas lease on property in Nebraska, it is generally taken for the purpose of conducting 3-D seismic exploration. There is no value to an undeveloped lease at this time. Requiring a Form 521 upon recording an oil and gas lease would lead me to believe it would be the equivalent of filing a Form 521 on rental property lease, whether it be an apartment or a house. There's no transfer of ownership of real estate. There may be some questions from the committee. I'm not an attorney either, Senator, but there may be some questions from the committee. It's just how actual oil and gas production is taxed in Nebraska. It's not a widely known industry to most of the state of Nebraska, but in southwest Nebraska and the Panhandle it is a major component of our economy out there. So real briefly, I'm sure most of these people in the room didn't come to hear this explanation so I'm going to make it short. But if we determine through 3-D seismic there's reason to drill a test hole on there, we'll go ahead. The oil company will drill a well. And then if there's production established, then we have to file the personal property tax return with the county assessor on tank batteries, tubing rods, and pumping units, that. And then every county in the state of Nebraska who has oil and gas production in it hires a company called Pritchard and Abbott out of Dallas to evaluate the oil in place, and that's done annually through production records furnished to the state Oil and Gas Commission by the operators. And in addition, the operator has to file a form with Pritchard and Abbott as to their lease operating expenses. So that...I don't know whether that's a question that needed to be answered but it gives you a little background that we're not trying to escape a tax because the tax structure is still in place for production. As Mr. Peterson mentioned, Senator Schumacher had a similar bill with easements last year. And I think it made it to consent calendar before we realized that we should have attached this oil and gas lease requirement to your bill. I'm sorry we didn't get it done so here we are back asking that you would advance LB535 with the amendment Senator Hughes has drafted concerning assignments. I'd be glad to answer any questions. [LB535]

SENATOR SMITH: Thank you, Mr. Baker, for your testimony. Do we have questions for Mr. Baker? Senator Schumacher. [LB535]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Mr. Baker. How long a term are these oil and gas leases? Are they perpetual or? [LB535]

TOM BAKER: No, no, no, no. What you're probably referring to are there are land sales that withhold mineral rights, some of them perpetually, to the owner at the time the surface is sold. Generally, an oil and gas lease in Nebraska is for a three-year term, five-year term. There are some five-year leases being written right now with five-year extensions on them. And that goes to Senator Groene's question...I believe it was that that is filed of record with the county clerk--the lease, not necessarily the payment--because a lot of that is proprietary information. But the oil and gas lease would be filed with the county clerk, the register of deeds, and that's open to the

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

public. And most of them though generally right now are three to five years. It takes that long to get an exploration, 3-D seismic exploration project done. [LB535]

SENATOR SCHUMACHER: Thank you. [LB535]

SENATOR SMITH: Senator Groene. [LB535]

SENATOR GROENE: So my point was I'm going to go buy a quarter of ground. I can go to the courthouse and find out if there's any leases of minerals on them before... [LB535]

TOM BAKER: Yes. [LB535]

SENATOR GROENE: ...I purchase it. [LB535]

TOM BAKER: Yes. And I don't know of any companies that would take an oil and gas lease, quite frankly, without recording it. It protects them so that the public does know that it is leased. [LB535]

SENATOR GROENE: So the public does if... [LB535]

TOM BAKER: Yes. [LB535]

SENATOR GROENE: ...that land is for sale. You can check that out. [LB535]

TOM BAKER: Yes. [LB535]

SENATOR GROENE: And then what if I want to know what terms of easement that lease has if I'm buying that land and all of a sudden the seismograph shows up and starts running my corn down? How do I know that? [LB535]

TOM BAKER: Well, the oil and gas lease, there's a clause in all the oil and gas leases that says that the operator shall pay for any damages to growing crops, pasture, and so on and restore surface to the original contour, as best they can. [LB535]

SENATOR GROENE: So you can find that out. [LB535]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

TOM BAKER: So that's all in the terms of the lease. [LB535]

SENATOR GROENE: 521 has nothing to do with that. [LB535]

TOM BAKER: No. The 521 form I have here for you, I don't have any copies of it, but it is a real estate transfer statement is what it is. And we're talking about leases here, not real estate transfer. [LB535]

SENATOR GROENE: Thank you. [LB535]

SENATOR BAKER: Very good. [LB535]

SENATOR SMITH: Further questions from the committee? I see none. Thank you, Mr. Baker, for your testimony. [LB535]

TOM BAKER: Thank you. [LB535]

SENATOR SMITH: Next proponent wishing to testify in support of LB535. Seeing none, we move to...oh, let's see, we...no. Move to opponents, those wishing to testify in opposition to LB535. Seeing none, those wishing to testify in a neutral capacity on LB535, neutral. Seeing none, Senator Hughes, you're invited to close on LB535. [LB535]

SENATOR HUGHES: I would prefer to waive, but in respect to my colleague, Senator Harr, I'm back. I don't have anything else to add. It's very simple. It's just a reporting requirement that is unnecessary and burdensome. [LB535]

SENATOR SMITH: Thank you. Senator Harr. [LB535]

SENATOR HARR: Thank you. Thank you for coming back up. And we can talk about this more because--off the record--there are a lot of people. I will tell you right now I haven't been sold on the reason for this legislation because, if you're already recording, filling out this form is very, very simple. It's a one-page document. It is more difficult to know what the standards are for recording. As a matter of fact, this page 2 of the Form 521, which is just instructions, state: The register of deeds will not accept a deed for recording unless this form is filled out and signed. So I don't know how they would be able to accept those documents if this isn't signed. And so maybe someone needs to answer that for me because apparently we have found a way around it with utility easements. And I think this might be a little overbroad because I don't know if we're

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

just getting rid of mineral interests, nonproducing, I might be okay with that. But if there's a producing mineral interest, I probably have a problem with that because you are having something of value being transferred. So I'll work with you and I'll work with Mr. Peterson on this, and hopefully we can get some of my questions answered. [LB535]

SENATOR HUGHES: Okay. I will do that. [LB535]

SENATOR SMITH: Other questions from the committee? I see none. [LB535]

SENATOR HUGHES: Thank you. [LB535]

SENATOR SMITH: (Exhibit 3) Thank you, Senator Hughes. And that concludes the hearing on LB535. I just want to point out to the folks that are here, in the back of the room we have a couple of sergeants at arms in the red coats that are in the back. If there's anyone in here that it gets too warm for you and you're not planning to testify and you would like to use the overflow room, they've informed me that it's much cooler there. And they would be happy to direct you so if you want to use that, you can see them in the back of the room at any time during the hearings and they can help you out. So the next three bills have some level of overlap. We're going to take LB313 separately at this point and it's to be introduced by Senator Briese, and it relates to changing the sales tax rate and the earned income tax credit and to provide property tax credits. And as you're testifying on this particular bill, whether it's as a supporter or opponent or in a neutral capacity and you believe your testimony applies to one of the other bills as well, you're welcome to let us know that as you're testifying that you want to use that testimony for another bill as well. It will be entered into the record and that would prevent you from needing to come up a second time or a third time with the same testimony. That's an option for you. So we're going to start out with LB313 and we're going to handle LB313 alone. Welcome, Senator Briese. [LB313 LB535]

SENATOR BRIESE: (Exhibits 1, 2) Thank you and good afternoon, Chairman Smith and members of the Revenue Committee. I'm Tom Briese, T-o-m B-r-i-e-s-e, and I'm here today to present for your consideration LB313. LB313 is designed to raise additional sales tax revenue and after diverting some of this revenue to low-income folks to compensate them for their additional sales tax outlays, the bill requires that all other revenue is directed towards property tax relief. All money raised by LB313 will go back to property taxpayers. Nebraskans from one end of the state to the other in every zip code and in every county are demanding property tax relief. And one need only to examine the facts to understand why Nebraskans are demanding property tax relief and why Nebraskans deserve this relief. For example, USA Today ranks Nebraska as the fifth worst state for property taxes. According to Tax Foundation, Nebraska homeowners have the seventh highest property taxes in the nation as a percent of home value. At

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

49 percent, Nebraska is second in the nation in the percentage of K-12 education funded by property taxes while the national average is 29 percent. According to Farm Bureau data, Nebraskans pay roughly 2.5 times more in property taxes than state sales taxes. If we include local sales taxes, U.S. Census Bureau data indicates Nebraskans pay 56 percent more in property taxes than sales taxes. And Census Bureau data also indicates we pay 36 percent more in property taxes than income taxes. We could go on here citing additional statistics, but the point is there are reasons why Nebraskans are demanding property tax relief, and there are reasons why we need to address their property tax burden. There's two routes to property tax relief: reduce spending or rebalance our tax structure and change how we pay for things. Realistically, we're not going to be able to slash and burn our way to the property tax relief our residents are demanding. LB313 reflects the reality that, in order to deliver the property tax relief needed, we must inject more balance into our tax structure. Specifically, LB313 will raise our state sales tax rate from the current 5.5 percent to 6.5 percent. The dollars raised by this increase will first be diverted to raising the earned income tax credit from the current 10 percent of the federal level to 17 percent of the federal level. The balance of those dollars raised would then be directed to a newly created Excess Revenue Property Tax Credit cash Fund, to be distributed to all owners of real property pro rata in proportion to the valuations of said property. I would like to note that all revenue generated by both LB312 and LB313 is intended to be directed back to taxpayers versus the earned income credit and the newly created Property Tax Credit Fund. To the extent the current bills allow some of those additional dollars to be directed to the Highway Cash Fund, Highway Allocation Fund, Game and Parks Commission, Capital Maintenance Fund, or the arena fund, I would suggest that we amend certain provisions of the bill so that doesn't happen. I've provided you with a couple of exhibits showing data on sales tax rates across the country for your information. I've also included an exhibit showing sales tax rate increases of our neighboring states in the last few years. It shows that Iowa increased its rate an additional 1 cent recently; Kansas 1.2 cents; South Dakota .5 cent. Some folks may try to call what I propose in LB313 a tax increase. I believe it's disingenuous to do so. A tax increase is raising additional revenue and spending it on programs. All dollars raised by LB313 are to be directed back to taxpayers in an effort to provide more fairness and balance in our tax structure, period. And if we fall for the claim that such an approach is a tax increase, then we have no truly effective means of providing Nebraskans with the fairness and balance in our tax structure that they deserve. LB313 is a straightforward attempt to alter our tax structure to provide fairness and balance to our taxpayers. I believe that any effort for meaningful and substantial property tax relief must include the rebalancing in LB313. Anything short of this rebalancing is a recipe for failure. And with that, I would conclude my opening remarks, and I'd be happy to try to answer any questions you might have. I'll certainly be here for closing if you want to defer any questions until then, but otherwise I'd be happy to answer anything. [LB313]

SENATOR SMITH: Thank you, Senator Briese, for your opening on LB313. Questions from the committee? Senator Harr. Got to move fast there. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR HARR: I'll start. Thank you. What's that? [LB313]

SENATOR SMITH: I said you've got to move fast for me. [LB313]

SENATOR HARR: Okay. Thank you for coming and thank you for this, as Senator Ashford would refer to it, transformational legislation; and it is. And so I guess my first question is there is a lot of readjusting of taxes from property to sales tax and elimination of exemptions. Where did you or how did you come up with the list of exemptions to eliminate? [LB313]

SENATOR BRIESE: Well, we'll get into those exemptions as we discuss LB312. [LB313]

SENATOR HARR: Yeah. [LB313]

SENATOR BRIESE: But as I will mention then, I've tried to craft a proposal in LB312, build on principles... [LB313]

SENATOR HARR: I apologize. We're not taking the two together? Then I will withhold my questions until then. [LB313]

SENATOR BRIESE: Okay, sure. [LB313]

SENATOR HARR: Okay. I thought we were taking the two together. [LB313]

SENATOR BRIESE: Okay. I'd be happy to answer that later then. [LB313]

SENATOR HARR: Perfect. Thank you. [LB313]

SENATOR SMITH: Senator Schumacher. [LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you, Senator Briese, for bringing this to us. You call this a tax adjustment. And as we learn in law school, there's always an "or" and "ee." So in this particular thing, who is the adjustor and who is the adjustee? Who's the biggest beneficiary? [LB313]

SENATOR BRIESE: Who's the biggest beneficiary? Property taxpayers in our state, all property taxpayers. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: And what class...are they all getting the same amount of dollars?  
[LB313]

SENATOR BRIESE: Based on their valuations. [LB313]

SENATOR SCHUMACHER: So the biggest landowner gets the biggest adjusted. [LB313]

SENATOR BRIESE: To the extent this is based on valuations, I guess that would be true.  
[LB313]

SENATOR SCHUMACHER: Okay. And so the folks who are in the...get the earned income credit, at what point does your earned income credit cut off? [LB313]

SENATOR BRIESE: It will mirror the current earned income credit formula that we use now. Instead of 10 percent of the federal earned income credit, we'll be at 17 percent of the federal earned income credit. [LB313]

SENATOR SCHUMACHER: At what point does Joe Taxpayer no longer qualify for any of the federal or of the state? [LB313]

SENATOR BRIESE: I don't know the answer to that. We'd have to examine that. [LB313]

SENATOR SCHUMACHER: Okay. If it were in the neighborhood of \$30,000 it might be close. So the sales tax burden focuses on the folks between \$20,000 and \$120,000. So it looks to me, would it be fair to say that they are the adjust...they are the other end of the adjust? [LB313]

SENATOR BRIESE: Well, I think it would be fair to say that all Nebraskans are going to contribute sales tax revenue to this, and all Nebraskans are going to be recipients of property tax relief. [LB313]

SENATOR SCHUMACHER: Right. [LB313]

SENATOR BRIESE: Whether you're a renter, an urbanite renter or whether you're a low-income taxpaying homeowner, whether you're a middle-class taxpaying homeowner, an owner of commercial property, an owner of ag land property, you're all going to benefit from the property tax relief. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SCHUMACHER: But not benefit equally. [LB313]

SENATOR BRIESE: No, no. [LB313]

SENATOR SCHUMACHER: Thank you. [LB313]

SENATOR BRIESE: You bet. Thanks for the question. [LB313]

SENATOR SMITH: Senator Groene. [LB313]

SENATOR GROENE: Do any other states deter from the 10 percent of the federal credit?  
[LB313]

SENATOR BRIESE: I don't have a list of where they're at on that, but it varies from state to state is my understanding. But I can't answer that with any real accuracy. [LB313]

SENATOR GROENE: So you don't know where 17 percent would put us... [LB313]

SENATOR BRIESE: No, I do not. [LB313]

SENATOR GROENE: ...in the state ratings? [LB313]

SENATOR BRIESE: I do not. [LB313]

SENATOR GROENE: All right. Thank you. [LB313]

SENATOR BRIESE: That's a good question. [LB313]

SENATOR SMITH: Senator Friesen. [LB313]

SENATOR FRIESEN: Thank you, Chairman Smith. So the earned income tax credit, if you look at the list of things or the amount of money that will be plugged into that number, I mean it...supposedly the lower-income people also have a lot less revenue to spend so they're not purchasing things that normal...the higher-income people are purchasing. [LB313]

SENATOR BRIESE: Very true. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR FRIESEN: So would you say it's going to be more of a benefit to them than an expense? [LB313]

SENATOR BRIESE: I don't know if I can go that far. One would hope that it might be because of what you just mentioned there. My estimate on the earned income credit is we're going to be putting roughly \$24 million in that to raise that from 10 percent to 17 percent of the federal level. And so that's a nice influx of money to help compensate lower-income folks for their additional sales tax outlays. But to answer your specific question, I don't know that; but that would be the hope anyway that they could come out on top. [LB313]

SENATOR FRIESEN: And in the end, I mean, your bill is trying to be revenue neutral... [LB313]

SENATOR BRIESE: Yes. [LB313]

SENATOR FRIESEN: ...in the overall picture. [LB313]

SENATOR BRIESE: Yes, yes. It must be revenue neutral. [LB313]

SENATOR FRIESEN: Okay. Thank you. [LB313]

SENATOR BRIESE: Thank you. [LB313]

SENATOR SMITH: Senator Harr. [LB313]

SENATOR HARR: Thank you. And let me just follow up. Thank you. Increasing from 5.5 percent to 6.5 percent. [LB313]

SENATOR BRIESE: Yes. [LB313]

SENATOR HARR: Numbers are a funny thing. We could argue it's a 1 percent increase but, percentagewise, it's probably closer to a 20 percent increase, is it not? [LB313]

SENATOR BRIESE: Slightly less than that I believe; but, yes, close to that if one wanted to look at it that way. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: Okay. Do you have a breakdown of...and I appreciate that you introduced this with an increase for the earned income credit. But I do worry about the comments of Senator Schumacher and his questions. [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR HARR: Do you have a breakdown of percentage of take-home pay that this would affect for each of the quartiles, I mean, the bottom quartile, middle, I mean, the bottom 25 percent? I'm not sure if they'd be held harmless because of the EIC. [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR HARR: But I would like to see a breakdown of how they are affected as far as percentage of take-home pay that they would have to increase a payment of taxes for the bottom 25, 25-50, 50-75, and 75 and above. [LB313]

SENATOR BRIESE: You bet. That's a good question. And we didn't attempt to do a distributional analysis on that. I'm assuming maybe some other folks have. And, you know, the increase in the earned income credit, that's an effort to make low-income folks whole on this. [LB313]

SENATOR HARR: Right. [LB313]

SENATOR BRIESE: And to the extent that falls short of that, you know, I'd be willing to consider other options. But some other states have used the earned income credit to compensate low-income sales tax payers for their additional outlays, and it's a fairly simple method of doing it. Is it completely effective? Does it accomplish everything we want to do? Maybe, maybe not. In certain...well, childless adults, childless families, well, I shouldn't say families, but childless adults not benefited quite as much as others with that program. [LB313]

SENATOR HARR: Okay. And I appreciate what you're attempting to do here. It's just if there's one thing I've learned in the last year through this whole revolution we've been through of our election is it seems as though so much of our tax policy and tax laws are aimed at the bottom quartile and the top quartile. And somewhere the middle guy, the working poor and the middle class and maybe just a little above middle class, they've been left behind. And I'm fearing that we're going to tax relief for the rich, maybe hold harmless for the bottom, it's that guy in the middle, that working-class guy, blue collar guy that's going to end up picking up the tab for this. And so I'd like to see a breakdown of how this affects each quartile... [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRIESE: Sure. [LB313]

SENATOR HARR: ...and what those numbers are. Right? [LB313]

SENATOR BRIESE: Yes. [LB313]

SENATOR HARR: I couldn't even tell you what the bottom 25 is. I'd like to know... [LB313]

SENATOR BRIESE: Yeah. And I guess... [LB313]

SENATOR HARR: ...as far as income, you know. [LB313]

SENATOR BRIESE: But that would be good to have that information, true. But again, property taxpayers from all zip codes, from all counties, from all income levels across Nebraska are demanding property tax reform and they will benefit from this property tax relief. The net to all those folks I don't know for sure. [LB313]

SENATOR HARR: Well, then maybe...and I'm not doubting that we have a property tax problem. [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR HARR: Maybe that's what we need to do is have both. Hey, this is how it affects on the sales tax side and this is how it affects people on the property tax side because the last thing I would want to see is something where 85 percent of this goes to those top 25 richest landowners. [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR HARR: And I don't know if it does that. I'm just making up numbers. So I want to make sure there's some proportionality... [LB313]

SENATOR BRIESE: Yes. [LB313]

SENATOR HARR: ...within there to make sure that we...if we're going to do a tax reform and we're going to do it in a revenue neutral manner, I want to make sure that it is...the transfer done

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

in a revenue neutral manner as closely as we can so that, again, we aren't just shifting tax burdens down to those who can afford it less. [LB313]

SENATOR BRIESE: Sure. I've chosen the property tax credit fund or the newly created fund as the vehicle to distribute these dollars because I believe it's fair, effective, transparent and it's a good way of doing it. To the extent it maybe doesn't accomplish some of the goals you're talking about there, I think the constitutionality requirements of proportionality and uniformity limit how we can utilize that property tax credit fund or this newly created fund. If there are other vehicles to get these dollars back in the hands of taxpayers that would be a better vehicle, I'm open to suggestions. But at this point, I think that the newly created property tax credit fund should be the vehicle of choice, and we are limited by constitutional provisions as to how that can be distributed that way. [LB313]

SENATOR HARR: And I'll raise one last concern and then I'll give up the floor. But if you look at the legislation around the property tax relief fund, that money is only there if there is a surplus. And my fear is if you run into a situation like we are today that would be the first thing that we would dip into, just like we dip into, you know, for us they're dipping into our legal fees, right? They're taking some of that money and they'll see that as another cash fund and it's a big pot. And it's easy. Hey, I can take \$100 million and it's a smaller percentage than taking all of, you name it, potato farmers, lawyers, all those cash funds that are out there. [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR HARR: So I think we'd have to build in some protections. [LB313]

SENATOR BRIESE: Yes. And this bill requires all revenue raised to be diverted, both the earned income tax credit and... [LB313]

SENATOR HARR: We can still steal it. [LB313]

SENATOR BRIESE: Well, I guess we can't...it's hard to tie the hands of future bodies. I understand that. But it would be my intent that it's not going to be diverted in any way. It's not allowed under the bill. [LB313]

SENATOR HARR: Like I said, that's currently fees that aren't even meant to go into the General Fund. They're meant to, you know, for the lawyers to protect our practice (inaudible). [LB313]

SENATOR BRIESE: I recall that discussion. Yeah. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: That was never the intent when they introduced fees for service let alone a tax, which is meant to pay for government services. [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR SMITH: Let's take a question from Senator Brasch. [LB313]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, Senator Briese, for bringing this to us today. I have looked at this and we've had a conversation and... [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR BRASCH: ...you know, Senator Harr's question about the earned income credit. My staff pulled up a chart of what it is and I'm concerned about how it could affect that group of individuals and just across the board, not just in our district and elsewhere that we're perceived as a tax me state, a high tax state. And I think increasing a tax is just that's what it is. It's increasing a tax. And then the individuals here who we're trying to help, you know, the middle- and low-income individuals that it didn't seem like that long ago that...and some of us have, you know, young...our children are now with young families and you just can't wait to purchase that one item and then you can get a dryer or something that works and get out of the yard sales and, you know, that's how they're making it. [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR BRASCH: And to increase a sales tax or, you know, regardless, it seems like we're moving backwards. I don't know how we can, you know, your introduction said it's not an increase but it is. How are you calling it not a tax increase? [LB313]

SENATOR BRIESE: Well, again, I believe if it's not diverted to programs, additional government spending, things of that sort and sent straight back into the hands of the property taxpayers, I don't consider that a tax increase. I consider that revenue neutral. And I go back to what I said earlier, you know, there's two ways to property tax relief. We cut spending, slash and burn spending and may or may not have a K-12 education system left or we change how we pay for things. And if we're not willing to change how we pay for things, that doesn't bode well for the property taxpayers of our state. And back to the point of the low and lower income, middle-class folks, yes, I'm willing to look at other options to try to make folks whole there. You know, we don't want Nebraskans to, in a certain slice of the population, to suffer on account of this or

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

anything else we do. I share those concerns. And so always open to options to make this proposal better. [LB313]

SENATOR BRASCH: And at this point of an economic downturn which we are seeing in revenue dollars, it translates in my view to be people have less ability to buy. You know, earnings are down, therefore, spending is down. But we're saying whatever you do spend we want more from you in a tax. And the tax problems didn't happen overnight, and I just believe that it is going to take a more, I guess a reliable method without having individuals picking winners and losers and just looking at the earned income credits. And this could truly hurt those who are... [LB313]

SENATOR BRIESE: Sure. [LB313]

SENATOR BRASCH: ...trying to get up and running in life. [LB313]

SENATOR BRIESE: Sure. No, and I understand that and I share your concerns. I understand that. But you did mention an economic downturn. I assume we're going to have folks in the ag sector back here talking later about an economic downturn that is getting ready to bury some of the participants in our agricultural community, and property taxes are a big part of that...of the financial stress that is going on out there. And you mentioned, yes, maybe a more reliable method. Well, a more reliable method maybe escapes me at this point. I don't know what that more reliable method might be. I think at this point this is the best method. [LB313]

SENATOR BRASCH: Well, thank you. [LB313]

SENATOR BRIESE: You bet. Thank you for your questions. [LB313]

SENATOR BRASCH: I have no other questions. Thank you, Chairman Smith. [LB313]

SENATOR SMITH: Senator Groene. [LB313]

SENATOR GROENE: So we create a...thank you, Chairman. So we create a new property tax credit fund. And in '18-19 I assume this money is guaranteed because in the statute to go in this credit fund. That is a plus. You're guaranteeing it. But what reason does this body, this Legislature, then have to continue the \$220 million that we do by a General Fund appropriation? What I see here is in '18-19 we will have \$293 million in there. But I have no reason as a senator to keep funding the \$220 million. So for a huge tax increase, I've gained \$73 million in the fund. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRIESE: Well, if I understand your question correctly, you're asking what reason the Legislature has to keep putting in the existing contributions to the... [LB313]

SENATOR GROENE: The \$220 million that's planned for this year. [LB313]

SENATOR BRIESE: ...existing property tax credit fund. I don't think that this legislation would decrease the incentive to put that money in there. We are talking about two separate funds. [LB313]

SENATOR GROENE: Yes, I understand. [LB313]

SENATOR BRIESE: But my question to you would be even without this legislation what incentive does the Legislature have to do this going forward? There's no guarantee it's going to go in there without this legislation. There's no guarantee it's going to go in there with this legislation. [LB313]

SENATOR GROENE: I'm playing devil's advocate here... [LB313]

SENATOR BRIESE: Sure, I appreciate that. [LB313]

SENATOR GROENE: But it would be a lot easier to raid that \$220 million now because Senator Briese has replaced it with guaranteed money. [LB313]

SENATOR BRIESE: Well, we will have to contend with the wrath of the property taxpayers if we would do that. The property taxpayers are hurting. They're demanding relief. [LB313]

SENATOR GROENE: I understand that. I'm on your side. [LB313]

SENATOR BRIESE: They deserve relief. No, I appreciate your question. [LB313]

SENATOR GROENE: Thank you. [LB313]

SENATOR SMITH: I see no further questions for you, Senator Briese. And I know you're hanging around so you'll be here for closing. [LB313]

SENATOR BRIESE: Sure. Thank you. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: We thank you for your opening on LB313. We now move to proponents, those wishing to testify in support of LB313. And again, if you would like your testimony to also be included for other bills, if you think it applies to other bills later in the hearing today, feel free to put that into the record. Welcome. [LB313]

ROBERT JOHNSTON: (Exhibit 3) Thank you, Chairman Smith, Revenue Committee. I am Robert, R-o-b-e-r-t, Johnston, J-o-h-n-s-t-o-n, a farmer from Clearwater, Nebraska. And I'm here today representing the Nebraska Agricultural Leaders Working Group, testifying in support of LB313. Many of our organizations have longstanding policies supporting the notion of expanding the collection of sales tax in an effort to reduce property taxes. Our members and, according to recent polling, most Nebraskans agree more taxpayers in the state should have a stake in funding public education. This is responsible and sustainable, but it hasn't always been politically popular. That's why we want to start by thanking Senator Briese for his leadership. As I mentioned, I'm not here on behalf of one organization. I'm here representing the Agricultural Leaders Working Group which is made up of elected leaders in the Nebraska Cattlemen, the Corn Growers, Farm Bureau, Pork Producers, Soybean Growers, and the Nebraska State Dairy Association. I've provided you with a copy of the five principles the ag leaders developed last year outlining what we believe should be the focus of tax reform. In principle number one, you'll see we've asked our elected officials to balance collections from property, sales, and income taxes so that none of the three exceeds 35 percent of the tax liability. Currently, if you compare property taxes collected locally and income and sales taxes collected by the state, property taxes account for 48 percent of the load while income taxes cover 33 (percent) and sales make up about 19 (percent). Even if you include local option sales taxes, most of the burden falls on property taxes. This is relevant because property taxes are paying for government services which, for the most part, are mandated by the state. In principle number three, you'll see we believe tax reform should be responsible and revenue neutral, meaning we support a shift back to a balanced way of paying for services. I say shift back because in reality a shift has already taken place. For years, the state has balanced its budget by cutting funds and letting property taxpayers pick up the slack. LB313 represents a way to shift back. On a similar note, principle number four indicates our commitment to funding education. While most of us consider ourselves fiscal conservatives, the farmers and ranchers in our organizations believe our state benefits from high-quality education; and we do not want to see our schools suffer for the sake of tax reform. Everyone is willing to pay their fair share for a well-educated state, but right now property taxpayers are paying more than their fair share. Nebraskans pay the seventh highest property taxes in the nation, something which is going to put people out of business and out of their homes. We're asking you to make property tax relief the Legislature's number one priority and encourage you to advance LB313. We look forward to working with this committee and the rest of the body on a plan to rebalance our system. Thank you very much for your time and attention. And I'd be happy to take questions that I can answer. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: Thank you, Mr. Johnston. Do we have questions from the committee? I see none. And again, I appreciate...oh, I'm sorry. Oh, Senator Harr. [LB313]

SENATOR HARR: When we were balanced, you're saying we'll kind of rebalance, what were the percentages then? [LB313]

ROBERT JOHNSTON: Well, we would like to see...I don't know if I can answer your question exactly. We would like to see an even three-legged stool. [LB313]

SENATOR HARR: Yeah, no more than 35. But I was wondering when you say "rebalance" that means at some point we were balanced. And I was just wondering what the breakdowns were when we were balanced. [LB313]

ROBERT JOHNSTON: I guess I can't answer that. Maybe my terminology was used and I shouldn't have used rebalanced. [LB313]

SENATOR HARR: Better balanced. [LB313]

ROBERT JOHNSTON: Better balanced, thank you. [LB313]

SENATOR HARR: Okay. Thank you. I appreciate it. [LB313]

SENATOR SMITH: I see no further questions. Mr. Johnston, thank you. I know again you submitted a letter as well or your testimony where you're referencing the six organizations that you're speaking on behalf of. [LB313]

ROBERT JOHNSTON: Yes. Yes. [LB313]

SENATOR SMITH: Thank you. Thank you for your testimony on LB313. Next proponent. Next testifier in support of LB313. Welcome. [LB313]

DENNIS RICHTERS: Well, I've been here before and I've told you how old I am. I guess I'm going to throw most of my testimony away and try and make this simple. Being nice and not responding to what's happened hasn't worked. So I've been put on earth to make other people look good so the people following will probably look good. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: And I'm sorry to interrupt you, but if you can state and spell your name for us. [LB313]

DENNIS RICHTERS: Sorry. Dennis Richters, D-e-n-n-i-s R-i-c-h-t-e-r-s. [LB313]

SENATOR SMITH: Thank you. [LB313]

DENNIS RICHTERS: Okay. I want to describe a scenario to you. In 1431, Joan of Arc was burned at the stake, tied and burned. I wasn't there. I'm not that old. (Laughter) But this is like the Unicameral holding signs up. We always are messing around the edges saying secondary smoke is probably hazardous to your health. So what's the result? And I have a Governor that if you'd be a deep sea diver that would send me a message: come up quick, the boat is sinking. I need action. And for those that...you know, there's 1.158 or just about \$1.9 billion paid by ag that nobody else pays. It's real estate tax. Gage County, 72 percent of the lawsuit according to the Journal will be paid by the farmers. Did the land cause that loss? By the same token, 72 percent of the schools are paid by probably about 8 percent of the population. Is that right? Seventy-two percent of the county. I'm saying I want to eliminate real estate tax because nobody else pays it. And if I have...I pay every other tax, I pay tax on my house as all farmers do. I pay tax on my business: the pivots, the buildings, the shops, the land it sits on. I pay income tax, same rules as anybody else. But then here's this little thing on the side where the average of us, 50,000 farmers, will pay over \$23,000 a year more than anybody that doesn't have land. Why is that? We're not putting a burden on the schools. If a person comes out and moves next to me or when I lived on the farm or next to my son and I call them pilgrims, doesn't mean they're bad, but they come out there and he will pay \$100,000 in taxes more than they do. They each will pay on their house; each will pay sales tax; each will pay income tax. But if he's farming in three districts: Centennial, Seward, and York, he's going to pay on 1,100 acres which is not that big anymore, he's going to pay over \$100,000 for the same school, the same road, the same police protection. So when Senator Schumacher says, well, who gets the benefit of this, it's kind of like saying we have a law that if you rob service stations 97 percent of the population in our ag, you'll get ten years prison. If you're a farmer, you get 40. And now if we try and get this back to 20 years or 10 years, it's like, well, we're giving you relief that nobody else is getting. Well, then you'd have to acknowledge that we were paying a burden nobody else was paying. When people talk about sales tax being regressive, it is. But \$100,000 a year on a farm, which is fairly typical in York and Seward County, that's not regressive? What business that anybody knows of can exist paying that for three, four, five years when nobody else is? It's a disservice to ag which I am very proud to have been a farmer, of being a survivor. I do appreciate the conversation I had with you, Senator, in the Rotunda yesterday. You people are very nice people. But either your staffs or somebody does not understand this or people don't care. And we're out of time. I'm working with groups. We're trying to get attorneys because we can't withstand this. My land went from 28, 38, 58, 78, 98 dollars an acre in five years. So we have to have to where just treat us all alike. And

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

again, Senator Schumacher, I couldn't hear, Senator. I've got hearing problems I got from the service. But I'm just saying you're giving ag more relief than anybody, but that's because you penalized them more than anybody. And so there's...it's like taxing the air that the spray plane uses. If the land causes nothing, it's inert. There's no kids come out there. Sorry. [LB313]

SENATOR SMITH: Let's see if we have some questions for you. Hang on just a second. Questions from the committee for Mr. Richters? Senator Schumacher. [LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony. The local property taxes, I'm sure as you understand, are a function of the budgets submitted by the local school board, NRD, community colleges. [LB313]

DENNIS RICHTERS: Yes. [LB313]

SENATOR SCHUMACHER: And we did not at the state level did not penalize anyone. We did not raise your property taxes. Did you attend any of those budget hearings to tell those local folks to roll back the levy? [LB313]

DENNIS RICHTERS: No, I didn't. [LB313]

SENATOR SCHUMACHER: Thank you. [LB313]

SENATOR SMITH: Senator Friesen has a question for you. [LB313]

SENATOR FRIESEN: Thank you, Chairman Smith. You know, you've been around a long time you said. Take your word for it. [LB313]

DENNIS RICHTERS: Thank you I think. [LB313]

SENATOR FRIESEN: So were you around when your local school board decided to fund schools with property taxes? [LB313]

DENNIS RICHTERS: No. [LB313]

SENATOR FRIESEN: Who made that decision? [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

DENNIS RICHTERS: See, the only thing left...we went a hundred years and then we made a change. But we did leave in real estate tax. So that means if you're a rancher you'll have to pay \$50, \$60, maybe \$90 per unit more than somebody in Kansas. [LB313]

SENATOR FRIESEN: Who made the decision to fund property taxes...schools with property taxes? Who made that decision? [LB313]

DENNIS RICHTERS: I don't know. It was left over from when things...it goes back to... [LB313]

SENATOR FRIESEN: Would you say the Legislature? [LB313]

DENNIS RICHTERS: ...everybody had a quarter. [LB313]

SENATOR FRIESEN: The Legislature made that decision... [LB313]

DENNIS RICHTERS: No, I don't think so. [LB313]

SENATOR FRIESEN: ...to fund schools with property taxes? [LB313]

DENNIS RICHTERS: Well, it comes from a long time ago. Everything else was changed in '64 whatever except property. We used to go in and tell our neighbor who's keeping tack of personal property tax, do you have a dog? No, nope, never had a dog. How about a ring? No, no. You know, we got rid of that. We made progress. [LB313]

SENATOR FRIESEN: Right. But what I was getting to is the state does dictate how we fund K-12. And the state has done that. We have decided to fund it through property taxes. And so now, yes, your school sets its budget, but we dictate what schools do and when they do it. [LB313]

DENNIS RICHTERS: Yeah, they have to be funded. We're not antischool. I mean that's the center of our communities out there. And people that say, well, they're spending too much, and I know what York, Centennial, and Seward do, they are not spending too much. And if my son and my friend in York are paying \$100,000 a year and if York and Seward can cut their budget 10 percent, which everybody knows is impossible, now they'll only be paying \$90,000 more than anybody in Seward or York or anybody that's moved out to the country. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR FRIESEN: Right. [LB313]

DENNIS RICHTERS: It's not...that's not the answer. I'm just saying we mess around with the edges, we need some statesmen. [LB313]

SENATOR FRIESEN: All right. Thank you. [LB313]

SENATOR SMITH: Senator Harr. [LB313]

SENATOR HARR: Thank you. And first I'll start by stating I believe property tax paying for-- and I'm hard of hearing, too, so I appreciate it--property tax paying for our schools comes from our state constitution, not the Legislature. But I want to ask you, what is our problem? Is the problem that we have too many hands out that are paid for by property taxes or is our problem that we don't properly measure wealth and we are overreliant on property taxes? I'm still trying to figure out where...it's disproportionately more than the other two. I will concede that. But are we measuring that wealth incorrectly or should we be looking to other...is it...should we...our overall North Star should be ability to pay? Give me some of your ideas how you think we should tax. [LB313]

DENNIS RICHTERS: Okay. First of all, you tax property. You never tax IRAs, CDs. Berkshire Hathaway had \$84 billion. He had that in York and Seward County land, he'd pay \$588 million a year in taxes. I'm just... [LB313]

SENATOR HARR: BNSF pays a lot of taxes though. [LB313]

DENNIS RICHTERS: Real estate and property are two different things. We all have property tax. We all have businesses. I mean we're small businesses. But real estate is a separate animal over here that nobody else is paying and that's supposed to fund schools and counties. Seward County, probably 54 percent of the school--state average is 60 percent--comes from property taxes. And real estate taxes are about a third of the whole thing: 30.68 percent. Why? Why is it there? I mean it's not a measure of wealth. Again, if we're successful, we will pay income tax. And here what...you know, on the Governor's thing on assessing the value on how much money it makes, I think the state, especially the local subdivisions, they'll have trouble because maybe we get \$10 for corn and \$20 for soybeans. So the land price goes up and our income tax goes up. And so there's a lot of money paid then. But if it goes the other way, you can't run a school or a county when you have that much variance. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: Well, sure, but if I owned a commercial investment and all we do is own property, should I have to be allowed to pay 75 cents on the dollar instead of 100 cents on the dollar? [LB313]

DENNIS RICHTERS: I'm sorry, I'm not... [LB313]

SENATOR HARR: So part of it is the type of business that you choose to run. [LB313]

DENNIS RICHTERS: Yeah. [LB313]

SENATOR HARR: If I'm an investment...if I own a bunch of commercial real estate, property taxes are a huge part of my cost. [LB313]

DENNIS RICHTERS: Yep. [LB313]

SENATOR HARR: Should I be allowed to only pay on 75 cents on the dollar instead of 100 cents on it or 92 cents on the dollar? [LB313]

DENNIS RICHTERS: No, we all should pay 100 percent. [LB313]

SENATOR HARR: Okay. [LB313]

DENNIS RICHTERS: We should, too, but not on real estate because it has nothing to do if we survive or not. But our property and the business property are the same thing. We should and we do pay 100 percent on our equipment, on our buildings, on our sites. [LB313]

SENATOR HARR: Sure, but not on the real estate. And someone who owns a bunch of commercial real estate wouldn't either. [LB313]

DENNIS RICHTERS: But name anything else that pays...do we pay on, say, attorneys' offices or on their... [LB313]

SENATOR HARR: Fair. [LB313]

DENNIS RICHTERS: We support the university--we should--but we don't tax degrees and that's a form of wealth. [LB313]

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Revenue Committee  
February 22, 2017

---

SENATOR HARR: Right. [LB313]

DENNIS RICHTERS: This is wealth that we...you know, we are outnumbered, 3 percent of us, and you can't move the land. So you can,... [LB313]

SENATOR HARR: Well,... [LB313]

DENNIS RICHTERS: ...you know, go ahead, make it 100 percent. It's 72 now, about 74. Let's get this over with. [LB313]

SENATOR HARR: Okay. And that's what I'm trying to get the base of and I don't...I don't pretend to have any of the answers. Okay? And that's why I'm asking questions. [LB313]

DENNIS RICHTERS: No, I... [LB313]

SENATOR HARR: And also I am being very sincere. Is the problem that we are...if we lowered property taxes to as was recommended earlier, to 35 percent, so we have a third, a third, and a third, we had the stool, as we like to call it, would that satisfy, would that be enough if we lowered it to a third, a third, a third? Or do we have a different problem? [LB313]

DENNIS RICHTERS: No, we...everybody's...if you go a third, a third, and third, I agree with that. But you leave real estate out of it because it creates no problem. The only possible, the county, is they assess it and send me a bill. So there's no reason for it to pay county taxes. Just...you'll get it from my residence; you'll get the other third from my sales tax and the income tax. That's...then we're all equal. [LB313]

SENATOR HARR: So don't tax commercial real estate? [LB313]

DENNIS RICHTERS: No, tax on farm real estate. Commercial real estate you tax and you tax my commercial business and you should. [LB313]

SENATOR HARR: Okay. All right. Thank you. [LB313]

DENNIS RICHTERS: Well, sorry. I...maybe my words aren't good enough. I'm sorry about that. [LB313]

SENATOR HARR: No, I understand what you're saying. Thank you. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: Senator Schumacher has a question for you. [LB313]

DENNIS RICHTERS: Yes. [LB313]

SENATOR SCHUMACHER: Just one--thank you, Chairman Smith--one follow-up. You mentioned IRAs. [LB313]

DENNIS RICHTERS: Yeah. [LB313]

SENATOR SCHUMACHER: When somebody puts their money into an IRA and they die and their heirs inherit it, when the heirs take that money out, realize they pay whatever their income tax bracket is, 30 percent on that money that they take out. [LB313]

DENNIS RICHTERS: As we do in land,... [LB313]

SENATOR SCHUMACHER: Well, right,... [LB313]

DENNIS RICHTERS: ...so we're equal there. [LB313]

SENATOR SCHUMACHER: ...if you sell it. Now you've had an increase, tremendous increase in your taxes. You've also... [LB313]

DENNIS RICHTERS: Four hundred percent is what I have. [LB313]

SENATOR SCHUMACHER: Four-hundred percent. [LB313]

DENNIS RICHTERS: Yeah. [LB313]

SENATOR SCHUMACHER: And that would probably mean that, assuming you've got heirs, your heirs have had an increase in their inheritance by 400 percent. And when your heirs get that... [LB313]

DENNIS RICHTERS: I didn't follow that yet. I'm sorry. [LB313]

SENATOR SCHUMACHER: Well, if you've had a 400 percent increase in value which would have caused your property taxes to go up 400 percent,... [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

DENNIS RICHTERS: Yeah. [LB313]

SENATOR SCHUMACHER: ...then what your heirs get when you pass on will be 400 percent greater than what it was. And when they sell that property, how much income taxes are they going to pay? [LB313]

DENNIS RICHTERS: Well, you're making the assumption they'll sell it. What we tend to do in farms is families continue to farm. Now if they do sell it and take money, it's just like IRAs or anything--no... [LB313]

SENATOR SCHUMACHER: They get it stepped up in basis and they don't pay any income tax. [LB313]

DENNIS RICHTERS: That isn't income. That's unearned tax. I mean I wish I was an accountant but I'm not. I don't...I'm just...I've just got a high school education. [LB313]

SENATOR SCHUMACHER: Okay. [LB313]

DENNIS RICHTERS: But, you know, it's...we don't have land to sell. It's the only thing...it's how we live is utilizing that land, trying to be careful with it. You know, my prices went down to 45 percent. My taxes went up 400 percent. I reborrowed \$110,000. I can't borrow any more. The next one is a sale. If that isn't regressive, I don't know what is. And I'm not alone. You know, I guess just...it would be nice to be treated the same, equally. And, you know, there's rumors out there, well, farmers don't pay on the income tax. That's crap. Farmers don't pay on the property tax on their houses--that's crap. We pay. Everything is the same, same rules except we have to have land to farm and it's not movable. So now we got every farmer, the average--no such thing as average--paying \$23,191 more than any of you that aren't farmers. Why is that? [LB313]

SENATOR SCHUMACHER: Okay, thank you. [LB313]

SENATOR SMITH: Thank you, Mr. Richters, for your testimony. [LB313]

DENNIS RICHTERS: Thank you. [LB313]

SENATOR SMITH: Next proponent of LB313, supporter of LB313. Welcome. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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JERRINE RACEK HARRIS: (Exhibits 4-6) Welcome. And thank you. Good afternoon. My name is Jerrine Racek Harris, J-e-r-r-i-n-e, Racek is R-a-c-e-k, Harris--without a hyphen--H-a-r-r-i-s. And I'm here to testify regarding the urgency of property tax reform, and so that would be inclusive of LB312 and LB313 in that sense as general. I am a fifth-generation owner of the family farm two miles south of Morse Bluff, Nebraska, in Saunders County. And as a result of the death of my father, mother, sister, and brother, and when my brother Larry Racek died of cancer at age 57 in early 2007, I left my career in Denver, Colorado, and moved back to Nebraska, joining my mother in managing the farm. I carefully kept annual records of valuations and property taxes paid and I brought the copies with me that's being handed out right now for your perusal. Listen to these horrendous figures, and I am far from alone. From 2007 to 2016, our farms' assessed valuations increased 366 percent, 355 percent, and 336 percent on just three of our ag properties. In that same ten-year time period, property taxes paid out on our farm went from \$6,000 to \$17,500, an increase of 190 percent. Believe me when I say farmers are drowning in property taxes in Nebraska. Property tax reform must be the number one priority for the Nebraska Legislature during the 2017 Session. There is an urgency to address this issue. As reported in the January 19, 2016, North Bend Eagle, quote, many property owners are being forced to sell their family farms that were homesteaded generations ago just to pay their tax bills; many Nebraska taxpayers are on fixed incomes and have no ability to manage fast-paced valuation increases, end quote. It is a fact the current system relies on property owners, especially ag property owners, to foot the bill for nearly 50 percent of all the funding in the state. This system is unbalanced, unfair, and inequitable. It is laughable in some ways that special interests are even pushing for other types of tax cuts this year. Historically, agriculture has been the foundation that Nebraska's economy has been built on. Today, however, ag not only provides the foundation, but it also provides the rest of the structure as it pertains to funding Nebraska through property taxes. Sadly, Nebraska policymakers are and have been perfectly content with agriculture funding the bulk of their out-of-control budgets through ag property taxes. While property taxes have increased by 60 percent over the past decade, they have increased by at least 176 percent, and in my case, as I said, 190 percent, on ag landowners for ten years, for the ten-year period. Over the years, either legislators do not believe there is a problem or they lack the tenacity and commitment to produce a meaningful solution that would fix this problem once and for all. Knowing that many legislators claim property tax reform is the number one issue but then develop amnesia once they enter the Capitol, I believe the problem is more the latter. Recent polling released by Reform for Nebraska's Future shows that 77 percent of Nebraskans support property tax reform; 62 percent believe that property tax reform is the number one priority; and 63 percent of Nebraskans support a broad-based system of taxes, a more balanced system to fund state priorities. Both of LB312 and LB313 produce meaningful property tax reform that, according to these numbers, are supported by an overwhelming majority of Nebraskans, your constituents, citizens who voted for you, relied on you to take this problem by the horns and deal with it once and for all. LB312 eliminates a number of sales tax exemptions--that's my understanding--and produces between \$225 million to \$250 million in direct property tax relief.

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

LB313 would increase the sales tax base through a 1 percent increase to the state's sales tax-- again, my understanding--and provide an additional \$275 million in property tax relief. Again, both bills would provide property tax relief. While these measures would not create perfect balance between the three legs of the stool, they do provide a positive step forward from where we are today and they do it in a revenue-neutral manner, neither adds a dime to tax revenues. Unfortunately, some folks have spoken out against these proposals, inaccurately characterizing them as tax increases. Such misleading--the word of the day--fake claims overlook and dismiss the 60 percent of tax increases the state of Nebraska has imposed over the past decade. Nebraskans are feeling the pain. Landowners, ag landowners are feeling the pain. I am feeling the pain. I'm not sure I'm the middle class anymore. Family farms are disappearing at an alarming rate due to inequitable taxing whether it be property taxes...or how about inheritance taxes? That's hit me four times in the last few years, losing my mom, my dad, my sister, and my brother. That's my entire family and I've had to just really work close to the budgets to make this all work because it's been in my family and I am very committed to that. And it's unfair also because it's 1 percent between parents and children and I am an aunt, no children. It'll be 13 percent, whoever figured that out I don't know, but that's another unfair tax that is imposed on overtaxed Nebraskans that I intend to also pursue and challenge. Nebraskans need solutions. LB312 and LB313 are solutions to a real problem currently faced by Nebraskans. I plead with this committee. Please, please, listen to us. Please hear us, your constituents, the 77 percent of Nebraskans who support property tax reform, and support both of these bills. In conclusion, both bills provide balanced property tax reform in a way that is revenue neutral, both ensure stable funding, and neither adds a dime to tax revenues. Thank you for your time and consideration. I've never done anything like this before and it's quite interesting. But I felt I had to say something out of love for my family, love for our farm. It's a little farm but it is our home. And I don't know what else to do. I don't really know a lot about how everything works but I'm just trying my best. [LB312 LB313]

SENATOR SMITH: Well, you did a nice job today. Thank you, Ms. Racek Harris. [LB312 LB313]

JERRINE RACEK HARRIS: Thank you so much. [LB312 LB313]

SENATOR SMITH: Hold on just a moment. Senator Harr has a question for you. [LB312 LB313]

SENATOR HARR: Thank you. In your testimony you mention out-of-control budgets. What are the out-of-control budgets? [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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JERRINE RACEK HARRIS: And that's a generality and I probably shouldn't make statements like that. But from what I can see, when I see, you know, what the educational budgets are, that really bothers me the most, I'll be honest with you, because I...this is probably terrible to say but I have no children and I have been hit so hard with inheritance taxes and then just to cross over in another place, property taxes. I'm paying high property taxes on two fields that have flooding problems and the NRCS won't even let me fix them with tiling because of the three little lousy acres of what they term wetlands. So I'm tied up from every end and learning the process and will try to be respectful and work my way through. So I feel that these budgets and regulations and so forth just make it impossible for me to do anything else but tell you how I feel. I know the percentages because I just had you look at my valuation sheets and my property tax that I've paid in the last ten years and then I just calculated what the increase was from 2007 to now. So I know that for a fact and you have it now and you know it for a fact. I relied on other percentages that I know have been researched by the reform committee. [LB312 LB313]

SENATOR HARR: So let me ask you, have you gone to your school board to complain about the budget? [LB312 LB313]

JERRINE RACEK HARRIS: I haven't done anything beyond this other than research on the Internet and then start calling people because this is a new, new thing for me to pursue it. [LB312 LB313]

SENATOR HARR: And I don't know. Property taxes are base times rate, so that's the value of your land times--M.J. would be proud of me for knowing this--times your levy rate. Do you know over this period of time if your levy rate has gone up or down? [LB312 LB313]

JERRINE RACEK HARRIS: I know that if you look on the bottom of one of those sheets, I can't remember which one it is, I have percentages that things have gone up, the taxes have gone up from the county assessor's office because I asked up until 2011. You know, it was going up 15 percent, 16 percent, you know, just variously. [LB312 LB313]

SENATOR HARR: But if... [LB312 LB313]

JERRINE RACEK HARRIS: The levy, I don't know specifics, no. [LB312 LB313]

SENATOR HARR: Okay, because that's something important to know, too,... [LB312 LB313]

JERRINE RACEK HARRIS: Yes. [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: ...because if it's just...if the levy rate is the same, that means you have an increase in value and that's one of the things I'm trying to figure out here is... [LB312 LB313]

JERRINE RACEK HARRIS: Yes. [LB312 LB313]

SENATOR HARR: ...is our problem with our tax system how we measure wealth or is it that we have a property tax problem or do we have an ag property tax problem? And I hear a little bit of all of that and I think if we're going to solve this problem, we need to identify the problem. And I have yet to succinctly have anyone identify where the problem lies. [LB312 LB313]

JERRINE RACEK HARRIS: I agree with that, too, but I also see just from a very small personal experience. I have a small house in Morse Bluff from my mother and father that I rent to someone and so I see what the taxes are on that. And then I see what the ag taxes are. You know, that one bottom field I just referred to that floods and I...my hands are tied, I can't do anything about it at the moment, in 2007 that was valued at \$70,000 approximately and it is now almost \$341,000-something. You can see on your own paperwork there. You know, it's not too hard to see. And what are my checks and balances when these assessors come out? And then--one other complaint--I tried to protest because I tried to do the right thing, and I was threatened at the Saunders County Courthouse by someone who has since been fired. You can go ahead and do all you want to protest and I used figures based on adjoining farms and all the figures that I learned I needed to present in order to be listened to, in other words. And he just said that, you know, you and your mother are just lucky to have any land at all, like, you know, we inherited it, and you can go ahead and do what you want to do but we'll just double it next year. So I took it to the state just because I try to put my money where my mouth is. [LB312 LB313]

SENATOR HARR: To TERC, yeah. [LB312 LB313]

JERRINE RACEK HARRIS: And I knew that I probably wouldn't win but I also knew that I would have something on record. And ultimately this gentleman was fired. I'm just saying there are so many aspects of this it's really hard to know where they begin and end. And, yes, it's my responsibility to understand the breakdown. But there are so many people that are...you know, whether it be attorneys or whether it be professionals in this business yourselves, you're a committee member and you hear a lot of this yourself. And I'm not criticizing, I'm just saying you don't even understand it. I don't understand it. But it is our responsibility to understand it if we're going to make a complaint. And I do understand that. So my biggest reason was to promote... [LB312 LB313]

SENATOR SMITH: Ms... [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: And let me just leave you...I love going to Morse Bluff and I love the Bottom Road cafe. So thank you very much. [LB312 LB313]

JERRINE RACEK HARRIS: Who doesn't? [LB312 LB313]

SENATOR HARR: It's great food. I love their chicken-fried steak. [LB312 LB313]

JERRINE RACEK HARRIS: Thank you (inaudible). [LB312 LB313]

SENATOR SMITH: Ms. Racek Harris, we have another question from Senator Friesen. [LB312 LB313]

JERRINE RACEK HARRIS: Oh, yes. Yes. [LB312 LB313]

SENATOR FRIESEN: Just one question, I guess. Have you kept track of how much the property taxes on your home have gone up? [LB312 LB313]

JERRINE RACEK HARRIS: Yes, I have, and they're on your sheet, aren't they? Correct? [LB312 LB313]

SENATOR FRIESEN: So would you say the increase on your residential home, are you concerned about that? [LB312 LB313]

JERRINE RACEK HARRIS: Yes, but those were more understandable because I took care of my mother. I was her caretaker and I wanted to make sure that she would have a good home and I used a lot of... [LB312 LB313]

SENATOR FRIESEN: But the tax level... [LB312 LB313]

JERRINE RACEK HARRIS: ...you know, some of the crops that came in to renovate it. [LB312 LB313]

SENATOR FRIESEN: The tax level on your home, though, you're comfortable with. [LB312 LB313]

JERRINE RACEK HARRIS: It did. [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR FRIESEN: It didn't increase as much as the land. [LB312 LB313]

JERRINE RACEK HARRIS: Oh, it increased. [LB312 LB313]

SENATOR FRIESEN: As much? [LB312 LB313]

JERRINE RACEK HARRIS: But I expected it to. [LB312 LB313]

SENATOR FRIESEN: You improved it? [LB312 LB313]

JERRINE RACEK HARRIS: Yes. [LB312 LB313]

SENATOR FRIESEN: Okay. [LB312 LB313]

JERRINE RACEK HARRIS: And that's why and we did...we did the zoning and all that.  
[LB312 LB313]

SENATOR FRIESEN: Okay. [LB312 LB313]

JERRINE RACEK HARRIS: And so I stayed on that. The problem is, how do any of us really know what's accurate? When somebody...what's happening in Omaha? You know, people are getting assessed. How do you know that that's okay? [LB312 LB313]

SENATOR FRIESEN: Right. [LB312 LB313]

JERRINE RACEK HARRIS: You know, how do you know that people aren't just assessing to cover their budgets? [LB312 LB313]

SENATOR FRIESEN: Right. [LB312 LB313]

JERRINE RACEK HARRIS: I have no way to know. [LB312 LB313]

SENATOR FRIESEN: Okay, thank you. [LB312 LB313]

JERRINE RACEK HARRIS: Thank you. [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: All right. I see no further questions. Thank you, Ms. Racek Harris. [LB312 LB313]

JERRINE RACEK HARRIS: Thank you. [LB312 LB313]

SENATOR SMITH: And thank you for also introducing your testimony into the record for LB312. [LB312 LB313]

JERRINE RACEK HARRIS: Thank you very much. [LB312 LB313]

SENATOR SMITH: Thank you. And again, I'm going to ask folks to try to keep it to the three minutes and I will apologize in advance if I nudge you along. [LB313]

MARK FAHLESON: (Exhibit 7) Understood, Mr. Chairman. Members of the committee, good afternoon. My name is Mark Fahleson. My principal place...it's Mark, M-a-r-k, Fahleson, F-a-h-l-e-s-o-n. My principal place of business is 1128 Lincoln Mall, Suite 300, Lincoln, Nebraska, 68508. I appear here today in my capacity as chairman of Reform for Nebraska's Future. In the interest of the committee's time, which I understand is limited, I would ask that this be received into the hearing record for LB312 as well. Reform for Nebraska's Future is a volunteer-driven, grass-roots coalition representing Nebraskans from across our great state who believe that Nebraska's tax structure must be reformed. That reform must fix inequities that have led to excessive property taxes on Nebraska's families and businesses while threatening the stability of funding for education and other Nebraska priorities. Nebraska property owners have seen a 60 percent increase in property taxes over the past decade, according to Nebraska Department of Revenue data. In addition to these increases, Nebraska pays the seventh-highest property taxes in the nation, higher than all neighboring states. This cannot continue. We believe that a more balanced system will provide more reliable revenue generation to meet the state's priorities while also ensuring that everyone pays their fair share. Last evening we sponsored a telephone town hall with Senator Briese to discuss Nebraska's property tax crisis in LB313 and LB312. Over 10,000 Nebraskans joined that town hall; over 100 Nebraskans asked or were in the queue to ask questions of Senator Briese when we had to end the town hall because of time. We took a poll during our town hall. The question was, which state or local tax do you believe...that you believe is too high; pick which one is the highest, which is the biggest concern to you. And they could only pick one between the following: income taxes, sales taxes, gas taxes, or property taxes. The results: 83.5 percent of those participating said property taxes are the tax they are most concerned about; a mere 6.7 percent said incomes taxes; and only 3.8 percent said sales taxes. Let me be clear. This is not just a rural issue. This is not just an ag issue. It is an issue affecting all Nebraskans. Some of the most vocal participants during last night's telephone town hall hailed from Omaha, from Lincoln, and other urban and suburban areas in Nebraska. The solution

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

to this crisis must provide a remedy to all Nebraskans. Reform for Nebraska's Future supports LB313 because it meets our core principles and beliefs which is: (1) Nebraska's three-legged tax school of income, sales, and property taxes should be balanced; (2) tax reform should be revenue neutral; (3) property tax reform is necessary to provide a stable funding source for Nebraska's future and our priorities such as education. Members of the committee, we recognize this crisis was not created overnight and was not created on your watch; however this committee is tasked with providing the leadership to adopt a reasonable solution to this problem. The days of kicking the can down the road are over. Reform for Nebraska's Future once again extends our offer to work with your committee to find real, meaningful, long-term property tax reform for the benefit of all Nebraskans. Thank you. If there are any questions, I'd be more than happy to try to answer them. [LB312 LB313]

SENATOR SMITH: All right. Thank you, Mr. Fahleson, for your testimony. Senator Brasch. [LB312 LB313]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you for your testimony, Mr. Fahleson. I still have an issue and a concern that by raising a tax we're lowering taxes, that there just seems something...you raise a tax to lower a tax, essentially I believe somebody will be paying more and I doubt, and I'd love to be proven wrong, that anyone will be paying less. And part of that is I did a little bit of...I did a search and asked a question about the public land for public schools. And it talks about in 1867 the federal government, we have school lands in trust. University has lands to help pay for the university. The schools have schools to help pay. And it says that there is approximately 1.3 million surface acres and 1.66 million subsurface acres. Rents are collected from 3,200 agricultural leases and 250 mineral leases. It continues, saying that this net income is deposited into a temporary school trust fund distributed annually to K-12 schools statewide on a per-pupil basis and proceeds from this, and royalties, are deposited into the school trust fund. So I hope you understand that in the 1800s, I believe we thought this was the remedy to help fund schools. So is the remedy to help fund schools increasing more, asking us for more money? And I'm sorry to... [LB312 LB313]

MARK FAHLESON: Let me...if I may, if I may, I'm not quite following you there. [LB312 LB313]

SENATOR BRASCH: I mean I think we're being regressive. [LB312 LB313]

MARK FAHLESON: But let me go back to the hypothetical you posed to one of the other witnesses which was new couple perhaps wants to buy a new washer. They perhaps could face a 1 cent addition in the sales tax on that and you felt that they couldn't afford that more, much more. Well, the reality is that same couple would have more money in their pocket already

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

because of the property tax relief that would have already been given. And so, yes, there is a rebalancing of the taxes. Does it net out for everyone? Certainly I can't give an opinion, any type of economic opinion that says it nets out for everyone. But the real question is this, and I'm not going to ask the senators and it's not my place to ask senators what their answer is, but privately ask yourselves this: If you had to design a tax system for Nebraska that funds our priorities, that achieves what Nebraskans want, is today's system the perfect system? I mean, for me the answer is no. The reality is there the property taxes, especially in connection with schools, it jeopardizes the future of public education in the state, by the way, by the funding mechanism. The second thing is it is probably subject to constitutional challenge in that there's a significant equal protection argument to be made whether property, the owning of property is somehow connected with education. There's just no connection. It creates classes of people who don't own property that are found able to send kids to school. And those who have property but don't have children are paying the significant proportion. And so I just ask this committee--you're all very smart people--to ask yourselves, if we had to design a system that funds Nebraska's priorities, is the system we currently have the one we would choose? [LB312 LB313]

SENATOR BRASCH: And may I also ask you that...and that 1.6 million-plus-plus (acres) of school land trust money is tax exempt. They collect revenues to help pay for schools but there are no taxes spent on that. So perhaps if some of that was put in the private sector and taxed, but how can any system control...be readjusted, rebalanced without a control on spending? Last year we tried to introduce a control on spending and from the municipalities to the counties they said it would be the death of us to control spending. Well, taxes have become uncontrolled. And so how can you have a neutral system without control on spending? [LB312 LB313]

MARK FAHLESON: It's a valid point. But when I talk to school districts, when I talk to...I work with a number of cities and mayors throughout the state, counties as well, and when we go to them and give that argument that you need to cut spending, their response is they'll produce a list of unfunded and underfunded mandates that have been handed down upon them by the state of Nebraska and by the federal government. And they say, who is going to make up for that revenue? If the state wants us to cut, then they need to remove the shackles that have been placed upon us by the various regulations and obligations. Again, our goals are we...that the current system, with nearly 50 percent of the revenue coming from property taxes, is out of whack. It jeopardizes public education, the future of public education, jeopardizes state priorities. And I'm quite confident with all the very smart people in this committee that you could come up with a solution that funds Nebraska's priorities and does so in a fair and equitable way. [LB312 LB313]

SENATOR BRASCH: And did you get a list of those unfunded mandates? [LB312 LB313]

MARK FAHLESON: I've seen them. I don't have one. Again, I would... [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR BRASCH: Could you give us a list, please? [LB312 LB313]

MARK FAHLESON: Yeah. I would encourage you to visit with Nebraska county officials, Nebraska League of Municipalities, the Nebraska School Boards Association, some of those folks, again, have...that I'm sure they'd be more than happy to provide you with a list of the requirements that government places upon them. [LB312 LB313]

SENATOR BRASCH: And I'm not challenging your testimony. [LB312 LB313]

MARK FAHLESON: Right. [LB312 LB313]

SENATOR BRASCH: Please believe me. [LB312 LB313]

MARK FAHLESON: Yep. [LB312 LB313]

SENATOR BRASCH: But what I'm challenging is how do we control without controlling the spending end of it when the 1867, you know, they...1.6 million-plus-plus acres and the university-plus-plus, this is going to pay for education. Well, more and more is coming out of our pockets that is unsustainable, not practical. You know that we farm and we are in the same very sad state that most farmers are on facing the taxes that the counties require. And so I would like that list of unfunded mandates and some assurances from your group or whatever that there is controlled spending. [LB312 LB313]

MARK FAHLESON: Yeah. Again, I would go back to this, that too many, too often, state officials point at local governments and school districts saying cut spending. School districts and local governments point at state government and say, but you have all these unfunded mandates. Meanwhile that fight goes on and the only one who is hurt is the Nebraska taxpayer. [LB312 LB313]

SENATOR BRASCH: Exactly. Thank you for your testimony. [LB312 LB313]

MARK FAHLESON: Yep. [LB312 LB313]

SENATOR SMITH: We have additional questions, Mr. Fahleson. Senator Harr and then Senator Friesen. [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR HARR: Thank you, Mr. Chair, and thank you, Mr. Fahleson, for coming. And thank you for the kind words about us being intelligent. That was not towards me, that was more... [LB312 LB313]

MARK FAHLESON: Were you in the room then? [LB312 LB313]

SENATOR HARR: Yeah. (Laugh) [LB312 LB313]

MARK FAHLESON: Just kidding. That's a joke. That's not... [LB312 LB313]

SENATOR HARR: So let me ask you this, because you answered that the current system isn't fair and equitable. You answered your own question. Now give me what you think a fair and equitable system is. Is it LB312, LB313? If we pass those two, are we fair and equitable? Or is there something more that needs to be done? [LB312 LB313]

MARK FAHLESON: You know, I'm going to answer that by dodging it. I want to explain why I'm dodging it: because I am here in my capacity as chairman of a coalition and so my personal beliefs as to how that may end up, I have no authority from the coalition to speak on those issues. What I will say is this, is what I said before. In my personal opinion to the extent I could even testify, this doesn't represent the coalition, that today's system, if I had to design a tax system in the state, would it look like today's? The answer is no. Does it have multiple sources of revenue? The answer is yes. And so the question is, do we have one source that is completely out of balance, out of whack with the others? I think the data shows that it is. So how do we try and draw it back in? I do believe Senator Briesse's bill is a good-faith attempt to try to address that while also addressing an argument as far as whether there's a regressive nature to what's being done. And I think he should be applauded for doing that. [LB312 LB313]

SENATOR HARR: Thank you. [LB312 LB313]

SENATOR SMITH: Senator Friesen. [LB312 LB313]

SENATOR FRIESEN: Thank you, Chairman Smith. So do you feel that our schools are funded in a fair and equitable manner? [LB312 LB313]

MARK FAHLESON: Again, I have to draw my personal opinions from the coalition. The coalition believes, and again, we have the state constitution obligation with respect to education, and so we need...public education is very important to this state. That being said, when I talk to school districts, when I talk to teachers, when I talk to members of boards of ed, they will

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

legitimately point out obligations placed upon them by the state and federal government. So the question is, you know, how do we meet in the middle? In my own personal opinion, there are legitimate constitutional issues as to why property tax is used as a basis for the funding of education, public education in the state of Nebraska. [LB312 LB313]

SENATOR FRIESEN: So do you see spending out of control? [LB312 LB313]

MARK FAHLESON: In my household? I'll talk to my wife when I get home. [LB312 LB313]

SENATOR FRIESEN: In the budgets that are determined from property taxes. [LB312 LB313]

MARK FAHLESON: Yeah, again, I'm try... [LB312 LB313]

SENATOR FRIESEN: Just in general, you don't have to... [LB312 LB313]

MARK FAHLESON: Just my own personal opinion, yes, I believe...I do believe that spending at all levels should be reevaluated at all times, especially in light of the current circumstances in which we have a budgetary shortfall, absolutely. [LB312 LB313]

SENATOR FRIESEN: Do you think the property tax problem can be solved with budget cuts? [LB312 LB313]

MARK FAHLESON: I do not. [LB312 LB313]

SENATOR FRIESEN: Thank you. [LB312 LB313]

SENATOR SMITH: Senator Groene. [LB312 LB313]

SENATOR GROENE: Thank you, Chairman. Your coalition understands that every single property tax dollar collected is spent locally and none of it is sent to the state. [LB312 LB313]

MARK FAHLESON: That is correct. [LB312 LB313]

SENATOR GROENE: Either regionally with the community college....did you know that community colleges went up 292 percent along with increases in state aid the last ten years? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

MARK FAHLESON: I am aware of data that would show increases in that range, that is correct. [LB312 LB313]

SENATOR GROENE: Did you know school districts went up 65 percent, counties went up 63 percent, cities and villages went up 53 percent? [LB312 LB313]

MARK FAHLESON: I am not aware of those specifics, sir. [LB312 LB313]

SENATOR GROENE: So do you think the state of Nebraska should help fund those kind of increases? [LB312 LB313]

MARK FAHLESON: Again, when I go to talk to the cities for whom I do work, the mayors that I'm familiar with, the school board officials I work with, they will tell you that those increases were in part necessary because of mandates placed upon them by the state government and by the federal government. And so again it's this pointing of the finger. [LB312 LB313]

SENATOR GROENE: So if state made them TIF, give away property taxes and tax increment financing... [LB312 LB313]

MARK FAHLESON: You know, TIF was...certainly they talk about wages and benefits. They talk about obligations placed upon them by the state for having certain positions or obligations. Again, I'm not an expert on the minutiae of those requirements, but they have an argument, Legislature has a legitimate argument. The argument continues and the taxpayer loses. [LB312 LB313]

SENATOR GROENE: Would you guys consider doing an amendment or a lawsuit on the CIR because that's the biggest mandate that affects all budgets? [LB312 LB313]

MARK FAHLESON: Yes. That is not part of our mandate. Again, our mandate is to address the balancing of the tax stool in Nebraska and doing so in a revenue-neutral way. [LB312 LB313]

SENATOR GROENE: So you would prefer raising taxes and just keep spending than fixing the real problem. [LB312 LB313]

MARK FAHLESON: I don't accept the premise of your question, sir. Again, we are simply an interest about rebalancing the stool and doing so in a revenue-neutral way. So just as Senator

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

Briese said, his bill, the intent is at the end of the day, from a net standpoint, no net new taxes, additional taxes, or revenue will be generated. [LB312 LB313]

SENATOR GROENE: So TEEOSA is the big problem. That's the only variable in local spending, basically, is it not,... [LB312 LB313]

MARK FAHLESON: Again, I don't profess... [LB312 LB313]

SENATOR GROENE: ...as far as the state influx into local budgets? [LB312 LB313]

MARK FAHLESON: Yeah, I don't profess to be an expert. [LB312 LB313]

SENATOR GROENE: Well, the community colleges also. [LB312 LB313]

MARK FAHLESON: Right. I don't profess to be an expert on that, sir. [LB312 LB313]

SENATOR GROENE: Thank you. [LB312 LB313]

MARK FAHLESON: Yep. [LB312 LB313]

SENATOR SMITH: Senator Brasch. [LB312 LB313]

SENATOR BRASCH: Thank you, Chairman Smith. And again, I thank you for your testimony today but I...when we're talking about the funding, changing, increasing a tax to lower a tax, and we're talking about funding schools, do you believe that our public schools are adequately funded? [LB312 LB313]

MARK FAHLESON: Again, I don't profess to be an expert on public school funding. What I will say is when I talk to school districts, school officials, their complaint is the mandates and the funds that they must come up with to pay for the requirements. [LB312 LB313]

SENATOR BRASCH: But they have not told you if they're adequately funded or not to pay their... [LB312 LB313]

MARK FAHLESON: I haven't asked that specific question. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRASCH: And then what is the...what organization do you represent? [LB312 LB313]

MARK FAHLESON: Reform for Nebraska's Future. [LB312 LB313]

SENATOR BRASCH: And who funds that organization? [LB312 LB313]

MARK FAHLESON: I'd be more than willing to be accept a contribution from you. We have a Web site, [www.reformfornebraskasfuture.com](http://www.reformfornebraskasfuture.com). There's a donate button at the top. [LB312 LB313]

SENATOR BRASCH: And... [LB312 LB313]

MARK FAHLESON: It's grass-roots driven. [LB312 LB313]

SENATOR BRASCH: It also...100 percent grass-roots driven? [LB312 LB313]

MARK FAHLESON: And we'll take anyone's dollars. [LB312 LB313]

SENATOR BRASCH: Okay. All right. I have no other questions. Thank you. [LB312 LB313]

MARK FAHLESON: Okay, thank you. [LB312 LB313]

SENATOR SMITH: Mr. Fahleson, let me ask you a question. [LB312 LB313]

MARK FAHLESON: Yes, sir. [LB312 LB313]

SENATOR SMITH: So there is...there are...we are a public power state and we have a tremendous amount of property on the rolls owned by our public utilities that make payments in lieu of taxes. Have you looked at using that to close the gap? [LB312 LB313]

MARK FAHLESON: We have not, sir. [LB312 LB313]

SENATOR SMITH: All right. Let me ask you this too. So I think last week we heard from one of your colleagues on the State Fair Board. And I know that LB312, you've asked that your testimony be inserted for LB312 as well. There was some concern there about the removing the

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

exemption on the taxation of lottery purchases. And I think the...there was an official statement made by one of your colleagues on the Fair Board that they would prefer that not to happen, have that exemption removed. Do you know if there is going to be someone here later speaking on that particular issue in opposition to LB312? [LB312 LB313]

MARK FAHLESON: Yeah, so...right. Today I'm here in my capacity for Reform for Nebraska's Future. We support in principle the items that Senator Briese has laid out in his bills. And again, as I have mentioned before, we have a lot of very smart people on this committee. We as a coalition have not weighed in on any of the specific exemptions that we don't believe that's our position because we believe that's your legislative prerogative. So we did not take a position on any of the sales tax exemptions, which ones should be looked at or not. [LB312 LB313]

SENATOR SMITH: All right. So you're not ruling out moving around a little bit in LB312 when we get to that. [LB312 LB313]

MARK FAHLESON: Again, that is correct. [LB312 LB313]

SENATOR SMITH: Okay. [LB312 LB313]

MARK FAHLESON: Our coalition from the outset decided that we are not taking any position as it relates to any of the exemptions. [LB312 LB313]

SENATOR SMITH: Very good. [LB312 LB313]

SENATOR GROENE: One more question. [LB312 LB313]

SENATOR SMITH: Senator Groene. [LB312 LB313]

SENATOR GROENE: We've had the Property Tax Credit Fund. This is basically what LB313 does is the Property Tax Credit Fund. We had since 2012 or so. It went from \$100 million to \$440 million...or \$200 (million)...about \$50-some million to \$220 (million) a year. And you guys are still overtaxed, the farmers are. [LB312 LB313]

SENATOR SMITH: It's not just farmers; it's property owners. [LB312 LB313]

SENATOR GROENE: It's everybody. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

MARK FAHLESON: Right. [LB312 LB313]

SENATOR GROENE: We did this. And you're still overtaxed. [LB312 LB313]

MARK FAHLESON: At close to 50 percent. [LB312 LB313]

SENATOR GROENE: And do you know why you're overtaxed? Because of the spending. This doesn't stop the spending. This will not keep up. There's no reason, if we did this, that you're not back here next year and the year after because your property taxes went from \$2.2 billion in '05 to \$3.8 (billion). There's no reason they couldn't be \$4 billion next year because nobody is controlling the spending. How does this help? [LB312 LB313]

MARK FAHLESON: I go back to what I stated before that the Legislature continues to point out its position of some, the majority...minority, that local government needs to address the spending issue first, then we'll talk about tax relief. I go to the local school district, counties, the cities, they say the state needs to quit placing mandates on us. And the fight continues, the debate continues, and the taxpayer is the one that's left to hang out to dry. All that I ask, all that our coalition asks is that we exhibit some leadership on this issue to try to address this issue and to try to rebalance the tax stool so the overwhelming burden that is placed upon property taxes is put back into balance. [LB312 LB313]

SENATOR GROENE: Is your, one of your missions, the coalition, is to tell your members who sit on NRDs and county boards and school boards to quit spending, to quit voting for mill levy increases and spending increases? That would be a good start. I keep hearing you love your schools, you love your NRD, you love your counties, but then you come and you don't want to pay for it. It's got to start with the spending. We've already done the credit and it's not keeping up with the spending, it's not even coming close to keeping up with the spending increases. And why would I believe it's going to happen into the future? [LB312 LB313]

MARK FAHLESON: Meanwhile, the problem continues. [LB312 LB313]

SENATOR GROENE: Yeah. Right. [LB312 LB313]

SENATOR SMITH: All right. I see no further questions. Oh, I'm sorry. Senator Brasch. [LB312 LB313]

SENATOR BRASCH: And again, when you said coalition, because you said it's funded by  
whoever on the... [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

MARK FAHLESON: Yeah, we accept donations. [LB312 LB313]

SENATOR BRASCH: And who is your coalition? [LB312 LB313]

MARK FAHLESON: Sure, we have a number of members. In fact, I...we're...be proud to introduce some of our chairs of our advisory committee, folks like Jim Jenkins who is a very well-known businessman, agricultural leader; former State Senator Roger Wehrbein has agreed to join our efforts; Matt Schulte, who is a member of the Lincoln Public Schools District Board of Education. We have Mark Kruger who is a businessman in Omaha. In addition to that, we have a number of groups from the soybean growers and the Corn Growers to the Nebraska Farm Bureau, to the Cattlemen, to a number of other groups. And again, if you belong to a group and you want to join, we'd be happy to have you on board. [LB312 LB313]

SENATOR BRASCH: Okay, now I...and I'm curious. The coalition, how new is this? It's... [LB312 LB313]

MARK FAHLESON: We have formed in January actually. [LB312 LB313]

SENATOR BRASCH: In January and you have some very major entities and... [LB312 LB313]

MARK FAHLESON: We're working hard, yeah. [LB312 LB313]

SENATOR BRASCH: ...doing a lot of marketing, I understand, too. [LB312 LB313]

MARK FAHLESON: We're working really hard. [LB312 LB313]

SENATOR BRASCH: And all from grass-roots dollars? [LB312 LB313]

MARK FAHLESON: Absolutely. We'll take, again, any contribution that's legal under...from a United States citizen, correct. [LB312 LB313]

SENATOR BRASCH: All right. I have no other questions. Thank you. [LB312 LB313]

MARK FAHLESON: Okay. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: Thank you, Mr. Fahleson. I think you've got several plugs in there for your Web site. [LB312 LB313]

MARK FAHLESON: I did, yes. Thank you for that opportunity. [LB312 LB313]

SENATOR SMITH: Yeah, at no cost to you. [LB312 LB313]

MARK FAHLESON: Yeah. Thank you, sir. [LB312 LB313]

SENATOR SMITH: And thank you, Mr. Fahleson, as well. Your testimony has been introduced into the bill for LB312. We now move on to the next proponent supporter of LB313. Welcome. [LB312 LB313]

BOB RAUNER: (Exhibit 8) Thank you, Senator. My name is Bob, B-o-b, Rauner, R-a-u-n-e-r, testifying in support of LB313. I'm testifying on behalf of myself but also the perspective of homeowner, a parent, and a small business owner. My wife and I have all grown up in Nebraska. We had the opportunity to move to other states multiple times and have chose to stay here because it's a great place to raise a family. One of the best reasons it's a great place to raise a family is because of our school system. And so one of our biggest priorities for our...us personally and the people I think we bring in, if you go to our Rotary Club, when people move in and they've come in from other states, it's almost always one of the biggest things is they came here because of the schools. And so one of my biggest interests is protecting funding in our schools. One way to do this I think is to rebalance our tax system. I think it's gotten out of balance. I'll summarize my testimony because some of it is redundant. Senator Harr, you mentioned what was it in the past? According to the legislative Web site, in 2000 the percentage of revenue that came from property taxes was 32.4 percent. I'm not sure if it's calculated the same way that we calculate our numbers, but that's what's on the legislative Web site right now. You talked about, I think, Senator Brasch, about, well, what was schools like in 1880s? I don't think that's directly comparable. I work with the schools frequently. They had no technology budget back then. A lot of people didn't go to school K-12. They might have only gone to eighth-grade education, like some of our great-grandparents and grandparents. And so it's not directly comparable to say that's the same thing. Senator Groene, you mentioned, well, 200 percent increase, is that 200 percent increase per pupil or is that total because some of our community colleges have doubled in attendance. And they have to double in attendance because what they're training for is different than what they were training for 50 or 100 years ago. In my business, I couldn't have somebody with an eighth-grade education working for me. The stuff we do, I have to have someone who can at least use Excel. They have to be able to use computers. That's not going to be happening with a K through 8 education. That's going to take more than probably community college to do some of the stuff we do. So the education system has changed and is

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

not directly comparable to the 1880s. Another way I'd say for balance. My father is an accountant. I'm originally from Sidney, Nebraska, and he still works there, so of course a lot of his clients are from Colorado and Wyoming. His Colorado clients pay a third in property taxes of what we pay in property taxes. Okay, so our system is out of balance in Nebraska. I can't answer the is this raising a tax. Well, yeah, it is but it's a rebalance. If it's neutral, it's still neutral. It's up \$1 here, it's down \$1 here, so there is no net increase. But I think the biggest problem is a lack of balance. I do not believe that our schools are spending money out of control. I work a lot with Lincoln Public Schools. I think we get value for our dollar. I don't think it's out of school budget. I think it's the lack of state funding from other sources and that we've got too big of a reliance on property taxes. Thanks. [LB313]

SENATOR SMITH: Thank you. Is it Mr. Rauner? [LB313]

BOB RAUNER: Yes. [LB313]

SENATOR SMITH: Rauner. Thank you for your testimony. Do we have questions from the committee? Senator Brasch and then Senator Harr. [LB313]

SENATOR BRASCH: Thank you, Chairman Smith, and thank you for your testimony, Mr. Rauner. And it may not be the 1800s, but Nebraska has grown so slowly where we're just...inched our way to 1.9 million. I don't believe our schools...in our rural areas, they're shrinking. They're not growing. We're...we have less students and the metropolitan and more urban areas have seen some growth. And how can it be revenue neutral without a control on spending? And how can 1.6 million-plus-plus acres...I mean to do that math when the assessors are calculating what 1,000 acres can make, well, what can a million acres make and help pay the school's budget when 80 percent is administrative and 20 percent is student based? So how can that all be accomplished without some restraint on spending? [LB313]

BOB RAUNER: Well, I think you're also looking at, if you realize, 1.6 million acres, that was probably maybe for 20,000 students back then. Now we have 41,000 students just in Lincoln Public Schools, so that fixed amount of land doesn't count for a growing population. That means property taxes cannot be the only source of funding for the schools because property is fixed. It doesn't...the state is not growing geographically but it is growing with population. So that money has to go from the other economic activity, not property tax. It's got to come from sales. That's what I'm arguing. We don't want it to come from income. We want it to come from sales tax because when you have more people, you do have more sales tax but you don't have more land. And so I think part of the problem what's gotten things out of balance is because land is fixed but population is growing. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR BRASCH: And what the current assessed values...and I agree property tax, the schools would be hard pressed, and any other entities, to extract any more dollars from those who are on the verge of going under. I would agree with you. So now the schools are moving to another place. But what is to control the spending? I do think that increasing a tax in an effort to reduce a tax when there is a base that shows nothing but growth in financial needs, and without restraining that you're just going to keep getting that balloon bigger and bigger. You're getting the helium from somewhere else. And so how? Do we just keep raising sales taxes? [LB313]

BOB RAUNER: Well, your presumption is that the state...is that the school spending is out of control, which I'm going to argue it's not out of control. It's growing with the population. Lincoln Public Schools grew by 1,000 kids last year. That's more than some districts. [LB313]

SENATOR BRASCH: Are there restraints in the spending, it's... [LB313]

BOB RAUNER: No, what should grow with that is the things that grow with population, like sales taxes, for example. So that's what has to grow to keep pace. We don't want to cut schools because we need educated population to work in a lot of our businesses. This a technology industry right now. I can't hire people with a tenth-grade education. They're not going to be able to do the jobs that I would employ them to do. We need an education system that can train them to do that. A lot of stuff I do is data and technology related. I can't...we need schools that can train for that. So what should grow? I don't think that the school, Lincoln Public Schools budget is out of control. There may be other areas that are out of control, like healthcare, for example, and that's the other side of what I do. I think healthcare spending is way out of control. But it's not school spending that's out of control. [LB313]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB313]

SENATOR SMITH: Senator Harr. [LB313]

SENATOR HARR: Thank you. And let me ask you, do you think elections are out of control on spending by getting the right people into office? [LB313]

BOB RAUNER: In theory, yes. [LB313]

SENATOR HARR: Okay. And let me ask you another question. You have a small business. You probably understand how taxes work pretty well. My income tax is deductible against my federal taxes. So if I...and my property tax is deductible. So if I switch to sales tax, I can no longer

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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deduct that against the federal. So if I'm paying the same amount on the state level, I'm in effect paying more in taxes because I have to pay more in federal taxes. Is that correct? [LB313]

BOB RAUNER: I'd have to defer to my father, who is the accountant, on how that... [LB313]

SENATOR HARR: Okay. [LB313]

BOB RAUNER: As far as the shifting between local, state, and federal, that's, yeah, I might. [LB313]

SENATOR HARR: Well, if I pay the taxes, sales, and I can't write that off against my federal but I can with my state income,... [LB313]

BOB RAUNER: Yeah. [LB313]

SENATOR HARR: ...it would seem I have a net loss out of my pocket. [LB313]

BOB RAUNER: Yeah. But I believe it's a deduction, not a credit, so it's not a one-for-one. It's fairly small in relation with... [LB313]

SENATOR HARR: For some. [LB313]

BOB RAUNER: Yeah. [LB313]

SENATOR HARR: For some. All right. Thank you. [LB313]

SENATOR SMITH: Senator Schumacher. And I believe, just for the record, I believe you can choose whether it's...which one you take a bigger deduction on, on sales. [LB313]

SENATOR HARR: What's that? [LB313]

SENATOR SMITH: I think you can take a federal deduction on sales if I'm not mistaken. [LB313]

SENATOR HARR: You can but you have to select one or the other. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: Yes, yes. [LB313]

SENATOR HARR: And so if we make them more equal... [LB313]

SENATOR SMITH: That's correct. That's correct. Senator Schumacher. [LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you, Dr. Rauner, for your testimony today. By the very nature of the property tax, the largest property owners in value will get proportionally larger chunks of this several hundred million dollars a year. And that cost of that is going to be placed generally on the part of the population that is above the earned income credit baseline and probably below \$120,000 a year. How do we correct for that? [LB313]

BOB RAUNER: That would be out of my area of expertise, I would say. [LB313]

SENATOR SCHUMACHER: Gosh, I wish you'd have just told us we were smart and we could figure it out. [LB313]

BOB RAUNER: No. [LB313]

SENATOR SCHUMACHER: (Laugh) Thank you, Doctor. [LB313]

BOB RAUNER: It's a complicated calculation, I'm sure. [LB313]

SENATOR SMITH: I see no further questions. Thank you for your testimony. [LB313]

BOB RAUNER: Thank you, Senator. [LB313]

SENATOR SMITH: Next proponent of LB313. Welcome. [LB313]

MERLYN NIELSEN: Thank you, Senator Smith. Thank you to the committee members for allowing me to come speak today. My name is Merlyn Nielsen, M-e-r-l-y-n N-i-e-l-s-e-n, a native of Seward and in my early days a native of Sarpy County. I really appreciate the bills that--LB313 and LB312--that Senator Briese has brought to this committee because last week I came and talked to this very same group about LB...as a proponent for LB266 from Senator Friesen about changing our property tax structure and reducing our property tax. I had a set of notes I was going to use but I'm going to, instead, go back to a lot of the testimony that's come up today because it seems way more pertinent. I feel like we're caught in the Milton Friedman,

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Transcriber's Office

Revenue Committee  
February 22, 2017

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The Tyranny of the Status Quo. We just can't seem to break out of this property tax history that we've had in Nebraska. Gosh, it started at a time when that was about the only kind of wealth we had. Senator Harr has brought up about how you define wealth. Well, there is a lot of different kinds of property and wealth that we do not tax. Again, last week I said I've got a Ph.D. degree, never been taxed on it; own some stocks, at least my wife does, never get taxed on it but get taxed on ag land property. A comment about an IRA being taxed with when you're going to have an income tax liability when either you bring it out or your heirs bring it out and compare that to property, I pay...I bought my farm ground and ranch ground with pre...excuse me, post-tax dollars, with post-income tax dollars. There ends the difference between them. The comment about reducing spending, I've been to my school board meetings and watched those budgets. I've also been to my county board meetings and tried to watch those as well. My school taxes have gone up, up, up, while the mill levy has consistently gone down because of the fractionation in the counties that I'm in of what amount of the property is ag land versus what amount of that is non-ag land. So ag land has been picking up, up, up, so I have seen increased, increased, increased taxes. So I'm one of those people that's looking for some relief now. And, yes, it's got to come from somewhere else. Why can't we...again, I'm glad I didn't have to put my IQ on the green sheet when we turned it in today. But we've got intelligent people, we've got reasonable, fair-minded people around our Legislature and across this state. We need to get busy here on our 150th anniversary of this state and find a fair, balanced tax system that will provide our citizens with the needs that they have all the way from education to other services while being fair in how we collect those taxes to pay for it. Thank you again very much for Senator Briese for bringing LB313 and LB312 and thank you for your time today. [LB312 LB313]

SENATOR SMITH: Thank you, Mr. Nielsen, for your testimony. Senator Groene then Senator Friesen. [LB312 LB313]

SENATOR GROENE: Sir...thank you, Chairman. Do you work for the University of Nebraska? [LB312 LB313]

MERLYN NIELSEN: I did. I'm retired now. [LB312 LB313]

SENATOR GROENE: Did you know we're fifth in the nation per capita support of our university system? Did you...do you think we should be that high? And we're 49th in the nation supporting our public schools, our only constitutional duty. Do you think we should switch that? [LB312 LB313]

MERLYN NIELSEN: I would have to examine those things better to explain that. And when we...when you quote the 49 percent, that's 49th from state spending. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: Forty-ninth. [LB312 LB313]

MERLYN NIELSEN: Yeah, state spending not total spending. [LB312 LB313]

SENATOR GROENE: Did I say percent? Excuse me, 49...yeah. [LB312 LB313]

MERLYN NIELSEN: Not total spending. So I'd have to look at the total spending and how that could be structured again for K-12 as well as what we're paying...excuse me, supporting the way of the university budget. [LB312 LB313]

SENATOR GROENE: But we're 17th in the nation per student spending. So we taxpayers do support our public schools. [LB312 LB313]

MERLYN NIELSEN: On our K-12, yeah. [LB312 LB313]

SENATOR GROENE: We don't have to apologize. But we're number...I think we're number 1 or we're number 2 in the nation in property tax support, number 49th in the nation with state support, but we're 5th in the nation supporting our university system. [LB312 LB313]

MERLYN NIELSEN: Okay. And that's determined how, sir? [LB312 LB313]

SENATOR GROENE: Per capita spending. [LB312 LB313]

MERLYN NIELSEN: On a per capita basis, okay. [LB312 LB313]

SENATOR GROENE: Yes. So you're a smart man. How should we do that? Should we reapportion that? [LB312 LB313]

MERLYN NIELSEN: Well, I appreciate the compliment. (Laugh) I think it's a much deeper problem than what we can address today on that but it's a fair question and I'd certainly be glad to think about it further. [LB312 LB313]

SENATOR GROENE: I know it's a complicated problem, but just raising taxes, is that the answer? It seems to be the easy answer. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

MERLYN NIELSEN: I don't think always raising taxes; as everyone said around the table, we just have to be prudent as well as watch what our...how we pay for things. [LB312 LB313]

SENATOR GROENE: Thank you. [LB312 LB313]

SENATOR SMITH: Senator Friesen. [LB312 LB313]

SENATOR FRIESEN: Thank you, Chairman Smith. So do you feel this bill is a property...or a tax increase? [LB312 LB313]

MERLYN NIELSEN: No. [LB312 LB313]

SENATOR FRIESEN: Because it's held revenue neutral? [LB312 LB313]

MERLYN NIELSEN: It's because it's revenue neutral and I don't see an indicated spending change across the state because of it. I see this as way to reduce property tax because we have increased a different tax that we can use as a substitute to pay for our services. [LB312 LB313]

SENATOR FRIESEN: So it's more of a tax shift. [LB312 LB313]

MERLYN NIELSEN: Yes, sir. Yes, sir. [LB312 LB313]

SENATOR FRIESEN: So on your residential home, have your property taxes gone up comparable to ag land? [LB312 LB313]

MERLYN NIELSEN: Very good question. Like our citizen from Saunders earlier, I have spreadsheets after spreadsheets of how I track. And I mentioned last week I'm lucky enough to have properties, or my family and I have properties in five different counties. We also have a school land lease, so I understand that one pretty well too. My home and my four out buildings and the land that it sits on has gone up in value because I've added to that value. I added a building over the last five years. So the dollars paid in taxes have stayed quite static on that particular unit. It's my ag land that's gone up hundreds of percent. [LB312 LB313]

SENATOR FRIESEN: So basically it's been a shift between residential and ag land that has happened that causes this problem? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

MERLYN NIELSEN: Right, and...or part of the problem, sir. As one statistic that I have calculated was, and again back to perhaps Senator Groene's question about supporting our public schools, I've looked at the taxes I've paid into the Seward school district from my house and buildings and farm site over the last five years, as well as my ag land, and I've also looked at that over that five-year period for a representative set of houses in town. The houses in town have gone down 13 percent on that...during that period of time into what they contribute to the school budget whereas my ag land has gone up 117 percent because we've been able to reduce mill levies because the overall picture of assessed valuation was going up during that time. [LB312 LB313]

SENATOR FRIESEN: Okay, thank you. [LB312 LB313]

MERLYN NIELSEN: Yeah. [LB312 LB313]

SENATOR SMITH: Senator Brasch and then Senator Harr. [LB312 LB313]

SENATOR BRASCH: Thank you once again for your testimony. And you're stating that taxes have gone up and up. I don't have a Ph.D. but I do have a bachelor's degree. And without controlled spending, how can this not be a tax increase? What is to keep the schools' ask, or any ask on your sheet that you get from the county, from increasing beyond what we can bear in sales tax? This is where you're paying for it somehow. I mean you are paying for the increase in need. And so you're still having the same amount of taxes. I believe we'll...it'll end up just being we're paying more sales tax where we're increasing a tax, where...what mechanism will make that tax fall? [LB312 LB313]

MERLYN NIELSEN: Again, I...all I...my best answer to you, Senator Brasch, is that I have seen my property taxes do nothing but go up, up, up, up, up by tens of thousands of dollars that I'm paying now. And the only way I see that seems fair, and again I think back to a previous speaker, I keep dreaming all the time about if I was starting out and creating Nebraska today and all the wonderful things that we have and the things that we need government to pool support in order to have, how would I pay for it? How would I pay for it? And the bill has to be paid somewhere. And we've been paying more and more and more in property tax and the only way I see to level the playing field a little bit again is to remove from property tax and pay for it with sales tax. [LB312 LB313]

SENATOR BRASCH: Without a control in spending. [LB312 LB313]

MERLYN NIELSEN: I never said that one. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRASCH: Okay, that's what I'm wondering because that...I... [LB312 LB313]

MERLYN NIELSEN: No, no. No, I...we're talking about... [LB312 LB313]

SENATOR BRASCH: I'm thinking it's... [LB312 LB313]

MERLYN NIELSEN: Well, as these proposals have come forth and as the different groups across the state have lended their support behind them, the comment revenue neutral or spending neutral, budget neutral, has always come up as well. So we want to stay revenue neutral from a total collection standpoint and budget neutral across all the agencies, but we've just changed in how we're going to collect money from our citizens to do it. [LB312 LB313]

SENATOR BRASCH: And the problem why we're paying more is an increased amount of spending. The budget has grown so, therefore, our taxes have grown and the property taxes have grown. And so, you know, to say tax everything else and just reduce my property taxes, which we need, we must get some property tax relief, but that's still increasing taxes. [LB312 LB313]

MERLYN NIELSEN: We have to be always prudent as we move forward. [LB312 LB313]

SENATOR BRASCH: All right. [LB312 LB313]

MERLYN NIELSEN: That's all I can say. [LB312 LB313]

SENATOR BRASCH: All right, thank you for your testimony. [LB312 LB313]

MERLYN NIELSEN: Very welcome. [LB312 LB313]

SENATOR SMITH: Senator Harr. [LB312 LB313]

SENATOR HARR: Thank you, Mr. Chairman. Would you prefer "Professor" or "Doctor"? [LB312 LB313]

MERLYN NIELSEN: "Doctor" is okay. [LB312 LB313]

SENATOR HARR: Okay. Dr. Nielsen, thank you for coming today, appreciate your testimony. And I just want to say, as I listen to this testimony, and I got to be very careful with my words

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

because I don't want them twisted, but I'm for property tax relief. Do I think we have a problem with our property taxes? Probably. Do I think we need to find a solution? Yes. But what bothers me is when people come up and complain about their property taxes when their value has skyrocketed. It's a blessing; it's not a curse. And so if we want to talk about what's wrong with our property tax problems, I'm more than willing to have that conversation, and how can we make the system better and fairer. But when people come up and say, woe is me, I make...the value went up and wealth is a heavy burden, I have a problem with that. And I really want to get to the bottom of this. I hope everyone who is coming afterwards will testify and will say this and I'm sorry that you're the one that gets to hear this but...or on the receiving end of this, but if we're going to fix the problem, what I want to hear are solutions for why this bill helps fix that problem. What I don't want to hear is my property values have gone up much more than my residential. Well, guess what, so has your wealth on that ag land versus your residential. I only have residential. I would love for it to have gone up in value the same amount as your ag land. So while we're doing this, if we could focus on not that I pay too much but what can we do to make it fairer and better, I'm more...I'm with you all day. But I just...I think we have to be careful about this doesn't become piano...you know, whining with violins. And I'll let you respond. [LB312 LB313]

MERLYN NIELSEN: Yep. First of all, thank you, and I'm glad that you...I'm quite happy to be the one to direct that question to. [LB312 LB313]

SENATOR HARR: I figured you could handle it as a doctor. [LB312 LB313]

MERLYN NIELSEN: Okay. Got any stocks? [LB312 LB313]

SENATOR HARR: What's that? [LB312 LB313]

MERLYN NIELSEN: Do you have any stocks? I'm sorry. I'm getting personal now. Do you happen to have a stock portfolio? [LB312 LB313]

SENATOR HARR: Oh. Right. Yeah. Yeah, I agree with that. Right. But I have to pay for... [LB312 LB313]

MERLYN NIELSEN: Okay. If they go up in value, do you pay capital gains if you sell them? [LB312 LB313]

SENATOR HARR: Every year? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

MERLYN NIELSEN: Excuse me. Do you pay a capital gains when you sell them? [LB312 LB313]

SENATOR HARR: You bet you do. I do, yeah. [LB312 LB313]

MERLYN NIELSEN: Okay. If you pass those to your heirs, if... [LB312 LB313]

SENATOR HARR: Right. [LB312 LB313]

MERLYN NIELSEN: Excuse me, you die and you pass those heirs, do you pay capital gains? [LB312 LB313]

SENATOR HARR: Yep, stepped-up basis. [LB312 LB313]

MERLYN NIELSEN: Steps...no, it changes the basis, doesn't it? [LB312 LB313]

SENATOR HARR: Yep. [LB312 LB313]

MERLYN NIELSEN: Ag land is exactly the same. [LB312 LB313]

SENATOR HARR: Yep. [LB312 LB313]

MERLYN NIELSEN: Okay, so... [LB312 LB313]

SENATOR HARR: I'm with you so far. [LB312 LB313]

MERLYN NIELSEN: So I'm supposed to feel bad that my property went up. Are you feeling bad that your stocks have gone up? [LB312 LB313]

SENATOR HARR: Well, you're making some assumptions there. I'm not a great investor. (Laughter) But I...and I get your point. Right? I mean that...and I appreciate the dialogue. [LB312 LB313]

MERLYN NIELSEN: But that...excuse me. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: Right? No, I appreciate the dialogue, right, because 100 years ago it was all property tax and maybe some tariffs and we changed that. We brought around the income tax so that we could capture that wealth. My question is, are we not measuring wealth properly? And that seems to be your observation. [LB312 LB313]

MERLYN NIELSEN: Yep. [LB312 LB313]

SENATOR HARR: But if we aren't, how can we improve the system? It's not, hey, I'm paying too much, and it doesn't...it's, hey, this isn't measuring my wealth properly or every other one's wealth. But you have a Ph.D. When you die, guess what happens? [LB312 LB313]

MERLYN NIELSEN: It's gone. [LB312 LB313]

SENATOR HARR: That degree dies with you and all that knowledge in your head. You can't pass that on to your heirs. So there is a difference. Right? [LB312 LB313]

MERLYN NIELSEN: Um-hum. [LB312 LB313]

SENATOR HARR: And so it is trying to figure out, as Mr. Fahleson said, what is fair and equitable and that's what we're here to figure out and that's the kind of testimony I want to hear. What is fair and equitable to each one of us? And then ultimately this body is going to make that decision, first of all this committee and then the body. And so that's what I'm really looking for testimony about: what people think is fair and equitable or what is wrong with our system. [LB312 LB313]

MERLYN NIELSEN: If I may respond one more time (inaudible). [LB312 LB313]

SENATOR HARR: Please. You're a doctor, yeah, no, yeah. [LB312 LB313]

MERLYN NIELSEN: When I think of my agriculture land, and I'm talking about bare ag land, okay, it's cropped, it's got grass on it for my cows, etcetera, I have no difficulty paying for NRD taxes, for county taxes, because those include my roads, my protection, law protection, etcetera, legal protection, crime protection, and several other things that come off of property tax. I cannot grasp why my bare agriculture land should pay for education of our kids and our community colleges and our...and the ESU, not because I'm against supporting them, but when they don't tax a stock portfolio. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: My dividends get taxed. [LB312 LB313]

MERLYN NIELSEN: Okay. [LB312 LB313]

SENATOR HARR: My dividends get taxed, right? [LB312 LB313]

MERLYN NIELSEN: Yep. [LB312 LB313]

SENATOR HARR: Yeah, and this is your dividend is your work. [LB312 LB313]

MERLYN NIELSEN: My...if I make any money, which some years we do and a few years ago we did very, very well in agriculture and helped carry the state quite well from an income tax standpoint,... [LB312 LB313]

SENATOR HARR: Very well. [LB312 LB313]

MERLYN NIELSEN: ...why, yes, I get taxed on that like I would a dividend off of stocks. [LB312 LB313]

SENATOR HARR: Yeah, okay. Well, I appreciate the dialogue. It was nice to speak with you. Thanks for taking the time to come down here, appreciate it. [LB312 LB313]

MERLYN NIELSEN: Well, I appreciate it...yes. Oh, excuse me (inaudible). [LB312 LB313]

SENATOR SMITH: Senator Schumacher. And the reason I do that is for the transcribers so they know who is actually speaking so they can get the record correct. [LB312 LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you for your testimony again. A couple questions: When Jesse James robs a bank, is that neutral? [LB312 LB313]

MERLYN NIELSEN: Jesse James robs a bank...is that neutral? [LB312 LB313]

SENATOR SCHUMACHER: Somebody loses, somebody profits. [LB312 LB313]

MERLYN NIELSEN: Well, it's not neutral for the bank. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: (Laugh) No. [LB312 LB313]

MERLYN NIELSEN: And it's not neutral for Jesse James either. [LB312 LB313]

SENATOR SCHUMACHER: But as a totality, is it neutral? [LB312 LB313]

MERLYN NIELSEN: Yeah. [LB312 LB313]

SENATOR SCHUMACHER: So that's a neutral transaction. Okay, now most people that are going to be paying the increased in sales taxes aren't as fortunate as Senator Harr with all his stocks... [LB312 LB313]

SENATOR HARR: Not that many. [LB312 LB313]

SENATOR SCHUMACHER: ...(laugh) or you with your land and cattle. But they're going to be paying this tax. At the same time, when Senator Harr passes away or you pass away, a huge, if he's lucky and if land holds price, large amount of capital gains are going to get transferred to heirs, if it's under \$10 million, state tax free. Okay? And if the little guy who doesn't have either of those capital assets has any retirement, it's either...it's likely in an IRA kind of thing at which time either they or the heirs will pull it out at about 30 percent tax rate. So how do we balance this inequity in the system by now increasing sales tax on the little guy, or gal--Senator Pansing Brooks would correct me on that--the little guy or gal who doesn't have very much and, for many people, doesn't have peanuts and charging them the sales tax in order to subsidize the large property taxpayer disproportionately in real dollars? How do we adjust? [LB312 LB313]

MERLYN NIELSEN: Well, I go back to the comment I made earlier while attempting to answer Senator Brasch's question. Those that are paying these large amount of taxes have seen nothing but up, up, up in their property taxes on the ag land. Okay? So I've done nothing but go up, up, up. So they've taken on an ever-increasing proportion of the total tax load already. So to give them some relief seems only fair to me. And if you haven't read the Google...or you can Google this piece, "The Tax System Explained in Beer," why, I'd invite you to go look at that sometime. It's quite descriptive. [LB312 LB313]

SENATOR SCHUMACHER: I think I've seen that. Thank you. [LB312 LB313]

MERLYN NIELSEN: You're welcome. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Other questions then...Senator Lindstrom. [LB312 LB313]

SENATOR LINDSTROM: I do have one question. Thank you, Chairman. And thanks for being here, Doctor. Quick question: In your local area where you have agriculture land, when corn was about \$8, how much of the land was being turned over as far as being sold, bought and sold? Is that the origination of how we kind of got into this mess with the market values going up when corn was at \$8 a bushel? Can you touch on that or speak to that? [LB312 LB313]

MERLYN NIELSEN: That's an excellent question and I'm not sure I have the data to say whether there was a twice-as-great a rate of land sales then compared to five years before or today, Senator. I'm not sure. [LB312 LB313]

SENATOR LINDSTROM: Okay, just curious if that...during that time period, if there was... [LB312 LB313]

MERLYN NIELSEN: Oh. [LB312 LB313]

SENATOR LINDSTROM: I was curious during that time period if there was more turnover in ag land because of incomes going up when corn was at \$8. [LB312 LB313]

MERLYN NIELSEN: Yeah. Being the data analyzer that I usually am, I'd want to go back, see if I could find that somewhere. [LB312 LB313]

SENATOR LINDSTROM: Okay, maybe somebody else comes up then. [LB312 LB313]

MERLYN NIELSEN: Yeah, there might be someone else in the room. [LB312 LB313]

SENATOR LINDSTROM: Thank you, appreciate it. [LB312 LB313]

MERLYN NIELSEN: If one of our Farm Bureau experts are here, why, they'd know that. [LB312 LB313]

SENATOR LINDSTROM: Okay, thank you, Doctor. [LB312 LB313]

MERLYN NIELSEN: Thank you for asking. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: Mr. Nielsen, or Dr. Nielsen, do you want...is this only for testimony for LB313? [LB312 LB313]

MERLYN NIELSEN: This is...and LB312. [LB312 LB313]

SENATOR SMITH: And LB312. [LB312 LB313]

MERLYN NIELSEN: Yeah. [LB312 LB313]

SENATOR SMITH: Okay, so we'll get that in the record for you. [LB312 LB313]

MERLYN NIELSEN: Well, thank you. [LB312 LB313]

SENATOR SMITH: I see no further questions from the committee. Thank you for your testimony. Next supporter, proponent of LB313. Welcome. [LB313]

KENT LORENS: Thank you, Senator Smith. And thank you to the committee members. My name is Kent Lorens; it's K-e-n-t L-o-r-e-n-s. And I farm and ranch eight miles south of Stratton, Nebraska, in Hitchcock County. And I'm here to speak in support of both LB312 and LB313 and try to explain why I believe that tax reform or property tax reform is such a crucial issue. I operate a farm and ranch on the family farm that I was born and raised on. It also includes land my great-grandfather first purchased in 1896 and farm ground in Kansas once owned by my mother's parents, making me a fourth generation on some of my farm. All the land I operate now once sustained five separate families in the 1960s. Since then, the population of Hitchcock County has dropped from 4,000 to about 2,800 people today, which is a loss of 40 percent. It takes a lot more land to sustain a family farm today due to the lower profit margins that we endured. Today property taxes on my Nebraska farm ground are 100 percent higher than they are on property taxes I pay on my Kansas farm ground just across the state line. This gives Nebraska farmers a huge disadvantage because it raises the cost of production immensely compared to farmland in Kansas and makes for lower profit margins per acre. At today's prices of wheat, it takes about 6,000 bushels of wheat to pay my property taxes, which is about 25 percent of an average wheat crop. This also causes rental rates to be much higher as landowners have to have more income just to pay the property tax without any other expenses. Young farmers that have to rent more of the land that they farm than they own is finding it hard to make a living, so they either just quit or they don't even try to farm. This shifts the population of the rural areas to where there are jobs, causing many to leave the state and lowering the population of the state which, in turn, harms the total economy of the state. Having less people in commerce in the state means less revenue for the government and cannot provide as many services to the residents,

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

such as hospitals, roads, schools, making it less desirable to live in Nebraska. Almost 75 percent of my property taxes go to funding education which includes local K-12 ESU units and community colleges. When I graduated in 1977, the Stratton school had 400 students. Ten years ago we merged our local school district with Dundy County, which includes five other communities, to form a school district of 1,300 square miles. And today we have about 370 students. Being on the local school board, I know that our district receives almost zero dollars of state aid to the schools under today's TEEOSA. So we have to fund our schools solely from property owners. Also, the school land in our district generates over \$2 million in revenue which goes to the state and we receive back \$48,000 in return to our school district. This shows how unfair the property tax and school funding formulas are in the state of Nebraska. There is no way to make our school more efficient to lower the property tax burden. High property taxes are just not a local problem. It is unfair and brought on by bad state tax policy. LB312 and LB313, it will divert taxes to help lower the property tax burden and hopefully help in the long run to revitalize our rural areas and try to keep some of our younger people around for the future. I have two sons who are considering farming after me, which may not be possible under the present property tax system. And I thank you for your time and I will try to answer any questions that you have of me. [LB312 LB313]

SENATOR SMITH: Thank you, Mr. Lorens, for your testimony. Do we have questions? Senator Schumacher. [LB312 LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you for your testimony. They say you're never supposed to ask a question you don't know the answer to, but I'll violate that rule. And you might be in a position to know. Assuming the...is land on the north side of the border and the south side of the border comparable land, what you've got? [LB312 LB313]

KENT LORENS: Yes. Yes, they are. [LB312 LB313]

SENATOR SCHUMACHER: Okay. [LB312 LB313]

KEN LORENS: In fact, my land on the other side of the border is probably valued at a little higher than what my Nebraska land is. [LB312 LB313]

SENATOR SCHUMACHER: And the size of the farming operations on the Kansas side, how many acres would be an average farming operation? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

KENT LORENS: Probably the average between the two are pretty much the same, the last statistics I've seen. I think the average size are around 1,300 acres per farm. I believe... [LB312 LB313]

SENATOR SCHUMACHER: Okay. And that's equal on both sides. [LB312 LB313]

KENT LORENS: Yes. It's pretty close in our area, yes. [LB312 LB313]

SENATOR SCHUMACHER: Okay. Thank you. [LB312 LB313]

SENATOR SMITH: Senator Lindstrom. [LB312 LB313]

SENATOR LINDSTROM: Thank you, Chairman Smith. Just a quick question with regards to your Kansas land: The funding of education on that land, do you know, do they do it percentagewise? Have you looked at the comparables with Nebraska versus Kansas? [LB312 LB313]

KENT LORENS: The way I was told, way I understand that's how they do their school funding over there is it is put into school aid for the whole state and distributed evenly per student clear across the whole state. [LB312 LB313]

SENATOR LINDSTROM: Not what we do with the property tax, more of a state aid formula? [LB312 LB313]

KENT LORENS: No. Yeah. Theirs is if they have, say, 1,000 students, it is divided evenly clear across the state and they get so many dollars per student that they have in the school. [LB312 LB313]

SENATOR LINDSTROM: Okay. Thank you. [LB312 LB313]

SENATOR SMITH: Senator Groene. [LB312 LB313]

SENATOR GROENE: So you pay your property taxes in Kansas to the state, not the county assessor? [LB312 LB313]

KENT LORENS: No, it does go to the county. And I'm not sure how...I know that they... [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: On the education part but... [LB312 LB313]

KENT LORENS: Yeah, on...yeah. Our total tax bill there is sent by the county assessor or county clerk and but they say that the state tells them what they are going to tax. [LB312 LB313]

SENATOR GROENE: For property taxes for support of schools? [LB312 LB313]

KENT LORENS: Yes, yeah, um-hum, correct. And then after we pay that, I can't really explain how they exactly distribute it or if it all goes back to the state or what. [LB312 LB313]

SENATOR GROENE: Have you done an analysis of your property tax statement from ten years ago to the day and seen what percentage goes to the schools? [LB312 LB313]

KENT LORENS: Yes. [LB312 LB313]

SENATOR GROENE: Has it changed? [LB312 LB313]

KENT LORENS: You mean as far as over there? [LB312 LB313]

SENATOR GROENE: If you pay \$100 of property taxes ten years ago and you're paying \$100 now, what percentage of it went to the schools ten years ago and which percent goes to... [LB312 LB313]

KENT LORENS: Oh, on my...in my Nebraska? [LB312 LB313]

SENATOR GROENE: Yeah. [LB312 LB313]

KENT LORENS: It's I think about ten years ago I'm going to say it was around 65 percent. [LB312 LB313]

SENATOR GROENE: And now it's 78. [LB312 LB313]

KENT LORENS: Yeah. Yeah, and...right, 70-75 percent, yes. [LB312 LB313]

SENATOR GROENE: But the shift has been to the schools. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

KENT LORENS: Yes, yeah, somewhat, yes. [LB312 LB313]

SENATOR GROENE: Okay. [LB312 LB313]

KENT LORENS: There's many, many facets here that there's a lot of money shifting from the western part of the...Nebraska to the east. The school lands one is specific. The school lands in the eastern part of the state were sold and I think, I believe, in the early 1900s. That went into that fund that I believe she's talking about. And that's when they took, the state took complete control of that school lands which is two sections in every township. I think it's 16 and 36. And so out there all that revenue from that land as far as rental fees, oil, everything, it is all taken up and it's something we've heard different stories to where it goes but we believe it goes into the General Fund. And then I suppose at that point it is distributed among the...to the state aid to kids through the TEEOSA formula. Right now with the TEEOSA formula, out of 225 school districts, what is it, 160 receive... [LB312 LB313]

SENATOR GROENE: 175. [LB312 LB313]

KENT LORENS: ...175 receive state aid to schools. [LB312 LB313]

SENATOR GROENE: One hundred and seventy-five don't. [LB312 LB313]

KENT LORENS: One hundred and seventy-five don't. Okay, excuse me. So anyway, that, where we get no state aid to schools, we only have that choice but to tax what we have to have to run our school. In a ten-year period, our budget for our school has increased right around 1.5 percent per year. I don't think that's...I don't think we are overspending. We are trying to keep it down. [LB312 LB313]

SENATOR GROENE: So wouldn't it be wiser to fix the TEEOSA formula? [LB312 LB313]

KENT LORENS: Yes. Well, that's true but... [LB312 LB313]

SENATOR GROENE: Have you looked at my LB640, any of you guys? [LB312 LB313]

KENT LORENS: Yes, I like it very much. [LB312 LB313]

SENATOR GROENE: I know you testified for it when we had the hearing. It fixes what you're talking about. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

KENT LORENS: Yes, it does. [LB312 LB313]

SENATOR GROENE: All right, thank you. [LB312 LB313]

KENT LORENS: Yeah, but I guess...but today we're talking about these...we're trying to find some property tax relief one way or...I mean however the best that we can get it. [LB312 LB313]

SENATOR GROENE: But on the school lands, you do understand that you do get...that land that was sold in the east, they get property taxes on it. The land that is still owned by the state, you get property taxes locally on that. [LB312 LB313]

KENT LORENS: That's where our \$48,000 comes from. [LB312 LB313]

SENATOR GROENE: Yeah. So it's equal then; that's equal there across the state because... [LB312 LB313]

KENT LORENS: I...we wonder sometimes because what happened to that...when that land was sold, and it amounts to about a billion dollars, and in that fund and then supposedly that revenue off that... [LB312 LB313]

SENATOR GROENE: Is split up evenly, I think. [LB312 LB313]

KENT LORENS: ...is supposed to be split up per...well, if we get any of that, I wish somebody would show me the check. [LB312 LB313]

SENATOR GROENE: I understand. [LB312 LB313]

KENT LORENS: So I...there's just some different...there's some disparities going on that's... [LB312 LB313]

SENATOR GROENE: But I think if you would start analyzing your property tax increases, you could point right at the TEEOSA formula (inaudible)... [LB312 LB313]

KENT LORENS: Yeah. In our case you're correct. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: ...and the unequalized districts. [LB312 LB313]

KENT LORENS: I would say you're pretty...well, I mean, it's...when it comes down to our fire board and other stuff, that is completely local. [LB312 LB313]

SENATOR GROENE: It's completely local. [LB312 LB313]

KENT LORENS: And we have...now that's...we have to watch that, I mean, if we don't want that overspending to happen. [LB312 LB313]

SENATOR GROENE: So you agree every dollar that's collected, for all those, the county, the community colleges, all of that, it's spent locally. [LB312 LB313]

KENT LORENS: Well, the...like your... [LB312 LB313]

SENATOR GROENE: The community colleges are regionally. [LB312 LB313]

KENT LORENS: Somewhat. Your community colleges, we got such a huge, you know, yeah, but you're right there. Yeah. Yeah. [LB312 LB313]

SENATOR GROENE: And we appreciate you guys sending all that money to North Platte. [LB312 LB313]

KENT LORENS: Yeah. [LB312 LB313]

SENATOR GROENE: So anyway, thank you. [LB312 LB313]

KENT LORENS: Yeah. [LB312 LB313]

SENATOR SMITH: I see no further questions. Thank you, Mr. Lorens, for your testimony... [LB312 LB313]

KENT LORENS: You're welcome, I think. [LB312 LB313]

SENATOR SMITH: ...on LB313 and LB312. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

KENT LORENS: Yes. [LB312 LB313]

SENATOR SMITH: Thank you. Welcome. [LB312 LB313]

CARL SOUSEK: Thank you. Good afternoon. My name is Carl Sousek, C-a-r-l S-o-u-s-e-k, from Prague and my family and I operate a farm in northwest Saunders County. Chairman Smith and members of the Revenue Committee, thank you for the opportunity to speak in favor of LB312 and LB313, also with LB563 with reservations. And I don't know how to do that, but the point would be that the money would go to the General Fund on LB563. I would reiterate the statement made by previous testimony that the fact that Nebraska's system of funding state and local government has become excessively imbalanced. This is not a new problem. Nebraska's taxation system, I believe, has been fundamentally flawed for many years. But because of economic factors within the last few years, we have reached a crisis point for Nebraska's property owners, whether it's residential, commercial, or agricultural. I believe these bills provide a bold step to provide relief from the excessive tax burden that has been shifted on to property owners. These bills may be a mere band-aid to a larger problem, but they are relief. These bills deal with sales taxes. Sales taxes and income taxes are more relevant to a person's ability to pay. Sales and income taxes are taxes that a business owner, in some cases, can manage. Property taxes, I would argue, are not based on your ability to pay. The argument may be made that this is a mere shift in the burden of funding Nebraska fiscal responsibilities, but I argue that the shift has already happened to the detriment of the property owners. Some may argue that shifting the burden to other sectors is unfair or inequitable. My tax liability on my property grew by 214 percent between the years 2010 and 2015. I ask, is that fair or inequitable? When I visit with boards, whether they're school boards, county boards, townships, or other governmental agencies, they tell me that their budgets have not increased annually by more than 3 percent or slightly lower than that. Yet my tax liability has grown by 214 percent? In my opinion, the shift has long ago happened and it's time to rectify the problem. I believe passage of these bills are a critical step in the process to build and implement a meaningful and effective property tax reform package. Finally, I applaud those senators in our Unicameral who are willing to introduce bold legislation to finally address this issue. Mr. Chairman and Revenue Committee members, I appreciate your attention and I would be willing to answer any questions that you might have. [LB312 LB313 LB563]

SENATOR SMITH: Thank you, Mr. Sousek. [LB312 LB313 LB563]

CARL SOUSEK: Close enough. [LB312 LB313 LB563]

SENATOR SMITH: Okay. Thank you for your testimony. Do we have questions? Senator Friesen. [LB312 LB313 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR FRIESEN: Thank you, Chairman Smith. So you've been in farming for a number of years, like I have. And so \$8 corn obviously gave you a lot of potential to purchase more land. Did you buy some of this high-priced ground? [LB312 LB313 LB563]

CARL SOUSEK: No, I didn't, but I ought to have my head examined, but I need to get out of here because we're closing on a piece of property at 5:00. (Laughter) So I waited for commodities to come down and I bought high, which is typical. [LB312 LB313 LB563]

SENATOR FRIESEN: So you haven't contributed to the high price of land right now, but yet you are taxed accordingly to what someone else has paid for land. [LB312 LB313 LB563]

CARL SOUSEK: That's correct. And actually... [LB312 LB313 LB563]

SENATOR FRIESEN: And so... [LB312 LB313 LB563]

CARL SOUSEK: Excuse me. Go ahead. [LB312 LB313 LB563]

SENATOR FRIESEN: And none of this is based on your ability to pay year in, year out. It's... [LB312 LB313 LB563]

CARL SOUSEK: Correct. [LB312 LB313 LB563]

SENATOR FRIESEN: So now your income is...where do you project it to be this year or this past year versus when corn was \$8? [LB312 LB313 LB563]

CARL SOUSEK: In the...okay, I'll use proper...in the gutter. But net farm income is going down and you had mentioned about being taxed according to what other land is being paid. We're behind the curve because of the way we...the system that we value property. We use a three-year rolling average. So even though I might have paid less than we did a few years ago on this piece of property we just bought, I'm still going to be paying higher taxes on it than what I paid for it because we're behind the curve on valuations. I think we're on, my personal opinion, we're on a downhill curve, but we use a three-year average to appraise property. So I hate to say I hope land values go down because that sounds insane, but in order to get back to an equitable level or realistic valuation, that's what's going to have to happen. [LB312 LB313 LB563]

SENATOR FRIESEN: The way we fund K-12 education, if your land values do drop, the levies will go up and you'll still pay more tax, correct? [LB312 LB313 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

CARL SOUSEK: If there's room in the levy, yes, and that has happened. I wish I could stay because I think there's a school board member that's going to testify this afternoon, and I happen to own some ground in part of his...in that district and they've done a good job about maintaining the levy and holding the budget the best they can. But as long as there's room in the levy, the valuations don't much matter, because if the valuations go down, they raise the levy. And the 214 percent...I didn't use 2016 because my blood was boiling enough the way it was. But...so that's something I know we're also dealing with is the way we value property. [LB312 LB313 LB563]

SENATOR FRIESEN: Okay. Thank you. [LB312 LB313 LB563]

SENATOR SMITH: Senator Groene and then Senator Harr. [LB312 LB313 LB563]

SENATOR GROENE: Thank you, Chairman. Did...you don't have to tell me the price. What county are you in? [LB312 LB313 LB563]

CARL SOUSEK: Saunders. [LB312 LB313 LB563]

SENATOR GROENE: Saunders? [LB312 LB313 LB563]

CARL SOUSEK: Uh-huh. [LB312 LB313 LB563]

SENATOR GROENE: Did you pay less for that land than what like land that you own now is valued at by the assessor, because it won't be down now? [LB312 LB313 LB563]

CARL SOUSEK: Well, no, I paid more if you go by...yeah, that's confusing, on your valuation, your statement. [LB312 LB313 LB563]

SENATOR GROENE: I mean your 100 percent valuation, not your 75 percent (inaudible). [LB312 LB313 LB563]

CARL SOUSEK: Right. I'd say it's just ever so slightly more. [LB312 LB313 LB563]

SENATOR GROENE: So your statement earlier about the three-year average, it isn't going to go down. [LB312 LB313 LB563]

CARL SOUSEK: No, not in my case. It's my fault. [LB312 LB313 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: Well, and your neighbor's either because your...what you bought for that is going to affect their valuation of their land next year. [LB312 LB313 LB563]

CARL SOUSEK: Right. [LB312 LB313 LB563]

SENATOR GROENE: So it isn't going down. [LB312 LB313 LB563]

CARL SOUSEK: No. [LB312 LB313 LB563]

SENATOR GROENE: Thank you. [LB312 LB313 LB563]

SENATOR FRIESEN: Thank you, Senator Groene. Senator Harr. [LB312 LB313 LB563]

SENATOR HARR: Thank you. Are sales taxes based on ability to pay? [LB312 LB313 LB563]

CARL SOUSEK: Are sales taxes based on...that's a decision. If you're talking outside of the core survival needs, I'm not talking about taxing food or some of the staples, but I would argue that a lot of those sales taxes are based on discretionary spending or generated from discretionary spending. And if I'm going to buy something... [LB312 LB313 LB563]

SENATOR HARR: You must have a lot more money than I do then. That's all I'll say. Thank you. [LB312 LB313 LB563]

CARL SOUSEK: I don't quite understand. On? [LB312 LB313 LB563]

SENATOR HARR: Most of my decisions are not based on discretionary spending. So thank you. [LB312 LB313 LB563]

SENATOR FRIESEN: Thank you, Senator Harr. Any other questions? I'll just finish up a little bit with that, with the sales tax. I mean do you feel that it's...I guess, in the end, do you feel it's a more fair and equitable way of paying for K-12 education if we do it through sales tax? [LB312 LB313 LB563]

CARL SOUSEK: Fair and equitable? I don't know if I would say it's fair and equitable. What I'm concentrating on right here is the fact that it was shifted on me and the other property owners, because in my view the 214 percent increase came from someplace. Somebody didn't pay, right? Or am I...I don't know if I'm not looking at this right. Somebody... [LB312 LB313 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR FRIESEN: Would it be with the... [LB312 LB313 LB563]

CARL SOUSEK: ...that money didn't come from somewhere. [LB312 LB313 LB563]

SENATOR FRIESEN: ...with the TEEOSA formula? Do you feel that because of the TEEOSA formula and the way it handled ag land values has caused your problem? [LB312 LB313 LB563]

CARL SOUSEK: That's part of it. That's a huge part of it. [LB312 LB313 LB563]

SENATOR FRIESEN: So if we... [LB312 LB313 LB563]

CARL SOUSEK: Because the TEEOSA formula has been able to be manipulated. And it's not exactly a fair and equitable system either if we're using TEEOSA. So a kid in Hyannis is not as important as a kid at Millard South or Seward or South Sioux City? Is one kid less important than the other kid? And the TEEOSA formula uses a needs versus resource means of finding how much money you get when that TEEOSA formula can be manipulated to create needs and, in my opinion, false needs. So that's part of the problem. That's what I mentioned about fundamentally flawed is that some of the...in my view, TEEOSA is part of our tax system. I mean it's a formula but it's how we fund things and how we collect money and how we distribute money. [LB312 LB313 LB563]

SENATOR FRIESEN: Instead of raising the sales tax rate then would you just say that we would shift that increase that's happened to your ag land back onto residential? [LB312 LB313 LB563]

CARL SOUSEK: No, because the residential has also experienced an increase. [LB312 LB313 LB563]

SENATOR FRIESEN: But they've been relatively flat. Residential has been relatively flat compared to ag land. [LB312 LB313 LB563]

CARL SOUSEK: They haven't seen the 214 percent? [LB312 LB313 LB563]

SENATOR FRIESEN: No. [LB312 LB313 LB563]

CARL SOUSEK: Okay. Okay. [LB312 LB313 LB563]

SENATOR FRIESEN: No. Like 30 percent maybe. [LB312 LB313 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

CARL SOUSEK: Well, it's still a 30 percent increase. [LB312 LB313 LB563]

SENATOR FRIESEN: But I'm just saying if you were talking about equalizing and if we're not going to do it with sales tax what are we going to do it with? What would be your recommendation? [LB312 LB313 LB563]

CARL SOUSEK: That's part of the bigger problem and I don't have an answer for you today. But I think this is some way to create balance back and create relief. [LB312 LB313 LB563]

SENATOR FRIESEN: Okay. Thank you. Any other questions from the committee? Seeing none, thank you for your testimony. [LB312 LB313 LB563]

CARL SOUSEK: Thank you, Curt, Senator Friesen. [LB312 LB313 LB563]

SENATOR FRIESEN: Welcome. [LB313]

DENNIS SCHUSTER: My name is Dennis, D-e-n-n-i-s, Schuster, S-c-h-u-s-t-e-r. I'm a retired farmer, an agribusinessman, and I'm a landowner. I don't have a prepared statement. Senator Harr, you wanted solutions? I will give you solutions. [LB313]

SENATOR HARR: Perfect. [LB313]

DENNIS SCHUSTER: That's what you want to hear. Your TEEOSA, it's got to be straightened out. Rural sector out here is getting robbed. We got 65,000, close to 70,000 students do not get any equalization aid. It all goes to Lincoln and Omaha, your bigger schools. Another thing, I'm on the school board so, Senator, sure, I know what goes on in the school. And we've cut our taxes. We've cut our mill levy. There's things you can do. It's not pretty at times, but there's things you can do. So I'm experiencing everything, what we're all discussing here and talking about. Unfunded mandates: I'm on a school board; I know what that's about. I got to leave here. I got to be home by 6:00. I got teachers negotiations tonight and it's not going to be pretty, but that's part of my job. So I know what's all...and with unfunded mandates right now in our situation, our health insurance per teacher is going up 8-9 percent. Now can we control that? No. We got to give them a raise. We're in an array and that. It's going...we're trying to work, get by with a 2 percent raise to stay within the other schools that's in their array, if you understand how that operates and this and that. So that's what we're doing there. If we're having a little problem, I think we're going to get it solved tonight in one way or another. As far as other things, I think this whole tax thing, what I'm seeing, you get your TEEOSA thing straightened out, we get a bunch of these combinations and put it in one big package and get them some major, major or

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

some type of major property tax relief. We don't want to do what the Governor wants, you just throw peanuts at a herd of elephants. That is not going to work. That is not going to work. But what I'm stating is let's work together. The Governor is not going to work with you, I can see that. Let all of you people--you're intelligent people, you got elected--do the job, what's best for this state and then we'll go forward. Is there any questions? [LB313]

SENATOR SMITH: Is it Schuster, right? [LB313]

DENNIS SCHUSTER: Right. [LB313]

SENATOR SMITH: Mr. Schuster. Senator Groene. [LB313]

SENATOR GROENE: Yes, thank you, Mr. Chairman. In your negotiations, how long you been on the school board? [LB313]

DENNIS SCHUSTER: This will be my third year. [LB313]

SENATOR GROENE: So you were there part of the Obama healthcare years. [LB313]

DENNIS SCHUSTER: Right. [LB313]

SENATOR GROENE: As a farmer and your family, has your insurance gone up? [LB313]

DENNIS SCHUSTER: I'm on so...on Medicaid. [LB313]

SENATOR GROENE: So you wouldn't know. [LB313]

DENNIS SCHUSTER: Yeah. My wife worked. Most...and that's another thing, most farm wives work because of health insurance. Am I right? That's the biggest reason out there that most farm wives work so they can get some form of health insurance. My wife worked till we got up to retirement age and now I'm letting the government take care of it. [LB313]

SENATOR GROENE: My question is, because of the CIR, do you think any school district, any school employee's deductibles went up? Mine has gone from 250 bucks to \$7,500 since Obamacare. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

DENNIS SCHUSTER: No, I don't think so. [LB313]

SENATOR GROENE: No, I don't think so. So you have a huge increase in healthcare because benefits have not changed. [LB313]

DENNIS SCHUSTER: Yes. And that's an unfunded mandate. [LB313]

SENATOR GROENE: And that's well above what you give, the 2 percent raise. [LB313]

DENNIS SCHUSTER: Yeah. Right. Right. [LB313]

SENATOR GROENE: Yes. [LB313]

DENNIS SCHUSTER: Right. [LB313]

SENATOR GROENE: Well, thank you. [LB313]

DENNIS SCHUSTER: I know on that negotiating, we're set. It's going to bring our mill up maybe 2, when everything is said and done, by 2 more mills. We have...we can't do anything about it. [LB313]

SENATOR GROENE: But the 8-9 percent on the healthcare... [LB313]

DENNIS SCHUSTER: Yeah. [LB313]

SENATOR GROENE: ...is unavoidable because you can't change... [LB313]

DENNIS SCHUSTER: And like one of you mentioned here, I think 75-80 percent of our budget goes to teachers and that. [LB313]

SENATOR GROENE: And administrators. [LB313]

DENNIS SCHUSTER: We're doing a lot of things out there. We're educating the rural sector, I've heard complaints, the rural sector is not getting quite the education done out there. I think it's doing a fantastic job and I think we're doing it, so. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: Thank you. [LB313]

DENNIS SCHUSTER: Any other questions? [LB313]

SENATOR SMITH: Yeah, Mr. Schuster,... [LB313]

DENNIS SCHUSTER: Yes. [LB313]

SENATOR SMITH: ...first of all, I appreciate the comments and I think you're absolutely right that it's got to be a collaborative effort and it's got to be broader. [LB313]

DENNIS SCHUSTER: Right. [LB313]

SENATOR SMITH: And I think you're absolutely right, too, that Nebraskans want something significant. Now you've been on the school board for how many...how long? [LB313]

DENNIS SCHUSTER: Three years. [LB313]

SENATOR SMITH: Three years. Two years? [LB313]

DENNIS SCHUSTER: Two years. Well, I'm starting my third. [LB313]

SENATOR SMITH: So this may not be a fair question for you, but given your sense, I know you probably meet with your peers from other school districts around the state. Do you believe that there is potential for being able to control spending more and still provide the quality education? [LB313]

DENNIS SCHUSTER: I think in some schools there are, that I know, and some they're trapped. So, you know, and every school is different. You got to understand, you know, like Beatrice is different than Lewiston over here. Beatrice has got a major problem, I hate to say it, but those landowners, my gosh, they're getting taxed to death. And we brought ours down from a 98 to a 66. I mean the landowners are happy. And, you know, but they're just...things can be done and I won't explain how we did a lot of ours, but you know we did it. And so, like I say, it can be done. You're not well liked but, you know, it's for the better. [LB313]

SENATOR SMITH: And prior to being on a school board, were you also involved in the community in other areas before? [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

DENNIS SCHUSTER: Oh yes, I've been on sorghum boards, (inaudible) boards. I was on that (inaudible). [LB313]

SENATOR SMITH: So you knew your way around. So you... [LB313]

DENNIS SCHUSTER: I'm in sales so I know...I get all across the state, you know, in my sales, and I got, you know, over in Iowa. I got a friend over in Iowa there. His wife inherited two quarters over here in central Nebraska, irrigated ground. It was their home place. He lives in the good land in Iowa and he's paying \$18 an acre over there, and his wife has got to pay \$70-\$80 an acre. He says that's highway robbery. He says, what we're going to do, and I got my wife's, it's her home place and he understands, but they're going to sell that land, do a 1031 exchange, go to Iowa and save them \$60-\$70 an acre, because they're renting that farm out. They can farm their farm over there. [LB313]

SENATOR SMITH: No question, I think there's much that we can do on our end. But I think also folks like you that are involved at the local level, that's going to help a lot too. [LB313]

DENNIS SCHUSTER: Yes. And I appreciate all you're doing but I'm...the old saying, actions speak louder than words. And it's time for action. [LB313]

SENATOR SMITH: No question about that. Mr. Schuster, let me ask you this. So you're testifying on LB313. Do you want this to apply to LB312 as well? [LB313]

DENNIS SCHUSTER: I have...no, just LB313. [LB313]

SENATOR SMITH: Okay. All right. [LB313]

SENATOR GROENE: One more question. [LB313]

DENNIS SCHUSTER: Yes. [LB313]

SENATOR SMITH: Oh. Senator Groene. [LB313]

SENATOR GROENE: Can I quote you on the "peanuts to the elephants" next time I talk to the Governor? [LB313]

DENNIS SCHUSTER: I don't care what you say. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: All right. Thank you. [LB313]

SENATOR HARR: I do. [LB313]

SENATOR GROENE: What's that? [LB313]

SENATOR HARR: Nothing. [LB313]

SENATOR GROENE: I claim it. [LB313]

SENATOR HARR: Okay. (Laugh) [LB313]

DENNIS SCHUSTER: One other comment I'd like to say. [LB313]

SENATOR SMITH: Yes, sir. [LB313]

DENNIS SCHUSTER: If Senator Larson is going to sit on this committee I wish he'd be here and, when he is here, not be on the phone. The man shouldn't have to have a vote in this committee as far as what I see his actions were. And will you relate that to him? [LB313]

SENATOR SMITH: Thank you. Thank you, Mr. Schuster. [LB313]

SENATOR GROENE: I was on the phone but I was calculating procedures on property taxes. [LB313]

DENNIS SCHUSTER: I know. But he's on it all the time. Thank you. [LB313]

SENATOR GROENE: (Laugh) I was using the calculator. [LB313]

SENATOR SMITH: All right. Next proponent of LB313. Welcome. [LB313]

LARRY GRONWOLD: Thank you. I'm Larry Gronewold, G-r-o-n-e-w-o-l-d. Dennis gave me a good intro. I'm from Beatrice and I wish we had a guy like Dennis on our school board. But you know I had all this stuff written down but I listen to people, I hear the banter back and forth, and everything changes. A lot of people say that. Senator Brasch, cuts aren't happening and I don't have much faith that they will, at least in the school system. We have, in Beatrice School

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

District, we have a school board that is all of one mind, no one dissents on anything, they all agree. We have 2,200 students in our district. Mr. Schuster's district on the east side and we have Tri County District on the west side, they each have between 400 and 500 students. Our district with 2,100 students has the same exact taxable base as those two. We got five times the students; same exact taxable property base. In their infinite wisdom what do they do? They say we need a preschool program. They dump 200 more students on us on top of that. Then guess what? We don't have room. Now we need a \$34 million school. So those are the kinds of things our school board is doing and we are just shaking our heads, wondering when it's ever going to end. And we realize it never will. So spending cuts aren't going to happen, we feel. We have no faith in that at all, at least not when it comes to schools. I'm not anti-education, never have been. I have a daughter in the school and I think the education is excellent, what she's getting. I have no problems with that whatsoever. But I do have a big problem about how much is being spent and where it's coming from. And I feel...that's why I'm a proponent for these two bills, for LB, what was it, LB312 and LB313? I think it needs to be spread out more. The base, I think it will help spread the base out a lot more. I think you're right, it's not going to...we're going to shift the tax from one to the other. I don't have a problem with that. I think that's correct. I think it should be. I think it's a long time in coming. Mr. Harr, you mentioned stocks and bonds, you pay on the dividends. Well, maybe you should pay on the principal also every year, because that's what we do, the principal and the dividends every year. I'm not feeling sorry for myself. The land prices went up but do we have...has it come to that? Do we have to sell, as soon as something goes up in value, our livelihood, our business? What if everybody dumped everything when everything went up in value. What is everybody sold? What would that do to your land values? Is everybody supposed to do that? How stable would that base be? So thank you for hearing my testimony. I guess if you have any questions... [LB312 LB313]

SENATOR SMITH: All right. And it's Mr. Gronewold? [LB312 LB313]

LARRY GRONEWOLD: Yes. [LB312 LB313]

SENATOR SMITH: Okay. Thank you for your testimony. Senator Groene. [LB312 LB313]

SENATOR GROENE: Thank you, Mr. Chairman. So you've had a bond election already? [LB312 LB313]

LARRY GRONEWOLD: No. They're pushing for one. It's been voted down twice. [LB312 LB313]

SENATOR GROENE: What's... [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

LARRY GRONEWOLD: But we know it's coming again. [LB312 LB313]

SENATOR GROENE: What percentage of our ag...what percentage of voters are ag land owners? [LB312 LB313]

LARRY GRONEWOLD: About 3 percent. [LB312 LB313]

SENATOR GROENE: Have you considered saying, putting it on the ballot, that in order to build a school they put a 3-cent sales tax on locally? You think the people in town would vote for that? [LB312 LB313]

LARRY GRONEWOLD: Can we do that locally? [LB312 LB313]

SENATOR GROENE: Why don't you try it? I bet you wouldn't have a new school. [LB312 LB313]

LARRY GRONEWOLD: Yeah, I know I wouldn't have a new school. [LB312 LB313]

SENATOR GROENE: Yeah, because they can dump it on you. [LB312 LB313]

LARRY GRONEWOLD: Right. Exactly. Yes. [LB312 LB313]

SENATOR GROENE: Thank you. [LB312 LB313]

SENATOR SMITH: Senator Schumacher and then Senator Harr. [LB312 LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you, Mr. Gronewold, for your testimony. We're struggling, I think everybody in this room is struggling as to figuring out how to do something that's fair and that doesn't disproportionately hit people who may not have quite the ability to pay as some have. What if we put a sales tax on all real estate. farm land, houses, everything, put the sales tax on it. That would generate a lot of revenue and would generate only when it was sold. Good idea; bad idea? [LB312 LB313]

LARRY GRONEWOLD: It would have to turn over a lot for you to gain much. You'd a one-time...it would be a one-time thing. You wouldn't get it every year. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: Right, but there's always some... [LB312 LB313]

LARRY GRONEWOLD: There would be some turnover, but I don't think there would be enough myself. [LB312 LB313]

SENATOR SCHUMACHER: Well, so in your mind that may or may not be a good idea, depending on how much it brought in. (Inaudible). [LB312 LB313]

LARRY GRONEWOLD: It might not be but that's a viable option I guess. That's something to look into. [LB312 LB313]

SENATOR SCHUMACHER: Another idea: Throw the sales tax on interest. So instead of paying 5 percent on a loan, you pay 5.25. Now that would generate \$600 million a year. That's about two, three times what this is. Good idea; bad idea? [LB312 LB313]

LARRY GRONEWOLD: I never have ever thought of that. It might not be a bad idea. I don't know. [LB312 LB313]

SENATOR SCHUMACHER: Thank you. [LB312 LB313]

SENATOR SMITH: Oh, Senator Harr. [LB312 LB313]

SENATOR HARR: Thank you. Thanks for coming down, Mr. Gronewold. Appreciate you...or coming up in your case. Appreciate the time. For the record, I didn't bring up sales or stocks or bonds. [LB312 LB313]

LARRY GRONEWOLD: I understand. [LB312 LB313]

SENATOR HARR: That was brought up before me. But that raises an interesting question of if you have an idea of how we can measure wealth, better measure wealth so that we can determine what is a fair and equitable tax system. That's how we came up with the income tax system. And maybe it's not perfect. If you have a way to improve it, I'm more than willing to listen. [LB312 LB313]

LARRY GRONEWOLD: I think it should be more based on income and sales, and I heard what you said about discretionary spending. I think sales and income are based on your ability to pay, obviously. I think... [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: I make \$12,000 a year. [LB312 LB313]

LARRY GRONEWOLD: What's that? Oh. (Laughter) [LB312 LB313]

SENATOR HARR: I make \$12,000 a year. [LB312 LB313]

LARRY GRONEWOLD: At this job. [LB312 LB313]

SENATOR HARR: At this job, yeah. So that's what I'm saying. Everything I have is...there isn't the same amount of discretionary and it hits those disproportionately poor who have less discretionary funds than those at the top. If I don't have a lot of discretionary funds, I'm paying for basic needs, right? We all have basic needs. [LB312 LB313]

LARRY GRONEWOLD: Right. [LB312 LB313]

SENATOR HARR: Let's say it's \$20,000. That's pretty high but let's just pretend for argument's sake. If I make \$100,000, I got that \$80,000 to play with. If I make \$12,000, right, I'm below that. Everything I'm making is going to it. So my proportion of my income paying taxes is a lot larger than the wealthier. So I don't know if that's really ability to pay. [LB312 LB313]

LARRY GRONEWOLD: I understand. Do you have children in the school system? [LB312 LB313]

SENATOR HARR: I do. I send them to public school, proud of it. [LB312 LB313]

LARRY GRONEWOLD: Okay. I...do you...well, how much property tax do you pay, can I ask, just roughly? And how much does it take? [LB312 LB313]

SENATOR HARR: You know what? [LB312 LB313]

LARRY GRONEWOLD: Is it about \$12,000 per student per year? [LB312 LB313]

SENATOR HARR: I don't own my home; my bank pays my property taxes. [LB312 LB313]

LARRY GRONEWOLD: Oh, okay, but it's probably about \$12,000 per student per year in the school system in Nebraska. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: Yes, it's \$11,000 in OPS, yes. [LB312 LB313]

LARRY GRONEWOLD: \$11,000 or \$11,500. How much... [LB312 LB313]

SENATOR SMITH: Well, let's move on. [LB312 LB313]

LARRY GRONEWOLD: ...how much do you think you should pay? How much, someone in your situation, what would be fair for you to pay for your kids? [LB312 LB313]

SENATOR HARR: Well, that's the beauty of this system is I get to ask the questions. [LB312 LB313]

SENATOR SMITH: And, yeah. [LB312 LB313]

SENATOR HARR: I don't know. [LB312 LB313]

SENATOR SMITH: Yeah. [LB312 LB313]

SENATOR HARR: That's what I'm trying to figure out. (Laughter) [LB312 LB313]

SENATOR SMITH: And I don't want to put Senator Harr at a disadvantage here, but... [LB312 LB313]

SENATOR HARR: No, no, no, he's fine. I appreciate him... [LB312 LB313]

SENATOR SMITH: ...you know... [LB312 LB313]

SENATOR HARR: ...thank you, but I appreciate what he's saying. I don't know. That's why I'm asking the questions. I don't know what's fair and equitable but we got to make that decision and we're looking for input. And that's why I'm glad you took the time to come here and I'm just trying to... [LB312 LB313]

LARRY GRONEWOLD: The reason...go ahead. [LB312 LB313]

SENATOR HARR: ...to dig down a little and to see what you think we should do. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

LARRY GRONEWOLD: The reason I bag on education so much, and I'm not against it obviously, but it's 74 percent of my property tax, so that's naturally the thing you're going to look at the most. [LB312 LB313]

SENATOR HARR: Yeah. [LB312 LB313]

LARRY GRONEWOLD: I think there should almost be a flat rate, some kind of flat rate for everybody to start from, a base, if they have a child in the school system. I really do. [LB312 LB313]

SENATOR HARR: Okay. That's fair. Thank you. I appreciate it. [LB312 LB313]

SENATOR SMITH: Just a moment. Let's just double-check here. No other questions? Thank you for your testimony. And just to get clarification, you're testimony is both for LB313 and for LB312. [LB312 LB313]

LARRY GRONEWOLD: Yes. [LB312 LB313]

SENATOR SMITH: Okay. Thank you for your testimony. [LB312 LB313]

LARRY GRONEWOLD: Thank you. [LB312 LB313]

SENATOR SMITH: Next proponent. Welcome. [LB312 LB313]

DAN WESELY: Thank you. Good afternoon, Chairman Smith and members of the committee. My name is Dan Wesely, D-a-n W-e-s-e-l-y. I am a corn and soybean producer from Morse Bluff in Saunders County. I'm here today to talk about the rising property taxes. I'd like to give you two examples of my taxes that have gone up over the past few years. The first is an irrigated parcel of 108 acres. The last improvements on this was made in 2008 with the taxes just being over \$4,400. In 2014, the same farm has taxes of \$8,900. So this has doubled in six years. The second parcel is a nonirrigated 80 with no improvements, such as buildings or irrigation. I acquired this farm in 2004. It was valued at \$80,000 with a tax of about \$1,200. Fast-forward to 2016, I pay taxes now of \$5,000. So the taxes doubled in eight year's time, and then doubled again in the next five years. I am the current president of my local school board where I served for just over the last 16 years. We are very aware that as valuations rise the local levies need to be lowered, and we have done just that. And in the past few years we have not only lowered the levies but we have asked for less money than the year before and we are set to continue that pattern for the next year. So we feel we are doing our part to keep spending down; at the same

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

time providing a good education for our students. We need to provide for our students but not with an overreliance on property taxes. I would like to say I support the testimony of the ag leaders group. And I would also like to thank Senators Briese and McCollister for proposing bold challenges...bold changes and would encourage you to continue to be bold as your bills are approved out of committee. Positive changes need to be sooner than later. The economy of Nebraska depends on farmers making a profit and, in turn, sharing that profit, whether it's buying something new or just making needed repairs. Thank you for listening and thanks for all your hard work on this important matter. And I'd be happy answer any questions. [LB312 LB313]

SENATOR SMITH: All right. Thank you, Mr. Wesely. Let me just get clarification. So your testimony is for LB313 and then you want it to apply to LB312? [LB312 LB313]

DAN WESELY: Correct. [LB312 LB313]

SENATOR SMITH: And LB563? You mentioned Senator McCollister's bill, or (inaudible). [LB312 LB313]

DAN WESELY: I would just do the two. [LB312 LB313]

SENATOR SMITH: LB312, okay. [LB312 LB313]

SENATOR SMITH: All right. Senator Groene. [LB312 LB313]

SENATOR GROENE: Thank you, Mr. Chairman. So you've been on the school board 16 years. What school district is that? [LB312 LB313]

DAN WESELY: North Bend Central. We're a Class C-1 school. [LB312 LB313]

SENATOR GROENE: What has...in the 16 years, what has your state aid to education done, your equalized aid? [LB312 LB313]

DAN WESELY: We get zero state aid from equalization. [LB312 LB313]

SENATOR GROENE: Sixteen years ago, what was your top that you can remember? [LB312 LB313]

DAN WESELY: The top of our...top of our... [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: What's a number you can remember of equalized aid you used to get? [LB312 LB313]

DAN WESELY: We were always bordering right on the 95-cent level, so I don't recall. Possibly \$100,000, and we're talking 16 years ago, so that might be a loose number. [LB312 LB313]

SENATOR GROENE: As a farmer do you look at your land as wealth, I mean something you're going to retire and go to Vegas and have a good time before you die? [LB312 LB313]

DAN WESELY: I hope to have it paid for by the time I retire and... [LB312 LB313]

SENATOR GROENE: So you're making payments, as same as Senator Harr is on his house, on some of your land. [LB312 LB313]

DAN WESELY: I am making payments. The wealth I would...if...I see it as if I sell it, I have the wealth. A piece of ground that you pay \$800 for or you pay \$8,000 for will generate the same...has the ability to the same income. The value of it doesn't necessarily mean (inaudible). [LB312 LB313]

SENATOR GROENE: Because it doesn't mean anything to a farmer. If it was valued at \$1,000 or \$10,000, really has no meaning to you except added cost on property taxes if it's valued higher. Is that correct? [LB312 LB313]

DAN WESELY: Correct. [LB312 LB313]

SENATOR GROENE: Because you don't look at...you can't go to the grocery store and buy groceries because you own land, can you? [LB312 LB313]

DAN WESELY: I would say the value you get for your land being valued more is you have more borrowing ability at the bank to go deeper in debt. [LB312 LB313]

SENATOR GROENE: To buy more land. [LB312 LB313]

DAN WESELY: Sure, if...or pay taxes. [LB312 LB313]

SENATOR GROENE: But the banker nowadays doesn't loan you money to operate on and on what he can sell you out. That went away in the '80s, didn't it? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

DAN WESELY: Yeah, I would say so. [LB312 LB313]

SENATOR GROENE: It's how much income you can make off that land is how you're... [LB312 LB313]

DAN WESELY: Right. They're not... [LB312 LB313]

SENATOR GROENE: ...is your loan, yeah. [LB312 LB313]

DAN WESELY: They're not going to put their neck out like they did in the '80s. I... [LB312 LB313]

SENATOR GROENE: So that net worth of land really doesn't do you any good unless you die and your kids sell it and go to Vegas, right? [LB312 LB313]

DAN WESELY: Well, hope they don't. I hope don't sell it. Hope they continue to farm. [LB312 LB313]

SENATOR GROENE: I guess the point I'm trying to make, to most farmers that isn't wealth, is it? It's that JD degree, lawyer degree, or it's your accountant CPA degree. It's what you make your wealth with, if you're lucky. [LB312 LB313]

DAN WESELY: Okay. [LB312 LB313]

SENATOR GROENE: Right. I'm just trying to make a point and I'm on your side. [LB312 LB313]

DAN WESELY: Okay. [LB312 LB313]

SENATOR GROENE: So I'm not trying to trap you. [LB312 LB313]

DAN WESELY: Okay. [LB312 LB313]

SENATOR GROENE: All right. Thank you. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: There's a tie over here. Senator Schumacher then Senator Harr. [LB312 LB313]

SENATOR SCHUMACHER: Thank you, Senator Smith. And thank you for your testimony today. [LB312 LB313]

DAN WESELY: Sure. [LB312 LB313]

SENATOR SCHUMACHER: You mentioned to Senator Groene that you have kids. How many kids do you have? [LB312 LB313]

DAN WESELY: I have two grown daughters and I have four grandchildren. [LB312 LB313]

SENATOR SCHUMACHER: Okay. And where do those kids live? [LB312 LB313]

DAN WESELY: One lives seven miles away and one lives in central Nebraska, about two hours away. [LB312 LB313]

SENATOR SCHUMACHER: Okay. Thank you. [LB312 LB313]

SENATOR SMITH: Senator Harr. [LB312 LB313]

SENATOR HARR: Thank you. And thank you for your service to the state. I always say the only thing that gets...pays less than being a state senator is being a school board member. So I just want to thank you for your service to the state. That's all I wanted to say. [LB312 LB313]

DAN WESELY: Okay. Thank you. [LB312 LB313]

SENATOR SMITH: I see no further questions. [LB312 LB313]

DAN WESELY: All right. [LB312 LB313]

SENATOR SMITH: Thank you, Mr. Wesely, for your testimony. [LB312 LB313]

DAN WESELY: Thank you for letting me speak. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: Next proponent. Welcome. [LB312 LB313]

SHAD STAMM: Thank you. Thank you, Senator Smith. I'm Shad, S-h-a-d, Stamm, S-t-a-m-m. I don't have anything prepared. I was at a NRCSA conference and saw it was on the schedule and I've had a...I've talked to Senator Hughes at length about this very issue. So I'm just going to start talking off the cuff because that's usually how I do everything. My superintendent is sitting back there. He'll probably cringe when I start talking. But I also have been a member of the Dundy County Stratton School Board for 16 years. I serve as the president, have for the last, I don't know, four or five. My wife is a teacher in the school system, started out as a special ed teacher, now is...was a 6th grade teacher, now 5th grade teacher. So a little background: two kids, a freshman and a 6th grader. But what I want to talk about, when I first got on the board...first of all, when I went to school there, we were Benkelman, then we merged with Haigler so it became Dundy County. In '07-08, we merged with Stratton and we became Dundy County Stratton. We are now 55 miles east-west and we are 26 miles north-south. That's our district. We do include, I believe, five communities that at one time had schools. In '07-08 our valuation of our school district combined was \$380 million. Today it's over \$1 billion. We have increased our average...or our average increase in spending since the merger of '07-08 has been 1.6 percent. We received in '07-08, the first year of the merger, we got \$1.8 million of state aid; currently we get zero. I guess my point is, you know, I heard a lot of testimony and so I guess I'm just going to try to address a few of the things I've heard. The school lands, I have a real issue with the school lands and how it's being...you're right, when it was set up, it was set up for a purpose. That changed. The original content of why it was set up, it is not set up like that anymore. Senator Hughes did a good job of generating some stuff for us. In his legislative district we generate \$9., I think it's \$9., like \$9.2 million, \$9.3 million, something like that in his legislative district. Apportionment, apportionment part, we receive 10 percent of that back in his schools. We do get to collect property tax. So if you throw that figure in there, we get about 25 percent back from what we generate and the rest of it comes east, much like the state aid has to us. Dundy County alone generates \$2.1 million of oil and gas leases, rents, whatever. So I think...and I know there's a lot of hoops to jump through, but I think right there is something that needs to be taken a look at by the Legislature as a funding mechanism that could help with property tax. Secondly, 6:40, I live...I'm testifying because we got to get out of here and I live five hours away. But I agree with that proposal. The sales tax portion I think would go hand in hand because, if we're going to go from 60 percent to 50 to whatever, we're going to have to generate some income. So I think that-- I guess I'll wrap this up and you can ask questions--but I think that we...I do believe it is a tax shift. I do believe that it's necessary and I would like to see some state money coming back to school districts like ours that have done everything kind of we've been asked to for a long period of time and now we're funding our own. So I'll end with that and take questions. Thank you. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: Thank you, Mr. Stamm. Questions? Your testimony, you're testifying on LB313. Did you want it be for LB312? [LB312 LB313]

SHAD STAMM: Yeah, LB312, both of them, yes. Yes. [LB312 LB313]

SENATOR SMITH: Okay. All right. Senator Groene. [LB312 LB313]

SENATOR GROENE: We've done this before. Thank you, Chairman. We've done this before with the credits and it hasn't helped a lot. Why do you trust that if we do this, this is going to change anything, that it's really going to help your property taxes? [LB312 LB313]

SHAD STAMM: You're talking... [LB312 LB313]

SENATOR GROENE: I mean sales tax increase is one thing, but putting it into a credit fund. [LB312 LB313]

SHAD STAMM: Well, my understanding of the bill is that it's supposed to be designated for property tax relief. Am I...? [LB312 LB313]

SENATOR GROENE: But not just for ag. [LB312 LB313]

SHAD STAMM: No. But is it not going to be distributed based upon valuation? [LB312 LB313]

SENATOR GROENE: Yes, just like it. [LB312 LB313]

SHAD STAMM: So I think I've heard that question before that ag is probably going to get, whether you want to say a disproportion or...and then the adequate, or whatever...a higher proportion of it, correct? [LB312 LB313]

SENATOR GROENE: Yes. But we've already done that. We've done it with \$220 million last year or \$420 (million) total, \$420 (million) total, \$210 (million) a year I guess, \$200 (million) and then \$220 (million) this year. You're still sitting there testifying about your property tax. [LB312 LB313]

SHAD STAMM: Yeah, I guess I'm... [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: Nobody controlled the spending statewide. You know, we've gone from about \$1 billion to \$3.3 billion in 20 years on spending in education and it isn't because of student growth. How are we going to slow it down? [LB312 LB313]

SHAD STAMM: Do you not have the mechanism of the allowable growth rate within the formula, the budget growth rate? [LB312 LB313]

SENATOR GROENE: It only affects you guys' small schools. [LB312 LB313]

SHAD STAMM: What's that? [LB312 LB313]

SENATOR GROENE: That only affects you guys' small schools, basically. [LB312 LB313]

SHAD STAMM: And so I guess my... [LB312 LB313]

SENATOR GROENE: The spending is going to the big schools. That's... [LB312 LB313]

SHAD STAMM: Yeah, okay, so I guess I'll take devil's advocate. I'm from way out west, almost in Colorado and Kansas, whereas the spending growth has occurred in the east. But have they had student increases? [LB312 LB313]

SENATOR GROENE: Not...it's been a shift. [LB312 LB313]

SHAD STAMM: I mean obviously in western Nebraska we've had net decreases, but in the east that we had student increases. [LB312 LB313]

SENATOR GROENE: It's been an offset basically, so anyway. [LB312 LB313]

SENATOR SMITH: Senator Brasch. [LB312 LB313]

SENATOR BRASCH: Thank you, Chairman Smith. And how do you pronounce your last name? [LB312 LB313]

SHAD STAMM: Stamm. [LB312 LB313]

SENATOR BRASCH: Stamm. [LB312 LB313]

SHAD STAMM: Yes. [LB312 LB313]

SENATOR BRASCH: Thank you, Mr. Stamm, for being here, and I know you have a five-hour drive. And my concern, this is my...I'm starting my 7th year that I have proposed other senators that have been term limited dating all the way back to late Senator Kremer to go from a 75 to a 65 to look at something to assist property tax. It's all been falling, basically it hasn't happened. But now we're looking at a plan that I truly believe, you know, that you truly believe that just by increasing sales tax that's going to stop the spending that caused the increases in the first place on valuation on, you know, look at your tax statement. So what...and you have been prudent, your district, and you have restricted your spending to how much did you say? [LB312 LB313]

SHAD STAMM: I'll fill in \$2. [LB312 LB313]

SENATOR BRASCH: Okay. [LB312 LB313]

SHAD STAMM: You're talking about mill levy. I forgot to add that component. [LB312 LB313]

SENATOR BRASCH: Okay. [LB312 LB313]

SHAD STAMM: I'm kind of going from memory here. [LB312 LB313]

SENATOR BRASCH: All right. [LB312 LB313]

SHAD STAMM: I left my stuff in the car. But we were at 94.5 when we merged and we're now at 53 cents, so we dropped our mill levy. Our spending has averaged increase 1.6 percent since '07-08. I will tell you we settled with our teachers and it was about a 2.8 percent package. So we've...I mean we've held the line. We don't...I heard one proponent, everybody, we vote unanimously. I think we don't. We're a nine-member board. A lot of times it's 6-3. And it's good conversation and I appreciate that. [LB312 LB313]

SENATOR BRASCH: So do you think it would be fair to ask other districts across the state to do likewise? You know what I'm...what I want to hear is that there will be spending constraints across the board, but no one wants to do it. You know, we tried that last year and everybody opposed. But you have self-mandated spending. [LB312 LB313]

SHAD STAMM: Well, I think there is...I think there has been growth because it's being handled through the allowable growth rate of our budgets. I mean I've seen zero to 2.5 percent. So...and

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Transcriber's Office

Revenue Committee  
February 22, 2017

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maybe...and I don't look at the...I can't speak for the larger districts but I can speak for the smaller ones. Senator Groene said, yeah, we've...I mean from the state level they controlled our spending to some degree through that allowable growth rate. I will also say that since my wife is a teacher, because we've had people at our hearings and we've had people come in and they want to say, well, you know, 30 years ago a teacher could handle 30 kids and blah, blah, blah. Well, 30...the dynamics of the world today or of the culture today is not the same. My wife teaches 5th grade. I think there's like 22 kids in her class. But I can tell you that there's like three grade level difference in where they're at in areas. When I was in school, I graduated from high school in 1991 so that will date me to when I was in. I've asked different ones in my class, how many of you were from single parent...or how many of the class of 30 was from single parent homes? One. How many do you...I mean we obviously knew there was kids smarter and not as smart. How big a spread do you think it was? Well, it wasn't that big. We're dealing with a whole lot of different issues. So it's requiring a lot of time, a lot of money, and a lot of effort to maybe educate 15 or 18 kids today compared to what a teacher could do 30 years ago. And we can say, oh, we're making an excuse is all we're doing, all this. But I can tell you my wife is at school by 7:30 every morning and she's not home till after 5:00. And on weekends my sons play little kids basketball. She takes papers and grades them. So to say that teachers aren't spending an extraordinary amount of time is just total BS. So what I'm saying is, yes, there can be controlled spending but I also say that we have to be careful in what we're saying because it takes a lot of effort to educate to some of what is required of us today compared to what it was 20-30 years ago. [LB312 LB313]

SENATOR BRASCH: Very good. Thank you. I don't have any other questions. [LB312 LB313]

SENATOR SMITH: I see no other questions. Thank you, Mr. Stamm, for your testimony. Next proponent. Welcome. [LB312 LB313]

ANTHONY AERTS: Thank you. Good afternoon, Senator Smith and members of the Revenue Committee. My name is Anthony Aerts. For the record, that's A-n-t-h-o-n-y, and Aerts, that's A-e-r-t-s. So at this point of the afternoon, this committee has heard a great deal about the large share of property taxes that are borne by Nebraska farms and ranches. So I'm appearing before you today in support of LB313 to provide a slightly different perspective and that is of the soon-to-be-finished graduate student, newly wed, eager to settle down permanently here in Nebraska and become a property owner for the first time. So I'm a Nebraska native and I currently reside here in Lincoln where I attend the University of Nebraska. I have not, however, lived in Nebraska my entire life. Often in the course of tax policy discussions, we hear reference to needing to remain competitive with other states in order to either retain our young people or to attract some of those young professionals, that have moved away, back to the state of Nebraska. I'm one of those young people that did move away, lived outside of Nebraska for seven years, and now I'm back here. So I moved out of Nebraska to attend Stanford University in California, but when I

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

began looking around at where to continue my postgraduate education, cost of living was, naturally, an important decision for me. So just over a year ago I married a wonderful woman. She's also a Nebraska native. We are both very fond of Nebraska. We love the people here. We love the communities. And we very much would like to put our roots down here and to start a family. However, whenever we talk about taking that next natural step in settling down anywhere--basically, purchasing our first house--we're forced to confront the reality that property taxes are high in Nebraska and for all property owners. And this is true even when you compare Nebraska to other states throughout the nation. So property taxes are a burden for all property owners in Nebraska, but they can be a barrier for the first-time homebuyer. So something has to be done. I know steps have been taken in the past. They seem like maybe they didn't go the full distance. You know, so for me LB313 represents what could be a substantive long-term way to address this issue. You know, the state has invested in my wife and I through the university system and we're fully prepared to invest back in the state but we want to do it as permanent property owners, not as renters. But unfortunately, the high incidence of property taxes contributes to the fact that there probably will be a delay before we are able to be property owners, especially when coupled with the fact that we have significant student loans to pay, etcetera, basic cost-of-living needs to meet. So passage of LB313 is a way for lawmakers and for this committee to send a clear signal to young prospective homeowners in the state, especially for those who have spent time in other places, that Nebraska welcomes them coming back, putting their roots down here, and wants to facilitate this happening in whatever way. And so for these reasons, I encourage this committee to support LB313 and also add support to LB312 too. [LB312 LB313]

SENATOR SMITH: All right. Thank you, Mr. Aerts, for your testimony. Senator Schumacher. [LB312 LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you for your testimony and thank you for considering coming back from the big city. Do you happen to know what Nebraska's top income tax rate is? [LB312 LB313]

ANTHONY AERTS: Is it 7, 8 percent, something like that? [LB312 LB313]

SENATOR SCHUMACHER: We get to ask the questions but you're a little on the high side. [LB312 LB313]

ANTHONY AERTS: Okay. [LB312 LB313]

SENATOR SCHUMACHER: I take it you did not study our income tax structure before you decided to come back. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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ANTHONY AERTS: I did not. I did not even consider it. [LB312 LB313]

SENATOR SCHUMACHER: Thank you. But you have been in a different part of the world and eventually you and your bride will probably have children. And will they go to the public schools? [LB312 LB313]

ANTHONY AERTS: I would imagine so. [LB312 LB313]

SENATOR SCHUMACHER: Okay. And you're reasonably satisfied that those are halfway decent schools to go to. [LB312 LB313]

ANTHONY AERTS: Yeah. [LB312 LB313]

SENATOR SCHUMACHER: Okay. Your classmates back at Stanford and maybe those at Columbia and on the East Coast or maybe most major cities, would it be fair to say that many of them will not choose to have their children to go to public schools? [LB312 LB313]

ANTHONY AERTS: Yeah, I'm not for sure. I know that some of them do go to private schools. [LB312 LB313]

SENATOR SCHUMACHER: And those...and should they make that selection because they're not satisfied with the public school system there, those tuition rates are substantial for a private school... [LB312 LB313]

ANTHONY AERTS: Yeah. [LB312 LB313]

SENATOR SCHUMACHER: ...in a major city. [LB312 LB313]

ANTHONY AERTS: Uh-huh. [LB312 LB313]

SENATOR SCHUMACHER: And so we can also consider those tuition costs to get the kids into a good school a kind of comparable or have the same function as our property taxes. [LB312 LB313]

ANTHONY AERTS: In other words they... [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: They go to pay for the kids' education. [LB312 LB313]

ANTHONY AERTS: ...yeah, as private funding versus, yeah. [LB312 LB313]

SENATOR SCHUMACHER: Right. And so in looking at the property tax analysis and saying, gosh, gee, Nebraska's looks like a little high, that hasn't been factored in to those numbers, has it? [LB312 LB313]

ANTHONY AERTS: The lower costs of the public education here. [LB312 LB313]

SENATOR SCHUMACHER: Right. The cost of educating the kids. [LB312 LB313]

ANTHONY AERTS: Yeah. [LB312 LB313]

SENATOR SCHUMACHER: Okay. And also not factored in is the situation that our cost of living generally is about 8 to 9 percent less than the rest of the country. Your car insurance is a lot cheaper here than it was out there, right? [LB312 LB313]

ANTHONY AERTS: Yeah, there's no doubt. [LB312 LB313]

SENATOR SCHUMACHER: Okay. So when we're complaining about property taxes being marginally on the high side,... [LB312 LB313]

ANTHONY AERTS: Uh-huh. [LB312 LB313]

SENATOR SCHUMACHER: ...we're not assessing the whole economic picture. What are you going to be when you grow up? [LB312 LB313]

ANTHONY AERTS: What am I going to be? [LB312 LB313]

SENATOR SCHUMACHER: Yeah. [LB312 LB313]

ANTHONY AERTS: Hopefully a lawyer. [LB312 LB313]

SENATOR SCHUMACHER: Whoa! We're going to tax you. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

ANTHONY AERTS: And I mean I guess to respond kind of to your thought process, I mean there's no doubt that it is a big picture. There's a lot of factors that I guess you guys have to consider and it's a challenge. I just kind of wanted to provide a perspective that I hadn't heard being provided here today, so. [LB312 LB313]

SENATOR SCHUMACHER: And what kind of law are you looking at practicing? [LB312 LB313]

ANTHONY AERTS: Probably just transactional law generally. I'm from a small town so agricultural law to the extent I can, so. [LB312 LB313]

SENATOR SCHUMACHER: And the town you're from? [LB312 LB313]

ANTHONY AERTS: David City. [LB312 LB313]

SENATOR SCHUMACHER: David City? [LB312 LB313]

ANTHONY AERTS: Yeah. [LB312 LB313]

SENATOR SCHUMACHER: Okay. Well, welcome back. Thank you. [LB312 LB313]

ANTHONY AERTS: Thank you. [LB312 LB313]

SENATOR SMITH: Senator Groene, are you going to look to persuade him to pursue another career? (Laughter) [LB312 LB313]

SENATOR GROENE: We got enough of you guys. Anyway, thank you, Chairman. Did you actually look into a mortgage? [LB312 LB313]

ANTHONY AERTS: I have not actually looked into a mortgage. I've just been poking around on the Internet on Zillow. [LB312 LB313]

SENATOR GROENE: So do you have any idea like on a \$200,000, see, I did these numbers back in North Platte. On a \$180,000 house, do you know what your payment would be? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

ANTHONY AERTS: I'm not sure. On a \$180,000...oh, go ahead. [LB312 LB313]

SENATOR GROENE: It would be about 800 bucks. You know what your escrow account with property taxes would be? [LB312 LB313]

ANTHONY AERTS: Not on those numbers. [LB312 LB313]

SENATOR GROENE: About 350. [LB312 LB313]

ANTHONY AERTS: Yeah. [LB312 LB313]

SENATOR GROENE: Darn near half of what your payment is. [LB312 LB313]

ANTHONY AERTS: Uh-huh. [LB312 LB313]

SENATOR GROENE: Understand what you're coming about, being a young person and buying a house in Nebraska. Thank you. [LB312 LB313]

ANTHONY AERTS: Thank you. [LB312 LB313]

SENATOR SMITH: All right. I see no further questions. Thank you, Mr. Aerts, and again your testimony is for LB313 and LB312. [LB312 LB313]

ANTHONY AERTS: That's right. [LB312 LB313]

SENATOR SMITH: All right. Thank you for your testimony. [LB312 LB313]

ANTHONY AERTS: Thanks. [LB312 LB313]

SENATOR SMITH: Next proponent. Welcome. [LB312 LB313]

SHIRLEY GRONWOLD: Thank you. As you can see, I'm nervous but I have a problem anyway. My name is Shirley Gronewold, spelled G-r-o-n-e-w-o-l-d. And thank you for having the opportunity to come today. I should be home, it's such a beautiful day. But I am a farmer's wife of 56 years. I'm 76 and my husband is 79. We farm with our son. I've worked off the farm my whole life part-time. Worked nights, I worked in the hospital always at nights. And days, I

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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changed around with people so that I could help my husband farm. I would work nights. And weekends, if it rained, I could always find somebody that I could change with at nights to work. Now I'm supposed to be retired. We can't retire. I still work on-call at Mosaic. We farm with our son but primarily due to our triple and quadruple property tax rates in surrounding states we have a hard time just to find to hiring somebody to help us farm because we...our taxes are so high that we could probably hire somebody at least part-time to help us farm. We can't. During the Recession of 2008, the state of Nebraska was kept in the black primarily because of the agriculture industry. Now that there is a downturn in agriculture, our state decides that they wish to exploit us. We feel that nothing is ever being done on property tax relief. And you know if I would think back, if I had my way, I would have gotten out of farming, at least 10-15 years ago, because it's gotten that bad. When our property tax in the Beatrice School District have gone up 300 to 400 percent in the last five years, while homes in the district have actually gone down in the last eight years, because I've studied this at nights, when I can't sleep, on the computer. Well, I better get going. Like one school board member mentioned, where else are we going to get the money if it isn't from farmers? And I do go to some school board meetings. And another one says, if you have trouble paying the taxes just sell your ground. Many citizens of this state have money invested in stock but they don't have to pay on the principal. Are stocks not property? What if we tax the principal amount yearly? And this has all been discussed. But like ag land, it gets taxed on heavy timber, wasteland, ditches, ponds, creeks, all of which not 1 cent of income can be derived from. It takes a huge amount of investment and risk to farm. I would discourage any young person to enter this business, at least in this state. The state motto is "The Good Life." Doesn't ring true for me at all as agriculture. I say it's a bad life anymore. I feel that this bill, LB312 would help to spread...am I supposed to stop, red light? [LB312 LB313]

SENATOR SMITH: You can go ahead and continue and close. [LB312 LB313]

SHIRLEY GRONEWOLD: Would help spread the tax base more so that more citizens can enjoy the opportunity to pay for their own children. When school boards across the state sit down to figure salary for administrators and school staff, we hear time and time again that they have to do like other schools do or others in other states or they'll leave. When property tax issues come up, we don't seem to feel it is important to be competitive with the states at all. We feel that we are actually being discriminated against. And I have a brother-in-law that lives in Iowa. I have families that live in Kansas and it is unbelievable the tax. And we're looking into looking...and have been looking into doing a 1031 exchange in Kansas. And there's people around us that are doing the same thing because (inaudible). But now we probably can't get rid of our land to do the 1031 exchange. We're trying to find it. My brother-in-law always says when we have the gambling and they don't vote for the gambling, he always says, boy, am I glad we didn't vote for the gambling because we now have that money because we have all these people in Kansas the same thing. We've got to do something that's different. This can't go on. I know I'm not going to live to see the day that our property tax goes down because it's going to go up. Everybody

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

gets...everybody gets raises. They all get raises. I've never had insurance except for what I pay for myself, my life insurance... [LB312 LB313]

SENATOR SMITH: Okay. [LB312 LB313]

SHIRLEY GRONEWOLD: ...or not life insurance, my health insurance. Now is there any questions? I'm sorry I (inaudible). [LB312 LB313]

SENATOR SMITH: Yeah, let's see if we have some questions for you, Ms. Gronewold, right? [LB312 LB313]

SHIRLEY GRONEWOLD: Gronewold, right. [LB312 LB313]

SENATOR SMITH: I think you hit Senator Schumacher's button on gambling. I don't know. Senator Schumacher. [LB312 LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith. No, not on gambling, but on 1031. A 1031 is a trade, right? [LB312 LB313]

SHIRLEY GRONEWOLD: Right. [LB312 LB313]

SENATOR SCHUMACHER: And you basically don't have to pay any taxes on the appreciation (inaudible). [LB312 LB313]

SHIRLEY GRONEWOLD: If you do a 1031. [LB312 LB313]

SENATOR SCHUMACHER: If you do the 10... [LB312 LB313]

SHIRLEY GRONEWOLD: That's what I'm told. [LB312 LB313]

SENATOR SCHUMACHER: Right. And so if the folks around you are trading with somebody in Kansas or in Iowa, that means somebody here is willing to come to Nebraska and take your position up in Nebraska. [LB312 LB313]

SHIRLEY GRONEWOLD: No. They can sell here and you buy, the way I get it but maybe I'm wrong. I thought we could do it in Kansas. That's what I've been told. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: Yeah. Right, you could swap with somebody in Kansas. [LB312 LB313]

SHIRLEY GRONEWOLD: Not in Kansas. You can sell your land here and do a 1031. [LB312 LB313]

SENATOR SCHUMACHER: Right, but somebody is willing to take your position on your land here. [LB312 LB313]

SHIRLEY GRONEWOLD: Well, I don't know if they will anymore with the taxes we have, because that's our problem. [LB312 LB313]

SENATOR SCHUMACHER: But up to this point, you indicated your neighbors were. [LB312 LB313]

SHIRLEY GRONEWOLD: Before. That's why I said we should have gotten out of here 10-15 years ago. [LB312 LB313]

SENATOR SCHUMACHER: But then you'd have a whole lot less money because our land has went up. [LB312 LB313]

SHIRLEY GRONEWOLD: Do you know what? This does not help us make a living. If we'd have more money to spend now if we didn't have all these taxes. [LB312 LB313]

SENATOR SCHUMACHER: Or if you (inaudible). [LB312 LB313]

SHIRLEY GRONEWOLD: We have a poorer life than we've ever had, my husband and I. We had it much better years ago. It is getting worse year by year. We have a neighbor that has...his wife is a school teacher. He bought two quarters of land in Kansas. His wife makes money off of what we pay in as taxes, and they have health insurance. We, my husband and I, always pay for our own health insurance and we don't have no pensions except our farm is our retirement. But we can't retire. We farm. [LB312 LB313]

SENATOR SCHUMACHER: But you could sell your farm. [LB312 LB313]

SHIRLEY GRONEWOLD: See, that's what we hear. Our son farms so what are we supposed to do, sell the farm so he can't farm? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: Would it make a difference? President Trump has said in his campaign that one of his objectives may be to take away the stepped-up basis so that your son, if he inherits the farm and sells it, would have to pay the same amount of tax as you would have to pay if you sell the farm. Would that be an incentive for you to sell the farm because there would be no savings in keeping it? [LB312 LB313]

SHIRLEY GRONEWOLD: I don't know. I don't care anymore. It's gotten to the point that I've given up. [LB312 LB313]

SENATOR SMITH: Senator Groene has a question for you. [LB312 LB313]

SENATOR GROENE: How long have you owned your farmland? [LB312 LB313]

SHIRLEY GRONEWOLD: My husband...well, we bought land, we bought land from his father, from three brothers, in 19...in the '70s, I guess, and we would continue to buy something from them. [LB312 LB313]

SENATOR GROENE: Okay. Continuing to pay your brother-in-laws. [LB312 LB313]

SHIRLEY GRONEWOLD: Yeah. [LB312 LB313]

SENATOR GROENE: Yeah. [LB312 LB313]

SHIRLEY GRONEWOLD: Because there was more brothers. [LB312 LB313]

SENATOR GROENE: So if you sold it, you would probably lose half of it to capital gains because in 1970 you probably paid 200-300 bucks an acre. [LB312 LB313]

SHIRLEY GRONEWOLD: Probably. [LB312 LB313]

SENATOR GROENE: Yeah. [LB312 LB313]

SHIRLEY GRONEWOLD: And then we bought land in the '80s when we shouldn't have. We didn't eat out or anything. I mean we saved money to try and whenever we made a little money I went right there to pay some off. And people don't do that. People do not live like we did, and now I feel like I'm giving it all to these schools and all to these people. And these three- and four-year-olds that the parents are middle class, can pay just as much as I am for those three- and

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

four-year-olds. But I am paying for, as landowners, are paying for it. And we're busing them. We're feeding them. And their parents don't hardly have to pay anything and you see them out and eating out. I go out, eat out maybe once every other week we eat out. You see them on Friday and Saturday nights. If you go by the places, you can see them. You know what they're doing. But you've worked so hard for what you have and that other people want, want, because you have something and they want what I have. [LB312 LB313]

SENATOR GROENE: Do you...you hear about the big rich farmer but would you consider most of the farmers in your area like you are,... [LB312 LB313]

SHIRLEY GRONEWOLD: Yes. [LB312 LB313]

SENATOR GROENE: ...that it's a way of life, it's a living? [LB312 LB313]

SHIRLEY GRONEWOLD: Well, most, unless their wives have a good paying job and if their health insurance is a really important thing. My son's too, he has to pay his own health insurance and Obamacare didn't help him much. [LB312 LB313]

SENATOR GROENE: All right. Thank you. [LB312 LB313]

SENATOR SMITH: Senator Brasch has a question for you. [LB312 LB313]

SENATOR BRASCH: I do. Thank you, Chairman Smith. And thank you, Mrs., is it Gronewold? [LB312 LB313]

SHIRLEY GRONEWOLD: Gronewold. [LB312 LB313]

SENATOR BRASCH: Yeah. Was that your son or... [LB312 LB313]

SHIRLEY GRONEWOLD: Yes. [LB312 LB313]

SENATOR BRASCH: ...family testifying earlier? Yes, and... [LB312 LB313]

SHIRLEY GRONEWOLD: My husband stayed home to work because he can't hear. He drove, you know, with the engines being so loud and stuff years ago, you didn't have cabs. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRASCH: And you said you were nervous. You're doing an excellent job. And I do want you to know that I'm a farm wife that has held a full-time job off the farm and now I'm a part-time job off the farm and a full-time senator. And I do understand your struggles and I do understand the lifestyle. And my mother-in-law, late mother-in-law, tried to discourage me from marrying a farmer. (Laugh) [LB312 LB313]

SHIRLEY GRONEWOLD: My daughter said she would never ever marry a farmer. [LB312 LB313]

SENATOR BRASCH: Well,... [LB312 LB313]

SHIRLEY GRONEWOLD: And I drive a semi and I do the grain cart. I still did it last year but I've had difficulties with my health last year, so. [LB312 LB313]

SENATOR BRASCH: When she told me that, I told her, I said, well, I know people that can hire him and he won't have to farm because... [LB312 LB313]

SHIRLEY GRONEWOLD: Oh. [LB312 LB313]

SENATOR BRASCH: ...and she, oh, didn't like me ever since then. (Laughter) But basically,... [LB312 LB313]

SHIRLEY GRONEWOLD: Oh, that's too bad. [LB312 LB313]

SENATOR BRASCH: ...and I am also being recruited to do farm work, more and more of it, so because, like you're saying, you don't have the income to have extra help. [LB312 LB313]

SHIRLEY GRONEWOLD: And we always had livestock and I pulled pigs. We did...I did everything. [LB312 LB313]

SENATOR BRASCH: And so your struggles are real. They're not falling on deaf ears. I believe this entire committee understands. But most of all, I saw you take a deep breath. You need another one possibly. But we're trying to assess what we can do in an economy. Do you have any other suggestions? Do you feel comfortable paying... [LB312 LB313]

SHIRLEY GRONEWOLD: Well, yes, I do. Why can't we do what Kansas or Iowa and those states do? [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR BRASCH: And we're looking at that legislation. [LB312 LB313]

SHIRLEY GRONEWOLD: And that's what my brother-in-law keeps telling me. [LB312 LB313]

SENATOR BRASCH: Yes. [LB312 LB313]

SHIRLEY GRONEWOLD: He says, well, do...we have 1-cent sales tax, a 1-cent city tax, and then he says on our school bonds we have an option tax which everybody has voted on and... [LB312 LB313]

SENATOR BRASCH: But the other states you mentioned, they don't tax their ag land value on resale. [LB312 LB313]

SHIRLEY GRONEWOLD: Oh. [LB312 LB313]

SENATOR BRASCH: It's on what the ability to sell. [LB312 LB313]

SHIRLEY GRONEWOLD: Create income, yeah. [LB312 LB313]

SENATOR BRASCH: So I think we need to compare apples to apples and...but I don't have any other questions. I just wanted you to know, as you were testifying, I can relate. So thank you for coming today. [LB312 LB313]

SHIRLEY GRONEWOLD: I appreciate it. [LB312 LB313]

SENATOR SMITH: Thank you, Mrs. Gronewold. And do you want your...is your testimony only for LB313 or do you want it for LB312 as well? [LB312 LB313]

SHIRLEY GRONEWOLD: You know I'm very...as I listen to all this I got undecided. So I don't know. [LB312 LB313]

SENATOR SMITH: Okay. We'll just keep it for LB313. [LB312 LB313]

SHIRLEY GRONEWOLD: Okay. [LB312 LB313]

SENATOR SMITH: Thank you for your testimony. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SHIRLEY GRONEWOLD: Okay. [LB312 LB313]

SENATOR SMITH: (Exhibits 9 and 10) Next proponent, proponent of LB313. Just a moment, I lost my...there it is. All right. We have a couple of letters for the record in support of LB313: Brandi Reimers from Nebraska City and Mark Kruger, CF Webtools. Both those letters are in support of LB313. We now move to opponents, those wishing to testify in opposition to LB313. Welcome. [LB313]

NICOLE FOX: (Exhibit 11) Good afternoon. Chairman Smith, members of the Revenue Committee, my name is Nicole Fox, N-i-c-o-l-e F-o-x, and I am the director of government relations for the Platte Institute. LB313 proposes to increase the state sales tax rate to 6.5 percent, increase the Earned Income Tax Credit to 17 percent, and creates the Excess Revenue Property Tax Credit Fund. The Platte Institute opposes LB313. The Tax Foundation is the nation's leading independent tax policy research organization. Each year, they publish a State Business Tax Climate Index as an indicator as to which states' tax systems are the most hospitable to business and economic growth. The index is built from five components: individual income tax, corporate income tax, unemployment insurance tax, property tax, and sales tax. The Tax Foundation's 2017 State Business Tax Climate Index ranks Nebraska 25th overall and 12th in terms of sales tax. A sales tax rate increase could result in a poorer sales tax component ranking, therefore negatively affecting Nebraska's overall Business Tax Climate Index. Among those states with a sales tax, those with general low rates and broad bases, and those who avoid taxing business inputs do best. A state with a high sales tax rate reduces demand for in-state retail sales. In order to make their money go farther, consumers will turn more frequently to cross-border, catalog, or on-line purchases to save money, resulting in less business activity in the state. LB313 would impose a sales tax increase that would make us an outlier compared with our neighboring states. And I have those rates for you in the testimony. In the early years of sales tax, the consumer economy was primarily transactions of goods. The consumer economy has changed. Services represent nearly two-thirds of consumption and largely go untaxed. In its "A 21st Century Tax Code for Nebraska," the Tax Foundation noted that extending the sales tax base to include services would reduce pressure on any individual item in the tax base and increase the revenue generated, even at a lower tax rate. This principle of including services in the sales tax base is agreed to across the philosophical spectrum among tax policy experts. The Platte Institute agrees that the state's tax base needs to be updated to account for the momentum towards a more service-based economy, with new revenue going towards comprehensive tax relief. The process that occurs when a tax that has been levied on one person or group is transferred to instead be paid for by others is a tax shift. LB313 uses higher sales taxes to increase property tax credit funding. LB313 does not reduce the property taxes through decreased levies and decreased valuations. Increasing the state sales tax in order to provide property tax relief is a prime example of a tax shift. Sales taxes affect everyone. Property taxes do not. Purchases made by hard-working Nebraskans of all income levels will benefit only those who are able to afford to

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Revenue Committee  
February 22, 2017

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own property. Increasing tax rates on hard-working Nebraskans is contrary to growing a state's economy. Nebraskans already face a high tax burden. We can't attract more people to Nebraska by having policies that are hostile to people earning an income. The Platte Institute feels that increasing the state sales tax rate as a means of revenue generation for property tax relief is poor tax policy and a tax shift. Raising the state sales tax rate will hinder our growth and worsen our uncompetitive position in the Midwest. Instead, we feel that broadening our sales tax base to include the increasing service sector from which consumers make purchases as well as controlling spending is a more responsible and proven means to improve Nebraska's economic outlook. The Platte Institute feels that any increased revenue should go to comprehensive tax relief. Thank you for the opportunity to testify today and I'm happy to answer any questions. [LB313]

SENATOR SMITH: Thank you, Ms. Fox, for your testimony. Questions? Senator Friesen. [LB313]

SENATOR FRIESEN: Thank you, Chairman Smith. Sorry I missed out on the beginning of your testimony, but the thing that kind of caught my eye is you talked about the tax shift that supposedly would occur. Where was the Platte Institute when the tax shift was occurring previously? How would they have addressed that? [LB313]

NICOLE FOX: How would they have... [LB313]

SENATOR FRIESEN: When the tax shift occurred from basically residential to ag land, there was a...let's say there was an \$800 million tax shift. How would we have stopped that? Or how would...how would we...how would you look to correct that? What method would you use? [LB313]

NICOLE FOX: Well, I think we have...again, our stance is that we need to look at more...I mean if we're going to provide property tax relief, we really have to look at something that's a little more permanent like looking at the tax rate and the valuations. And at this point, you know, we're talking about a tax shift in terms of like a property tax credit. But that is not something that is consistent because in this bill we're relying upon revenues. And revenues can go up and down from year to year. [LB313]

SENATOR FRIESEN: Would you...I mean this is going to be...have to be part of a comprehensive package obviously... [LB313]

NICOLE FOX: Yes, and we agree. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR FRIESEN: ...because we deal with some things in Education Committee and some in Revenue. And in the end, we did have a huge tax shift. And in order to correct that we have to find a way to do that. And so I guess if there's...the Platte Institute wants to start looking into ways that you can come up with \$800 million to \$900 million in a shift or other funding or in cuts, I would be open to listening. [LB313]

NICOLE FOX: Well, and you know, as I stated in my testimony, we definitely agree that we need to look at spending... [LB313]

SENATOR FRIESEN: Okay. [LB313]

NICOLE FOX: ...as a means to help... [LB313]

SENATOR FRIESEN: Thank you. [LB313]

NICOLE FOX: ...our problem. [LB313]

SENATOR SMITH: Senator Groene. [LB313]

SENATOR GROENE: Thank you, Chairman. I know, Nicole, you were a state senator last year. But do you know what the Platte Institute did when this committee, I believe, heard that we would give tax abatement to tourists from Iowa and Missouri and Kansas coming to Henry Doorly Zoo? [LB313]

NICOLE FOX: I can't speak to that because I wasn't a part of the Platte Institute at the time. [LB313]

SENATOR GROENE: All right. And what, as Senator Friesen says, there has been a huge tax shift going on from income and sales taxes to property taxes through the TEEOSA formula. Has the Platte Institute taken a stand on that huge tax shift? [LB313]

NICOLE FOX: Well, I know we support looking at, for example with your bill, with LB640. [LB313]

SENATOR GROENE: I appreciate that. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

NICOLE FOX: We most definitely look...where we favor taking a look at the TEEOSA formula. [LB313]

SENATOR GROENE: Thank you. [LB313]

SENATOR SMITH: Ms. Fox, has the Platte Institute taken a position on eliminating unfunded mandates or constraining spending? [LB313]

NICOLE FOX: Well, we most definitely feel that it's important to rein in spending. [LB313]

SENATOR SMITH: All right. I see no further questions. Thank you, Ms. Fox, for your testimony. Next opponent of LB313. This is LB313. [LB313]

MATT LITT: Am I still able to provide testimony on both LB313 and LB312? [LB312 LB313]

SENATOR SMITH: All right. Welcome. [LB312 LB313]

MATT LITT: Excellent. I'll do both. Chairman Smith, members of Revenue Committee, my name is Matt Litt, M-a-t-t L-i-t-t, and I am the Nebraska director of Americans for Prosperity. And on behalf of our organization and activists across the state, I'm here in opposition to LB313 and LB312 which assorts our...the economy by raising taxes and redistributing them back out to certain taxpayers Americans for Prosperity Nebraska has continuously called for giving Nebraskans greater tax relief but we believe these two bills go about it the wrong way. Tax relief means lowering rates, not raising one type of tax and then turning around and giving it out in another means. LB313 and LB312 would raise, as you know, the tax rate to 6.5 percent. While the goal of tax relief for low-income households is very worthy and as is tax relief across the board, we're concerned that the method used with the EITC may have the potential to counteract and end up increasing the overall tax burden. To paraphrase Governor Ricketts, our property tax problem did not happen overnight. Growing property tax bills have led the state to institute the income tax and the sales tax. State aid to schools was created at least in part because of high property taxes. And the current Property Tax Credit Relief Fund was created to address high property taxes, yet property taxes continue to rise. Our history has shown that raising taxes or diverting state funds to this type of relief has not been effective in lowering our overall burden. High property taxes come from increasing local spending. Local politicians, quote unquote, benefit from rising valuations, especially of ag land for revenue increases without, quote, raising taxes, end quote. These politicians then tell their constituents they haven't raised taxes because the levy has remained the same. However, constituents know that that a steady levy multiplied by an increasing valuation equals a larger tax bill and our fellow citizens feel the burden. All that

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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being said, state tax policy should not be used to subsidize the decisions of local governments. Local citizens should address these within their communities. Moreover, the idea of raising taxes simply to give out any type of tax (inaudible) in this manner is bad tax policy. As previously stated, we have not seen it to be effective. What distinguishes LB312 from LB313 is that it removes sales tax exemptions on a variety of goods and services. Our organization is broadly supportive of removing exemptions of the sales tax in order to cut state tax rates such as...excuse me, lowering the sales tax rate or making cuts to the corporate or individual income tax. We believe that sales tax should be applied equally at the final point of purchase on most goods and services. Such system is fair for taxpayers and businesses alike. And while LB312 broadens the base, it is not being applied to reducing the tax rate. It would simply be used to subsidize local government spending. Furthermore, LB312 and LB313 do not cap local spending growth, change levy lids, make changes to the process of property valuations or rates that valuations increase. In short, the bill merely masks our high property taxes for the time being. The conversation is likely to come back in the future again as this bill does not address local spending or cost drivers at the local level. On behalf of the organization, our activists urge you to oppose the bill. And I will try to answer any questions I can. [LB312 LB313]

SENATOR SMITH: Thank you, Mr. Litt, for your testimony. Senator Friesen. [LB312 LB313]

SENATOR FRIESEN: Thank you, Chairman Smith. So we've had some school board members that were in here and they claim that their spending increases or tax requirements have averaged 1.5 percent. Would you say that's excessive? [LB312 LB313]

MATT LITT: Well, I would say they are one of 200-some-odd school districts across the state, on top of being one of, you know, seven, eight, nine, depending on the local...where somebody lives, of taxing entities. So it's a combination of all those groups increasing their spending. And I would say it's fantastic. And I would love to learn more from them what they're doing so it can be used in other parts of the state. I think the unfunded mandates that have been talked about, such as CIR and things of that nature, are a part of it. Would love to see a list of what all those groups are facing in terms of broad, unfunded mandates from the state. From what I've heard thus far it's solely CIR, but I think all those things need to be on the table up front to be discussed going forward. [LB312 LB313]

SENATOR FRIESEN: So if I was living in a school district that averaged 2 percent increase in spending over the past ten years and yet my property taxes have gone up 180 percent, they're averaging 18 percent increase a year, where's the money going? [LB312 LB313]

MATT LITT: I would say is probably going to one of the one or multiple of the other taxing entities in the area. [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR FRIESEN: Nope. It's a just a shift from one type of property to another. A lot of places didn't increase at all. They went down in value. The shift all happened to me. So somehow we're going to have to change how we fund K-12. Thank you. [LB312 LB313]

MATT LITT: I would....to that point, our organization...or a network partner of our organization has started to look into that. And I would happy to share a policy position when it's ready on that. [LB312 LB313]

SENATOR FRIESEN: That would be great. [LB312 LB313]

MATT LITT: Yeah. [LB312 LB313]

SENATOR SMITH: Senator Groene, then Senator Schumacher. [LB312 LB313]

SENATOR GROENE: Thank you, Mr. Chairman. So you do research, your group does too? Or do you just fight legislation? [LB312 LB313]

MATT LITT: We have a policy department. We also have partners and a variety of think tanks and universities. [LB312 LB313]

SENATOR GROENE: You said earlier...I keep hearing these phantom mandates. The counties have brought me a few, but I still...I'm the Chairman of Education. I'm still waiting for the list of mandates that we need to get rid of, not to shift to the state but just plain get rid of. And I still haven't had them. I'd sure like one of you think tanks to look into that and bring those mandates to this body and maybe we could start some legislation to eliminate them, not to shift them. [LB312 LB313]

MATT LITT: I will follow up with our policy department and our partners and get back to you. [LB312 LB313]

SENATOR GROENE: All right. Thank you. [LB312 LB313]

SENATOR SMITH: Senator Schumacher. [LB312 LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you for your testimony. I take it you're a paid employee of Americans for Prosperity. [LB312 LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

MATT LITT: I am. [LB312 LB313]

SENATOR SCHUMACHER: And you're here today testifying regarding to this proposal. But you're basically pointing the finger on property taxes at least to the local entities, is that correct? [LB312 LB313]

MATT LITT: We're...since they are the ones who levy the property taxes, that would be the first place to look. But as we've heard, there are unfunded mandates that apparently are part of the problem that would be...would want to look into as well. [LB312 LB313]

SENATOR SCHUMACHER: In that regard, the focus, at least part of the focus you're indicating, is at the local level. In your role for Americans for Prosperity, how many of the local boards have you gone out and approached with a budget analysis saying, look, you can cut here, you can cut here, you don't have to do this mandate, you can cut here. I mean, have you been out there? [LB312 LB313]

MATT LITT: I've tried in the past. Most of my time...we have a small team. It's myself and one other full-time person. She's a field director up in Omaha. Most of my time is spent on state-level issues, so I haven't had as much opportunity to do that. In the few instances where we've taken action on a local level, I've attempted to comb through those budgets, but I haven't had as much opportunity as I would have liked. [LB312 LB313]

SENATOR SCHUMACHER: Are you located in the Omaha or Lincoln area? [LB312 LB313]

MATT LITT: I'm here in Lincoln. [LB312 LB313]

SENATOR SCHUMACHER: You're here in Lincoln. So I mean just as a practice mission or a dry run, you haven't picked up the local...one of the local taxing entities, whether it's the county or the city or the school district, and gone through their budget to see how much and what kind of an impact you can have at those budget hearings and say this is where you guys or gals are screwing up because you're too high? You haven't done that even in one (inaudible)? [LB312 LB313]

MATT LITT: Well, we've been to the Lincoln Public School hearing this last time it was going on. We had other priorities that took precedent. Like I said, we're a staff of two. So I can't be in as many places as I'd like to be. [LB312 LB313]

SENATOR SCHUMACHER: Okay. Thank you. [LB312 LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

MATT LITT: Yeah. [LB312 LB313]

SENATOR SMITH: I see no further questions. And clarification, Mr. Litt, your testimony is LB312 and LB312. [LB312 LB313]

MATT LITT: It is. [LB312 LB313]

SENATOR SMITH: All right. [LB312 LB313]

MATT LITT: Thank you. [LB312 LB313]

SENATOR SMITH: Thank you. Next opponent of LB313. Welcome. [LB313]

RON SEDLACEK: (Exhibit 12) Thank you. Good afternoon, Chairman Smith and members of the Revenue Committee. For the record, my name is Ron Sedlacek, S-e-d-l-a-c-e-k, and I'm here on behalf of the Nebraska Chamber of Commerce. I'm also authorized to speak and have had written authority to speak on behalf of the Greater Omaha Chamber of Commerce, the Lincoln Chamber of Commerce, the Columbus Area Chamber of Commerce, the Greater Bellevue Area Chamber of Commerce, the Fremont Area Chamber of Commerce, Holdrege Area Chamber of Commerce, Norfolk Area Chamber of Commerce, and Blair Area Chamber of Commerce in order to accommodate the committee and to have consolidated testimony in opposition and speaking only to LB313 in this testimony. I'm not going to repeat some of the issues already raised by the opponents dealing with the percentage of increase and the competitiveness and so on and also the principle of sales taxation in general. However, would like to explore a couple new areas for your consideration and that is when the Legislature commits itself to raising a sales tax and then to a particular fund and you get into tough economic times, you've already raised the sales tax, how much toleration will you have to raise it again or to divest of that fund or to then look at one other alternative. And that would be to raise the income tax because that's the only thing left to look at. So we have grave concerns in that regard. And also the sustainability of the fund itself, we've seen already the property tax credit fund in a biennium. I think it's around \$224 million a year or so, \$448 million in a biennium. I believe the fiscal note on this bill would add about \$268.3 million. We haven't had a lot of thank yous for your efforts in property tax relief when we've already invested \$440 million. Will this \$228 (million) actually solve the problem? And our contention is no. I've got for you, and will now conclude my testimony, this is something that was given to me before the Legislature convened. One of my colleagues at work was cleaning out old files. And there used to be an association in Nebraska called the Nebraska Tax Research Council. You may have heard of them. There's a report dated 1996, 22 years ago...21 years ago. And what it talks about is, where has your property tax relief gone? And it dealt with LB1059 which was passed 27 years ago where we raised the sales tax a penny, we

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

increased individual income taxes, we increased corporate income taxes, and we increased the bank franchise tax for property tax relief; 18 months later we needed property tax relief. We do not believe this is the solution to the property tax problem. The business community is obviously aware of property taxes and its effect on businesses and agribusiness and on residents of Nebraska. But this is not the solution. I'll conclude my testimony. [LB313]

SENATOR SMITH: Thank you, Mr. Sedlacek. Senator Groene. [LB313]

SENATOR GROENE: This is a question I've been begging to ask. I drive down the road here and back and I hear advertisements about early childhood education and the State Chamber is a big proponent of that. They're listed as one of the proponents. That's a huge cost that's added to education cost. So how do you propose to paying for that? You want to cut income taxes, but it's easy to say you want to spend more money on education. How do you guys propose paying for that? That's a huge cost to all the school districts, early childhood. [LB313]

RON SEDLACEK: And that's...and to answer your question, Senator, that is a dilemma because we see the value of early childhood education and the effects and how it is so important for the workforce. [LB313]

SENATOR GROENE: But I asked you, how do you propose paying for that? [LB313]

RON SEDLACEK: But we have not...but by the same token we understand that there is cost there. So it becomes a matter for potential reprioritization as well. [LB313]

SENATOR GROENE: Reprivatization? [LB313]

RON SEDLACEK: Reprioritization. [LB313]

SENATOR GROENE: All right. From how we spend our money at the state level? [LB313]

RON SEDLACEK: That's correct. [LB313]

SENATOR GROENE: I just wondered about that. I grind my teeth every time I hear you guys say that and then I know you want to cut taxes. So anyway, thank you. [LB313]

SENATOR SMITH: Senator Friesen. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR FRIESEN: Thank you, Chairman Smith. What is the biggest business in Nebraska? The biggest part of our economy, what...? [LB313]

RON SEDLACEK: The biggest part of the economy, the biggest...probably state government I would say, in all, would be the largest operation in Nebraska. [LB313]

SENATOR FRIESEN: I meant what generates most revenue in Nebraska? What business generates the most...? [LB313]

RON SEDLACEK: I'd have to think about that. I don't have an answer of the top of my head right now. [LB313]

SENATOR FRIESEN: Would agriculture rise to the top? [LB313]

RON SEDLACEK: Well as an industry. I thought you were talking about individual business, Senator. [LB313]

SENATOR FRIESEN: No, as an industry or business, type of business. [LB313]

RON SEDLACEK: It could be agriculture, I'm sure. It could be agriculture including processing, that certainly is... [LB313]

SENATOR FRIESEN: Right. So ag or ag business. [LB313]

RON SEDLACEK: Ag related, I think so. [LB313]

SENATOR FRIESEN: Ag related. And so when we...you know, over the past ten years I talk about a billion dollar shift in taxes. Is your chamber, if you saw a billion dollar shift in taxes happening over the ten-year period, how would small business feel? How would the chambers react? [LB313]

RON SEDLACEK: I'm going to talk not for the other chambers, okay? [LB313]

SENATOR FRIESEN: Nebraska Chamber. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

RON SEDLACEK: I'll just do the State Chamber but I want to get your question clarified now. When you're talking about a billion dollar shift, what specific shift are you speaking about? [LB313]

SENATOR FRIESEN: Let's just say we did a... [LB313]

RON SEDLACEK: Are you talking about the \$1.2 billion in state aid in the last 20 years? [LB313]

SENATOR FRIESEN: Let's just say that there was a... [LB313]

RON SEDLACEK: I'm not sure. [LB313]

SENATOR FRIESEN: ...a billion dollar increase in income taxes. How would you react to that? [LB313]

RON SEDLACEK: That we would have an increase of \$1.2 billion? [LB313]

SENATOR FRIESEN: Yeah, we would increase taxes on income 1.2... [LB313]

RON SEDLACEK: We'd probably be here opposing that legislation I would assume. [LB313]

SENATOR FRIESEN: Well, it's just happened slowly. It was a shift. [LB313]

RON SEDLACEK: Um-hum, um-hum. I understand where you're coming from. We understand the issue on...and we've heard testimony from proponents as well. [LB313]

SENATOR FRIESEN: So then how do you propose fixing it? [LB313]

RON SEDLACEK: That is the big mystery. [LB313]

SENATOR FRIESEN: You stop every...you testify against every effort that I've seen here yet that wants to propose to fix it. Then you come with no solutions. [LB313]

RON SEDLACEK: We have weighed in on a lot of testimony over the years. And we have found over time that shifting does not seem to resolve a problem in the interplay between state and

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Transcriber's Office

Revenue Committee  
February 22, 2017

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local governments. And year after year, and it's been generations that we continue to talk about property tax relief, and if there was a solution we'd be bringing it to you. That's for sure. And I see Legislature after Legislature struggling with trying to address those issues, often to no avail, because we're right back to the same issue again. We have a new proposal in regard to Senator Brasch's legislation. That has not yet been tried. Shifting has been tried. Property tax credits have been attempted to give some relief. That didn't seem to address the long-term solution and I don't have an answer. [LB313]

SENATOR FRIESEN: Well, if we can cap the long-term spending that goes on property taxes, you would come in, in support of that? [LB313]

RON SEDLACEK: The Legislature tried in year's past to assume some local services and bring them into the fold and fund them at the state level hoping there would be efficiencies and so on. And that was done over time. It has not been done much lately. That's also something to look at that has not been really proposed. Encourage study on that. What can be done. Now when you do it you're going to take away local control and a lot of people don't like that either. So it's one or the other. Maybe there should be consolidations of particular functions of local government. [LB313]

SENATOR FRIESEN: Some areas there could be consolidation, I would agree. But I am a little bit like Senator Groene. When I hear you pushing early childhood development and I'm going to have to pay for it after suffering a billion dollar shift I get a little grumpy. Thank you. [LB313]

RON SEDLACEK: Okay. [LB313]

SENATOR SMITH: Senator Harr then Senator Brasch. [LB313]

SENATOR HARR: Thank you. I heard billion dollar shift. Do you know the basis of that, where that number came from? [LB313]

RON SEDLACEK: No, that was what I was going to...was curious. [LB313]

SENATOR HARR: Okay, yeah. I don't know either. And if I have a stock, because people like to pick on me for having stocks and I do, if it went from, let's hypothetically say, \$4,000 a share to hypothetically \$11,000 a share, would there be probably a tax shift because I would have more income? [LB313]

RON SEDLACEK: Yes. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR HARR: Okay. Is that a shift or is that a change in wealth? [LB313]

RON SEDLACEK: It's an indication of wealth based on a formula. [LB313]

SENATOR HARR: Okay. And that's what we're taxing is based on wealth. Property tax is based on the wealth and the value of the property, is that correct? [LB313]

RON SEDLACEK: That is correct. [LB313]

SENATOR HARR: Okay. I have no further questions. [LB313]

SENATOR SMITH: Senator Brasch. [LB313]

SENATOR BRASCH: Thank you, Chairman Smith, and thank you, Mr. Sedlacek. And I do truly appreciate your bringing this revived report of 27 years. And this does validate one of my concerns that I've tried to communicate with other individuals here is that we did increase a sales tax at one point and probably more than once. And we just gave the local option sales tax also to the communities to look at. But it hasn't reduced the need of local governments to go for property tax dollars. That has just continued to grow. Where my concern is, is that that balloon just keeps filling up with more air and it's not getting any smaller. And I think what we need to do is deflate the ask and to try to stabilize. And just for the record, I am one of the senators who does not cringe when I hear the early childhood promotions simply because we do have a lot of young individuals taking the wrong path, or so it seems, or our prisons and jails, you know, we wouldn't have the overcrowding. And that maybe if we start early enough and work with that end that we will have progress. So I'm not going to be critical of that. But what I am critical of is the Chamber has come in in past years and not advocated for the 75 to the 65. And whether I introduced it or whether Senator Lavon Heidemann introduced it or the others trying to protect the business community, in hindsight would you believe that perhaps, going back years, that this could have stopped from where we are today in the ag crisis situation? Or any thoughts on that? Or no comment? [LB313]

RON SEDLACEK: I don't have a whole lot of thought on it at this point. But you can continue to lower the percentage, but there still needs...there's a budget that needs to be fulfilled. And it's just a matter of where the money comes from and what pocket. [LB313]

SENATOR BRASCH: But it's hard to go for money in empty pockets is, I guess, you know...that the numbers are there, that ag community is not earning the income it did. There's a 60 percent drop. Do agree with that? [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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RON SEDLACEK: We're well aware of that. [LB313]

SENATOR BRASCH: Yes. I have no other questions. Thank you. [LB313]

SENATOR SMITH: Senator Schumacher. [LB313]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Ron, for your testimony. Your little handout from 1996 is enlightening. In a case we've been up this quagmire for an awful long time. Has the Chamber or has anybody--I would expect the Chamber would know if anybody has--looked into the big picture? Our state basically was modeled for a 1920s environment. That's where we've got 500 small towns from their peak population, as a general rule, for most of them it was in the 1920s, before the Depression. We've gone, fairly surprisingly and fairly quickly, from a family farming model to a rather large agricultural estate model. And if economics follow course, we're probably going to look at a vertically integrated corporate model in a generation or two. And we're having trouble educating the kids, very high-priced things, very different from the one-room wooden schoolhouse that I started with. Is anybody looking at the big picture and saying, okay, where are these trends taking us? We obviously can't do things like we did. It's getting too expensive for us to handle. We're the high end of normal on the income tax. We've got at the property tax sector complaining, fairly acutely complaining from the ag sector. Sales tax, we know we've jacked that up. It has a fairly significant economic drag on the economy plus it hit the working folks the hardest. Is there a big thought center any place? [LB313]

RON SEDLACEK: To answer that thought, Senator, directly, no, I don't see that. When property taxes began, you're right. There's...historically only those that owned property could vote at one time and so you had skin in the game and you were involved in that local government to the national government time after...you know, that enfranchisement expanded. Agriculture became less and less labor intensive over time, but there were also not enough...there would not be the population of states like this, you know, with the Homestead Act and bringing new people and new blood in and so on. And so now you're getting sales of farmland that are generational, once a generation it comes up. And that's part of the dynamic and we have to look at that and understand that. And so that's...to answer your question, there's a lot of moving parts here. [LB313]

SENATOR SCHUMACHER: In the little recitation that I just went through, did I miss any major thing, and what would it be if I did? [LB313]

RON SEDLACEK: I can't think of anything else. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: Thank you. [LB313]

SENATOR SMITH: Senator Brasch. [LB313]

SENATOR BRASCH: Thank you, Chairman Smith. And one final thought here following his recitation that he gave. Is...now you quoted several of our local Chambers. Your targets were well received. It is my belief, and I imagine the numbers are there that, because of the drop in the farm economy and the spending ability, that those chambers all along main street are feeling that effect. Would you agree or disagree? [LB313]

RON SEDLACEK: I don't know by fact. I would only be... [LB313]

SENATOR BRASCH: Would that be something to... [LB313]

RON SEDLACEK: ...something that...I would kind of agree with that observation. [LB313]

SENATOR BRASCH: Because I believe we have main street business windows going empty on several of these communities, perhaps not your chambers in Lincoln are Omaha. Are those businesses growing...are they growing, I guess, basically? [LB313]

RON SEDLACEK: Seems to be a lot of growth here in Lincoln. [LB313]

SENATOR BRASCH: A lot of growth despite the ag economy. [LB313]

RON SEDLACEK: Maybe it would be better. [LB313]

SENATOR BRASCH: It could have been better. [LB313]

RON SEDLACEK: More growth, yeah. [LB313]

SENATOR BRASCH: Okay. And as the farms...I believe Nebraska statistically is still mainly family farms, that the corporate percentage is lower than that amount. You're not familiar with that, are you? [LB313]

RON SEDLACEK: I am not. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRASCH: All right. I have no other questions. Thank you. Thank you, Chairman Smith. [LB313]

SENATOR SMITH: Thank you. Senator Friesen then Senator Groene. [LB313]

SENATOR FRIESEN: Thank you, Chairman Smith. I guess I'll probably just continue on a little bit where Senator Harr was going. He's asked numerous times, how do we measure wealth? And so you talked about stocks and bonds. And so let's pretend for a moment that we take Warren Buffett's house and move him over next to me. And so at that point...I've driven by his house. If I'm sure in our area he'd probably pay around \$5,000 to \$6,000 in property taxes. And the average farm in the area would be paying probably around \$80,000 in property taxes. Are we measuring wealth correctly? [LB313]

RON SEDLACEK: Those are different kinds of wealth. So that was the distinction that was not asked. [LB313]

SENATOR FRIESEN: Yeah, I'm asking... [LB313]

RON SEDLACEK: You can move, you can physically move yourself out of Nebraska to a state where they're not going to tax, okay? [LB313]

SENATOR FRIESEN: But I can't move, physically move my land. [LB313]

RON SEDLACEK: But you can't move a farm physically out of Nebraska in order to sell it. [LB313]

SENATOR FRIESEN: Right. So when we measure wealth though I mean you talked about stocks and bonds, I mean you don't tax those every year. You own it but unless you sell it there's no tax due. You can hold it. You can do what you want with it but you can't spend it. It's kind of like my land. I can't spend it. And if I sell it I'm out of business. But we tax it every year. And so we're not taxing wealth the same across all aspects of property. [LB313]

RON SEDLACEK: There's differences in wealth...within that sector of wealth, between a divined-paying stock. And so, you know, there's a lot of distinctions and wealth is wealth. But it's... [LB313]

SENATOR FRIESEN: But...but... [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

RON SEDLACEK: ...it has its various branches and the question becomes is, is it something that's fungible that you can immediately grab and do something with or not? [LB313]

SENATOR FRIESEN: So do you feel we tax wealth appropriately? [LB313]

RON SEDLACEK: We tax wealth. I'm not going to say any more than that, whether it's appropriate or not. [LB313]

SENATOR FRIESEN: Okay. Thank you. [LB313]

SENATOR SMITH: Senator Groene then Senator Harr. [LB313]

SENATOR GROENE: So to follow up on that--thank you, Chairman--if a businessman in Omaha has a net worth of \$10 million and a farmer has a net worth of \$10 million, which one of those do you think pays more taxes total? I would say the farmer. [LB313]

RON SEDLACEK: It just depends. [LB313]

SENATOR GROENE: I would say the farmer. The State Chamber says property taxes are fine, it's local issues. So you don't have a problem with them. [LB313]

RON SEDLACEK: That businessman may have \$10 million of wealth in land too. So it just depends. [LB313]

SENATOR GROENE: But you've taken a position that you want income tax cuts, right? That's your position. [LB313]

RON SEDLACEK: We'd like to see income tax relief, yes. [LB313]

SENATOR GROENE: All right. But what I've heard out of the Chamber is that property taxes are a local issue. You have no problem at the state level with property taxes. That's what I've heard. I've been to a couple of the meetings locally where... [LB313]

RON SEDLACEK: Well, the state doesn't levy a property tax (inaudible). [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: I understand that. But overall, your position right now is that property taxes are a local issue; that's not a problem. Income taxes are a problem. That's what I've heard: not to worry about property taxes, the state shouldn't. [LB313]

RON SEDLACEK: I don't...income taxes are an issue. But I think you may have heard...possibly not heard the whole story on the property tax side. We businesses pay property taxes as well. They know people who pay property taxes. They... [LB313]

SENATOR GROENE: But you haven't taken... [LB313]

RON SEDLACEK: ...have customers. [LB313]

SENATOR GROENE: ...you haven't a position locally... [LB313]

RON SEDLACEK: And so property tax is important too. [LB313]

SENATOR GROENE: But you haven't taken a position that we should lower property taxes. [LB313]

RON SEDLACEK: Should the state be responsible for it? Is that what you're asking? [LB313]

SENATOR GROENE: In TEEOSA, yes. [LB313]

RON SEDLACEK: I mean that would be the logical conclusion and I would say...and I don't know what the Chamber's position would be. I would suspect no. [LB313]

SENATOR GROENE: Through TEEOSA it shouldn't be fixed? The state shouldn't fund its public schools. [LB313]

RON SEDLACEK: I don't know about TEEOSA, no. Don't...haven't taken any particular position on that whatsoever, Senator. [LB313]

SENATOR GROENE: I was just wondering if you would mind if we came up with a higher valuation for a business property since you don't seem to mind property taxes. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

RON SEDLACEK: Businesses pay. And that's the unique about Nebraska as well. We're not unique but we do have a classification system on property. But there is a break for agriculture in the sense that you can classify agricultural land that's... [LB313]

SENATOR GROENE: One last quick question, but that maybe Senator Friesen, agriculture is one of the largest...is the largest business in the state of Nebraska...industry. Is ag...you say you're the State Chamber of Commerce. Is ag part of your membership? [LB313]

RON SEDLACEK: Generally speaking, agribusiness enterprises are. [LB313]

SENATOR GROENE: Businesses, but not the largest industry, basically the farmers themselves. [LB313]

RON SEDLACEK: But the individual...individual farm owners or ranch owners, some but not probably a significant percentage. [LB313]

SENATOR GROENE: All right. Thank you. [LB313]

SENATOR SMITH: Senator Harr. [LB313]

SENATOR HARR: Thank you. And let me just start by saying I have never met a Chamber member who doesn't think any tax is too high, so you probably do think property taxes are too high. And I'm going to try to step back for a second and I'm going to...things got a little heated. But let's just say instead of a farmer who owns lands I am a commercial developer and how I make my money is I own land. And I can't make money unless I own that property, is that correct? [LB313]

RON SEDLACEK: That's right. [LB313]

SENATOR HARR: Okay. And you...Senator Groene asked if businesses would like to pay a higher tax. If I own a business in my business owned a commercial property, I pay the full assessed value of that property, don't I, not 75 percent. [LB313]

RON SEDLACEK: That's right. [LB313]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR HARR: So I do pay a higher tax. Son of a buck. Maybe I need to...maybe we could put an amendment on here to lower commercial property taxes as well. That's all I have. Thank you very much. I appreciate it. [LB313]

SENATOR SMITH: Mr. Sedlacek, I'm going to use the Speaker's prerogative on this one. And if it's relevant and it's meaningful, but I want to call a truce here. We have people that have been sitting here for four and a half hours waiting to testify and we need to get to them. If it's meaningful, we'll go for it, all right? But otherwise, we need to move along. All right, thank you, Mr. Sedlacek, for your testimony. [LB313]

SENATOR HARR: Speaker? [LB313]

SENATOR SCHUMACHER: Giving yourself a promotion? [LB313]

SENATOR SMITH: Now I forget where I am here. (Laughter) Did I say Speaker? [LB313]

SENATOR HARR: You're Speaker now. [LB313]

SENATOR SMITH: Oh, geez. That got me in trouble. Chair. I apologize to Senator Scheer for that. We're still on opposed. Other opponents to LB313. Other opponents to LB313. Those wishing to testify in a neutral capacity on LB313, neutral. Welcome, Ms. Fry. [LB313]

RENEE FRY: (Exhibit 13) Thank you. Good evening, Chairman Smith, members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We share Senator Briese's concerns about our heavy reliance on property taxes to fund state and local services. And according to the Legislative Fiscal Office, sales tax cuts passed since 2006 have reduced revenue by approximately \$181 million in FY '16 alone, not including incentive refunds and credits extended under Nebraska Advantage. And as you can see on the handout, we would need almost \$300 million in additional sales tax going to the General Fund to match the amount of sales tax that was going to the General Fund in FY '04 as a share of the economy. If we looked at total sales tax collected, that number would need to be approximately \$250 million as a share of the economy. So essentially the sales tax effective rate has fallen over the last decade. That said, LB313 is regressive despite the increase in the EITC and a good portion of the property tax credit will go to nonresidents. We appreciate the inclusion of the EITC expansion in LB313, but unfortunately it does not offset as much of the increased sales tax liability for low-income households as it does in LB312. About half of the sales taxes collected would be distributed to households with incomes of over \$101,000 and all but the wealthiest 5 percent of Nebraskans, on average, would have a net tax increase based on

preliminary distributional analysis. And I would note that we would have handed out, but we have some concerns about how the earmarks were handled and so we're double-checking those numbers, but would be happy to get you that distributional analysis at a later time. There are a number of options that would further address the regressivity of this proposal. These include a larger increase in the earned income tax credit or expansion to childless adults, a property tax credit for renters, a refundable sales tax credit for taxpayers of a specified income level, or a standard or itemized deduction phaseout at high levels of income or an elimination of specific deductions such as introduced in LB380. LB313 could also be strengthened with a circuit breaker type of income tax credit that could be targeted to residents of the state paying property taxes. I would also say that we know Senator Briese's intent was that LB312 be revenue neutral. However, the earmarks for Game and Parks, Roads, and the sales tax turnbacks, as well as the EITC, create a significant loss of revenue for the General Fund that concern us. So if LB313 were to move forward we would suggest this provision be amended. Finally, while we greatly appreciate the revenue neutrality intent of this proposal in contrast to some proposals that would reduce revenue, we remain concerned about the size of the state's budget shortfall and we hope that the Appropriations Committee and Revenue Committees can work together to find solutions to help address that budget shortfall this session. I do want to mention there were questions a very, very long time ago about the EITC. That does kick in, a married filing jointly with two children, up to \$50,000. Fifteen states have higher EITCs than we do. If our EITC was increased to 17 percent, 12 states would have higher EITCs. And I'd be happy to answer Senator Schumacher's questions about what we think has contributed to this or what an ideal tax base would look like if you would like to engage in that conversation at this hour. Thank you for your time I'll be happy to answer questions. [LB313]

SENATOR SMITH: Questions from the committee? Senator Schumacher. [LB313]

SENATOR SCHUMACHER: Okay. Thank you, Chairman Smith. If you could address my concerns on the topics you just raised, briefly. [LB313]

RENEE FRY: Yes. So you had asked a question earlier of the Chamber what they would recommend in looking at this issue. I think that having a conversation about the narrowing of the tax base is a really important conversation to be having. I think it's appropriate that we have a property, sales, and income tax base. I think the bills that you have in LB373, as well, have been introduced in other bills that look at the changes that have been made to the tax code over the last ten years I think will really inform this discussion. But I think, looking at the data and looking at what's been happening, I think this narrowing of the tax base has really led us to where we are today. And if we wanted to take a step back I think income, sales, and property are still a good foundation. We would be prudent to look at a broader base. [LB313]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SCHUMACHER: Thank you. [LB313]

SENATOR SMITH: Other questions from the committee for Ms. Fry? Seeing none, thank you, Ms. Fry, for your testimony. [LB313]

RENEE FRY: Thank you. [LB313]

SENATOR SMITH: (Exhibits 14 and 15) Next person in a neutral capacity on LB313. We do have...oh. And while you're being seated, Senator Davis, I'm going to...I failed to read into the record opponents' letters that we received for the record in opposition to LB313: Rick Kubat representing the Metropolitan Utilities District of Omaha, and Holley Bolen representing Nebraska Licensed Beverage Association. Welcome. [LB313]

AL DAVIS: Senator Smith, members of the committee, my name is Al Davis, A-l D-a-v-i-s, a board member for the Nebraska Farmers Union. John Hansen is across the hall this morning...this afternoon in the Natural Resources Committee and asked me to testify on behalf of the Nebraska Farmers Union on this bill and these bills. I should say this testimony applies to both these two bills of Briese's and to Senator McCollister's bill as well. So the testimony I'm giving can be construed to relate to all three of the bills introduced to all of the sales tax rate. The Nebraska Farmers Union is here to testify in a neutral capacity on these bills. We want to thank Senator Briese and Senator McCollister for introducing bills which consider a wide broadening of the sales tax in Nebraska. As you are well aware, Nebraska's farmers and ranchers are buried under the crushing burden of a property tax which is out of line when compared to farmers and ranchers across the United States. Data indicates that Nebraska ranks fifth in the nation for property taxes, but I believe that Nebraska's agricultural producers may be in the unenviable position of being first in the nation in terms of the amount of gross income which is consumed by the property tax to support local government, That is why Nebraska Farmers Union members are excited that the state is now considering broadening the sales tax base as a tool to provide property tax relief. Let me emphasize that Nebraska Farmers Union is supportive of property tax relief which has been Nebraska's number one concern. Senator Briese and McCollister are courageous men in tapping a broad tax increase and an expansion of items to be taxed. As a former member of this committee, I know how few real tax increase bills ever come before the committee. Simply put, no one wants to pay more taxes and all of us prefer to have someone else shoulder the burden. But it is certainly time that the committee consider significant changes because the famous three-legged stool is now dramatically out of whack. Let me be clear in what I say here today. The Nebraska Farmers Union supports the broad principle that it is time to broaden the sales tax. But we wonder if there may be a better approach to doing something like this which will have a strong effect on rich and poor, urban and rural, and the health of the business community in Nebraska. The suggested rate increase will drive some other businesses

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

to ask for exemptions later which may further narrow the tax base. Senator McCollister and Briese in LB312 and LB313 and LB563 have identified several items which could be taxed but some of those will hit agricultural producers and the state's poor particularly hard and are actually expenses associated with the business of agriculture so should not be on the proposed list. One example of that is the application of sales tax to veterinary expenses on farms and ranches. The Nebraska Farmers Union believes that if broad and thorough overhaul of the sales tax structure is being considered, then the committee should consider moving to an interim study this summer to evaluate the sales tax exemptions and rates to determine what dislocations might develop, whether items should be returned to the tax rolls, and whether it is appropriate to remove others from the rolls. We also believe that maybe it's time to look at sin taxes, evaluate what the costs are to the state and to the local governments, and try to bring those sin taxes in line where they would at least pay their fair share. Thank you for your time. I would take any questions. [LB312 LB313 LB563]

SENATOR SMITH: Thank you, Senator Davis. Do we have questions? Senator Harr. [LB312 LB313 LB563]

SENATOR HARR: Just quickly. It's wonderful to see you back here again and you're welcome any time. [LB312 LB313 LB563]

AL DAVIS: Thank you. [LB312 LB313 LB563]

SENATOR SMITH: You never got that easy of a question when you were here, did you? (Laughter) [LB312 LB313 LB563]

AL DAVIS: No, I never did. [LB312 LB313 LB563]

SENATOR SMITH: Further questions? I see none. [LB312 LB313 LB563]

AL DAVIS: Thank you. [LB312 LB313 LB563]

SENATOR SMITH: Thank you for your testimony. And we will note that for LB312 and LB563, as well. [LB312 LB313 LB563]

AL DAVIS: Yes, thank you. [LB312 LB313 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Other neutral testimony. We invite Senator Briese back to close on LB313, and then we're going to take a break before we begin the next round. [LB313]

SENATOR BRIESE: Thank you, again. We've heard some great testimony today, some compelling testimony, people talking about getting hammered by property taxes, one individual suggesting she's ready to give up. And so I don't want to belabor too many points here, but I just wanted to address three things. Number one, somebody suggested a sales tax increase is a drag on the economy. In this situation though, that sales tax increase I'm talking about in LB313 is simply going to be met by a refund of those tax dollars in a different fashion. So those dollars will be injected back into the economy. I would think any negative effect on economic activity would be fairly muted. Other thing, I would ask you not to be swayed by the folks vilifying this as a tax shift. I kept hearing the phrase tax shift and...like it's a bad pair of words here. When we collect 56 percent more in property taxes and state and local sales taxes, when we collect 36 percent more in property taxes and income taxes, when we're 49th in the country in the percentage of K-12 funding derived from the state, when ag land property taxes have risen 176 percent in a decade, it appears to me we need to change the way we fund things. Also, folks have talked about, suggested property taxes are a local issue to be addressed locally. But remember that 60 percent of our property taxes, 60 percent or more, are dedicated to K-12 spending. And much of how we run our K-12 education is mandated by the state. And community colleges and NRDs, in my mind, they're hardly local entities. We could go on here talking about unfunded mandates imposed on...by the state. But the point is clear: just because property taxes are collected locally does not make property tax relief necessarily a local problem. I believe it's clear from what we've heard that Nebraskans need property tax relief and they need it now. And LB313 provides an opportunity for us to stand with Nebraskans and deliver the property tax relief they need. Thank you. I'd be happy to entertain any questions. Or I'll be back later on the next bill. We can talk about them then, so... [LB313]

SENATOR SMITH: (Exhibit 16) Thank you, Senator Briese, for your closing. Questions remaining for Senator Briese? I failed to read into the record that we did have a neutral letter for the record on LB313 from Nathan Leach, Lincoln, Nebraska. So that concludes our hearing on LB313. We're going to take a seven-minute break and then pick up on the next two bills for the evening. [LB313]

BREAK

SENATOR SMITH: (RECORDER MALFUNCTION)...on one bill or the other. Just to make certain that's clear, I'm going to prompt you for that as well so we can get in the record, you know, where your testimony falls on these bills. And then when we close, we'll close in the same order, with Senator McCollister closing first and Senator Briese closing last. So we're going to

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Transcriber's Office

Revenue Committee  
February 22, 2017

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go ahead and move forward and so I'm going to invite Senator McCollister to open on LB563 relating to imposing a sales tax on certain services and eliminating certain sales tax exemptions. We're still going to use the light system, not for the opening but for the others that are testifying. We're going to keep that to three minutes. So welcome, Senator McCollister. [LB312 LB563]

SENATOR MCCOLLISTER: (Exhibits 1, 2, and 3) Good evening, Chairman Smith and members of the committee. I'm John, J-o-h-n, McCollister, M-c-C-o-l-l-i-s-t-e-r, and I represent the 20th Legislative District in Omaha. Today, I'm introducing LB563. This proposal would expand Nebraska's current sales tax by imposing sales tax on certain services and eliminating some sales tax exemptions. The bill would tax a broad array of services, rather than focusing on a narrow segment. The bill takes into account our expanding services-based economy. Revenue generated by LB563 would be directed to the General Fund. Let me repeat that. Revenue generated by LB563 would be directed to the General Fund. The pages are distributing two handouts for your review. First is a list of the new taxable services proposed by LB563. The second handout is a comparison with neighboring states of services proposed by LB563 for inclusion in the Nebraska sales tax base. I think you will readily see that Nebraska does not tax many of the services other states do. As you consider the provisions of LB563, please keep the following in mind. The comparison of sales tax base must evolve with consumer spending. Consumer spending has shifted in favor of services and away from tangible property. This means the sales tax base will shrink unless it is updated to more closely reflect consumer spending patterns. As this base shrinks, a broader mix of goods and services must be taxed. LB563 would help our tax system keep up with the changing economy. There are many cases where sales tax treatment of services is inconsistent. For example, pet grooming is taxed but a haircut sold by a barbershop is not. And the purchase of a lawnmower is taxable, but purchasing lawn care service is not taxable. The Nebraska Department of Revenue estimates that \$423 million per year is lost by failing to tax services sold mainly to final consumers. Under LB563, there would be no expansion of taxable business-to-business services. This is in keeping with the recommendation made by the Tax Modernization Committee in 2013. Modernizing our sales tax code provides a crucial tool in resolving the current budget shortfall. During 2002 and 2003 Legislative Sessions, lawmakers expanded the sales tax base to include many of the services that are included in the sales tax base today. LB563 would provide a revenue solution for the current shortfall. Expanding the sales tax base diversifies Nebraska's sales tax and stabilizes revenues across the business cycle. Consumers may delay the purchase of big-ticket items, like appliances, during an economic turndown. However, most consumers tend to continue purchasing services, such as haircuts or pay parking fees despite the economic climate. I'm offering AM338 to LB563 for the committee's consideration. AM338 would make two changes to the green copy. First, it would retain current law that exempts the sale of lottery tickets from sales tax. Provisions to repeal this exemption were included in LB563 by mistake. AM338 would correct this error. Second, on page 7, lines 22 and 23, AM would provide that therapeutic massage therapy prescribed by a physician to treat a medical condition would be exempt from sales tax. LB563 would create a

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

positive impact for local government and for the Build Nebraska Act. Based on analysis in the fiscal note, cities levying local option sales tax would see \$21 million in additional revenue starting in fiscal year 2019, the first year of implementation, if LB563 is enacted. Fiscal note also shows that the bill would increase sales tax proceeds transferred to transportation projects pursuant to the Build Nebraska Act totaling \$3.4 million in fiscal '19. Finally, I would recommend that if LB563 is advanced, it could be improved with the implementation of an expansion of earned income tax credit. I would suggest increasing Nebraska's match of the federal EITC credit to help compensate low-income households from additional sales tax liability. This bill would help those who are least able to afford to pay increased sales tax. The EITC could be funded with some of the proceeds from the base expansion. I understand there were some questions earlier on regarding the EITC and how many states had it. Would this be a good time to enter the information, Mr. Chairman? [LB563]

SENATOR SMITH: Sure. Sure, go ahead. [LB563]

SENATOR McCOLLISTER: Okay. Twenty-six states currently have EITC kinds of credits, and we are currently at 10 percent. Fifteen states have higher EITCs than Nebraska. And if we increased to 17 percent from the 10 percent, then 12 states would have higher EITCs. So that would be something we certainly could do if this bill were passed. I'd be willing to take any questions. [LB563]

SENATOR SMITH: Thank you, Senator McCollister, for your opening on LB563. Just for clarification, you gave us an opening on that bill and the amendment to it, but your discussion on EITC, that's not in the amendment. That's just an idea. But that's...you're not offering that amendment right now. [LB563]

SENATOR McCOLLISTER: Yeah. I understood that question came up in earlier testimony today... [LB563]

SENATOR SMITH: Very good. [LB563]

SENATOR McCOLLISTER: ...so I thought I'd address it. [LB563]

SENATOR SMITH: Very good. Thank you. Do we have questions from the committee for Senator McCollister? I see none. Thank you. [LB563]

SENATOR McCOLLISTER: Thank you. [LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: And will you be able to remain this evening to be able to close? [LB563]

SENATOR McCOLLISTER: How late are you going to go? (Laughter) [LB563]

SENATOR SMITH: It's not in my hands. Thank you. Welcome back, Senator Briese. And you're opening on LB312. [LB312]

SENATOR BRIESE: (Exhibits 4, 5, 6, and 7) Thank you and good afternoon again, Chairman Smith and members of the Revenue Committee. I'm Tom Briese, T-o-m B-r-i-e-s-e, and I'm here today to present to you LB312. LB312 will raise additional sales tax revenue and, after diverting a percentage to low-income individuals to compensate them for their additional sales tax outlays, directs the balance raised at the state level to be used for property tax relief. All dollars raised at the state level will be directed back to taxpayers. At this point, instead of repeating myself on why Nebraskans deserve property tax relief, I direct the committee to my previous testimony on LB313. LB312 raises additional sales tax revenue by eliminating exemptions on various goods and requires a collection of sales tax on the delivery of additional services, all of which are listed on the exhibits that you're being provided with. After first diverting to the General Fund an amount needed to increase our state earned income tax credit from the current 10 percent of the federal level to 17 percent of the federal level, all other dollars raised at the state level by this increase in our sales tax base are directed to be placed into a newly created Excess Revenue Property Tax Credit Fund for distribution to all classes of property...real property owners. As you examine the base expansion proposed in LB312, please remember that the ideal sales tax is a one-time tax on a retail consumer transition. Note that an effort has been made to exclude from any base expansion in LB312 goods and services that are not primarily of a consumer variety. Hence, I've tried to exclude goods and services that could be characterized as a business-to-business transaction or a business input. Also note that I've intentionally excluded items relating to healthcare and education. I've provided you with a couple of exhibits describing how other states treat these items. Note that one exhibit deals with neighboring states, the other lists all 50 states. Though one may be fairly well up-to-date, one might be outdated by a couple years but it should be close on those. Note that virtually all of these items listed in LB312, with perhaps an exception or two, are taxed in at least some other states. It should also be noted that states such as South Dakota make no effort to distinguish between business-to-business transactions and consumer transactions in the areas of legal services and accounting services. You will hear a lot of testimony today from folks objecting to their goods or services being included in the sales tax base, and I appreciate that. That's why we're here, to listen to their concerns. But from the beginning, I wanted to craft a proposal driven by principles of fairness and consistency and not by special interests. And, sure, it might be easy and convenient to exclude some of the items I've settled on with LB312, but if we're serious about expanding our sales tax base we should resist that temptation. And I think that's a key point to remember. What we end up with needs to be

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

perceived as fair and consistently derived. Thank you for hearing this. I'd be happy to answer any questions now or later. [LB312]

SENATOR SMITH: Thank you, Senator Briese. Questions from the committee? Yes, Senator Schumacher. [LB312]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Senator Briese. Why did you not include interest on loans as a thing to impose a tax, which would bring in about a half a billion dollars, and interest on...and a tax on the sale of real estate? [LB312]

SENATOR BRIESE: I think a tax on interest on loans could discourage business, investment in business development in Nebraska. That would be my concern there. As far as taxing sales of real estate, I guess I hadn't considered that. [LB312]

SENATOR SCHUMACHER: Okay. A .25 percent tax, 5 percent on a 5 percent loan, the Federal Reserve could easily jack up the interest rates by a .25 percent and... [LB312]

SENATOR BRIESE: Sure. [LB312]

SENATOR SCHUMACHER: ...we wouldn't get any of that money. [LB312]

SENATOR BRIESE: Yeah, and perhaps a good point. I don't know, maybe I should consider that but... [LB312]

SENATOR SCHUMACHER: Thank you. [LB312]

SENATOR BRIESE: You bet. [LB312]

SENATOR SMITH: Senator Harr. [LB312]

SENATOR HARR: Thank you. Thank you, Senator Briese. Thanks for coming. How did you come up with this list and decide what was best interest and what was in the best interest of Nebraska versus special interests, as you stated? [LB312]

SENATOR BRIESE: After examining what other states do, what the options are out there, looked at ideas everywhere. And again, I tried to be as broad-based and consistent as possible and there is clearly some things that perhaps I left out that maybe should have been put in there.

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

And if there are compelling reasons to exclude something that I have in there, I'm willing to listen to those reasons. Again, that's why we're here tonight, to listen to folks and their concerns about these things. [LB312]

SENATOR HARR: So you came up with this list yourself? [LB312]

SENATOR BRIESE: Yes. [LB312]

SENATOR HARR: Okay. [LB312]

SENATOR BRIESE: Yes. [LB312]

SENATOR HARR: Thank you. [LB312]

SENATOR BRIESE: But based on a lot of research I've seen elsewhere, but yes. [LB312]

SENATOR HARR: Okay. Thank you. [LB312]

SENATOR BRIESE: Yeah. [LB312]

SENATOR SMITH: Senator Groene. [LB312]

SENATOR GROENE: Thank you, Chairman. Do you understand if you raise the tax rate, what, we're at 7, 8.5, we'd be at 8.5, 5.5 plus 2, 8.5, that this is a... [LB312]

SENATOR BRIESE: I think... [LB312]

SENATOR GROENE: ...8.5-cent inflationary increase to everybody who uses those services. [LB312]

SENATOR BRIESE: Uh-huh. [LB312]

SENATOR GROENE: You understand that. It's just not a tax. So if I go get a haircut for 20 bucks, I'm paying \$1.60... [LB312]

SENATOR BRIESE: Sure, yeah. [LB312]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: ...plus more. [LB312]

SENATOR BRIESE: Yeah. I think our national...or, excuse me, I think our average currently, state and local combined, is, what, 6.8, 6.81 or something like that. Now in the event if we... [LB312]

SENATOR GROENE: In North Platte it would be 8.5... [LB312]

SENATOR BRIESE: Okay. Okay, sure. [LB312]

SENATOR GROENE: ...or 8, whatever it is. I'm confused now but... [LB312]

SENATOR BRIESE: With the rates... [LB312]

SENATOR GROENE: ...but you're going to get an 8 percent increase on those services without any profit to those businesses. [LB312]

SENATOR BRIESE: True. True. [LB312]

SENATOR GROENE: And what concerns me is a lot of these are basically free enterprise related businesses that are basically minimum wage: pet-related services, lady who cuts my dog's hair once in a while; cleaning and tangible personal property, that's the cleaning ladies; storage and moving services; personal care services; haircare. I know no...the lady that cuts my hair had to take another job and I have to call her in the evenings to get a haircut now because she needed insurance. Massage, nail service, maintenance, painting, it's hard to find a handy man now but you're taking the next 7 percent increase in their price away from them; that they can charge me more because they're going to get hit with this. [LB312]

SENATOR BRIESE: Sure. I'm not necessarily...this wouldn't necessarily take away their next increase, but I see where you're going with that. And maybe you're alluding also to the possibility of a drop-off in demand for some of these goods and services but a lot of these things, we have to look at the elasticity of demand on a lot of these things and I don't know that sales of many of these things will drop off that much with the imposition of a sales tax on them. [LB312]

SENATOR GROENE: Well, I'd tell you the tip I give my barber would disappear for a while because of \$1.60 increase. [LB312]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRIESE: I think I'm going to have to give mine a larger one after this. [LB312]

SENATOR GROENE: I'm going to let mine grow out, but (laughter) anyway, I'm just playing devil's advocate here. [LB312]

SENATOR BRIESE: Sure. No, I understand. [LB312]

SENATOR GROENE: Thank you. [LB312]

SENATOR BRIESE: Yeah, you bet. Yes, there's some angst about some of these things and we're going to hear about that tonight I'm sure, and appreciate those folks being here to let us know what they're thinking on it. [LB312]

SENATOR GROENE: Thank you. [LB312]

SENATOR SMITH: Other questions from the committee? So let me just play off a little bit of what Senator Groene was just mentioning. Some of these small businesses that maybe there's just one person employed, maybe two, it may not seem like a lot from our perspective as to the burden on them to collect and remit these taxes, but that, too, is a burden on some of these small businesses. I was just getting my hair cut this last weekend and my barber was telling me that he thinks it's a good idea to expand the base... [LB312]

SENATOR BRIESE: Great. [LB312]

SENATOR SMITH: ...but not on him, not on him. [LB312]

SENATOR BRIESE: Is that right? (Laugh) [LB312]

SENATOR SMITH: And he was telling me how that would, you know, be a burden on him. How would he collect that tax... [LB312]

SENATOR BRIESE: Uh-huh. [LB312]

SENATOR SMITH: ...being a one-man shop? So... [LB312]

SENATOR BRIESE: Okay. [LB312]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR SMITH: ...any particular thoughts on that? [LB312]

SENATOR BRIESE: I don't think it's an insurmountable problem for anyone there, but as far as the extent of the burden, I guess I can't really address that. [LB312]

SENATOR SMITH: Can you just, at a very high level, can you talk about the fiscal note a little bit and just for those people that may be behind you and listening. Just step me through that fiscal note a little bit and you're not able to see the details of each one of these... [LB312]

SENATOR BRIESE: Right. [LB312]

SENATOR SMITH: ...exemptions or taxes but, generally speaking, what your list provides. [LB312]

SENATOR BRIESE: Yes. My list there that I provided to you add up to slightly shy of \$200 million, and several things there are excluded because we don't...I didn't have any data on four or five or six of those things. The fiscal note puts it up there closer to \$280 million and that should be after deductions for the increase in the earned income credit fund. I'm a little unclear on that. I visited with somebody from the Fiscal Office this morning. Just got this thing yesterday, and I was in committee meetings all yesterday afternoon so looked at it last night, looked at this morning, talked to somebody from their office about it. And it's my understanding in year 2018-2019 the net return to the Excess Revenue Property Tax Credit Fund would be roughly that \$280 million. There was a suggestion that the \$85 million allocated to the Highway Cash Fund and the Highway Allocation Fund come off of the base expansion, but I question that. So I'd have to have a little more clarification on that. It's my understanding, though, that after all is said and done, the property tax credit fund could be increased by roughly that \$280 million. [LB312]

SENATOR SMITH: Okay. [LB312]

SENATOR BRIESE: But again, I would need more clarification on that because I had a slight disagreement with the individual I talked to this morning about some of these numbers. But he clearly knew what was right in here and I guess I misunderstood maybe what he said, so I shouldn't call it a disagreement. But I was a little unclear on his assessment of these numbers. [LB312]

SENATOR SMITH: Okay. Very good. Senator Brasch. [LB312]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, Senator Briese. I do have a question on the fiscal note... [LB312]

SENATOR BRIESE: Yes. [LB312]

SENATOR BRASCH: ...on the pink copy. And I'm looking at some of the expenditures here and I'm curious on the cost of an auditor, on, it looks like, a total of three auditors potentially... [LB312]

SENATOR BRIESE: Uh-huh. [LB312]

SENATOR BRASCH: ...besides a tax...they believe all these programs will require. Can you explain that to me? Are you aware of what...? [LB312]

SENATOR BRIESE: I see where they have three FTE attorneys. And I would...in an expansion of the base like this, there's going to be issues arise, I would suggest, that are going to require some additional examination by... [LB312]

SENATOR BRASCH: And excuse me. I still had LB563 open here so...but generally, when you're adding any taxes, you know, the auditors will be required, you know, individuals for enforcement and... [LB312]

SENATOR BRIESE: True. True. [LB312]

SENATOR BRASCH: So I imagine that's...and I don't know if it's per program, per... [LB312]

SENATOR BRIESE: Uh-huh. So when I speak of something completely revenue neutral, maybe this falls slightly short of that because of a little extra costs there. [LB312]

SENATOR BRASCH: It could be because it will require some... [LB312]

SENATOR BRIESE: Yes. [LB312]

SENATOR BRASCH: ...addition to the Revenue Department. I'm certain of that. And they're showing on LB563 a total of three auditors. But LB312, right, is that where, did it have any? It didn't give a cost for increased... [LB312]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR BRIESE: No, I don't see that on there. And back to Senator Smith's question, I... [LB312]

SENATOR BRASCH: Oh, okay, I see. It is on the inside. But they're also... [LB312]

SENATOR BRIESE: Uh-huh. [LB312]

SENATOR BRASCH: ...saying they're looking at additional costs. [LB312]

SENATOR BRIESE: Yes. [LB312]

SENATOR BRASCH: So it's not revenue neutral. [LB312]

SENATOR BRIESE: To that extent, true. True. [LB312]

SENATOR BRASCH: Okay. All right. I have no other questions. I had it open to the wrong one, but I see it's reflected in LB312 as well. [LB312]

SENATOR BRIESE: Yeah. And to your point and Senator Smith's question, I will follow up on that because I need to understand completely how this...how these numbers are arrived at. Because again, I actually do question a couple of these numbers in here. I think there are, personally, I think there's a miscalculation on a couple things. But I'll follow up on that and we'll talk at some point. [LB312]

SENATOR SMITH: And just for the information of folks that are listening and watching that you typically have that fiscal note about 24 hours, 48 hours in advance, and so it doesn't give you a lot of time to really dissect it. So I think, Senator Schumacher, you had a question. [LB312]

SENATOR SCHUMACHER: Thank you, Senator Smith, and just a follow-up question, Senator Briese. [LB312]

SENATOR BRIESE: Sure. [LB312]

SENATOR SCHUMACHER: So basically we're going through a wringing out almost all the conceivable exemptions and bringing them back under it, and we are taking that money and we are putting it in this Property Tax Relief Fund which will be distributed according to wealthiest property tax owners in proportion to their wealth. And we're not using a cent, by wringing this

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

all out, we're not using a cent of this new revenue to deal with the fact that we are really short by big bucks and, unless we have a miraculous spurt of growth from someplace, they're going to run out the Cash Reserve over the next few years. I mean how can we responsibly say that we're going to...and Senator Groene is right, this targets a lot of just the ordinary folks in the world. [LB312]

SENATOR BRIESE: Sure. [LB312]

SENATOR SCHUMACHER: And we're going to deal this way in order to deliver the social benefit of significant tax breaks to the wealthiest of landowners. [LB312]

SENATOR BRIESE: Well, again, the newly created Property Tax Credit Fund will inure to the benefit of all real property owners, not just the top end wealthy landowners. It will benefit homeowners everywhere in Nebraska and commercial property owners everywhere in Nebraska and ag landowners everywhere in Nebraska. And as far as the suggestion that it's irresponsible to direct this money towards property tax relief, I don't support tax increases either. Like a lot of my colleagues, I'm reluctant to raise taxes just to dump it back in the General Fund and spend it. I'd like to have any revenue generated here directed towards tax relief. [LB312]

SENATOR SCHUMACHER: We're deferring expenses by asking all the departments to defer to next year something. We're not dealing very well with the prison issue. We're not dealing with the mental health issue. We're not dealing with a lot of issues that over the last 10-15 years have been deferred and the future has been borrowed from. And now we're wringing out one of our final piggy banks, so to speak, if this is considered a piggy bank, to get that last nickel and we're not dealing with even a cash shortfall that...without dealing with all those other problems, plus the baby boomers are aging. [LB312]

SENATOR BRIESE: Sure. [LB312]

SENATOR SCHUMACHER: So that's going to leave us with, what, an income tax raise? [LB312]

SENATOR BRIESE: Well, we're going to have to tighten down on spending. I don't know...don't know where the solution lies. And on the floor, you have eloquently talked about the issue and your projections for the future, some of which are fairly dire, and I understand that and I appreciate those comments and those concerns and bringing that out and expressing those concerns. But again, I would prefer...I don't want to use these types of revenues for a tax increase

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

by dumping it back into the General Fund. That's why I want to use this for property tax relief.  
[LB312]

SENATOR SCHUMACHER: Thank you, Senator. [LB312]

SENATOR BRIESE: Thank you. [LB312]

SENATOR SMITH: Seeing no further questions...oh, Senator Groene. [LB312]

SENATOR GROENE: I see real estate transactions on private homes. [LB312]

SENATOR BRIESE: Yes. [LB312]

SENATOR GROENE: What about on land or... [LB312]

SENATOR BRIESE: I would consider that a business-to-business transaction. And, of course, there will be some overlap. You know, you might buy a single-family residence for rent, and to me that is a business-to-business transaction, but that would still be covered here. So there's going to be some overlap. You're going to miss some on the other end too. But that's an effort to keep business-to-business transactions out of this mechanism. That's why that's done that way.  
[LB312]

SENATOR SMITH: Any further questions, Senator Groene? [LB312]

SENATOR GROENE: No, I'm done. I'm sorry. I just shook my head as if... [LB312]

SENATOR SMITH: Okay. Thank you, Senator Briese, for your opening on LB312. [LB312]

SENATOR BRIESE: Thank you. [LB312]

SENATOR SMITH: And I take it you're going to remain as well. [LB312]

SENATOR BRIESE: Sure. [LB312]

SENATOR SMITH: Okay. So we now open it up to proponents of either LB312 or LB563, proponents. Welcome, Ms. Fry. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

RENEE FRY: (Exhibits 8 and 9) Thank you. Good evening, Chairman Smith, members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We are here in support of LB563 and we are neutral/leaning support on LB312. Since enactment of the sales tax, goods, have been taxed unless specifically exempted by law while services have been exempt unless specifically taxed. As consumer spending shifts in favor of services, away from goods, the sales tax base has been shrinking unless it's being updated to more closely reflect consumer consumption patterns. That's why the Legislature's decisions about which goods and services are taxed and not taxed are just as important to the amount of revenue collected as a sales tax rate, because the more that is exempt from the sales tax, the higher the rate must be to raise the same amount of revenue. The graph that I handed out shows data from the Bureau of Economic Analysis, which indicates that consumer spending has shifted in favor of services since the sales tax was implemented in 1967. At that time, about 41 percent of household consumption was focused on purchases generally subject to the sales tax, and about 29 percent was spent on services. As of 2015, about 32 percent is spent on taxable purchases versus 45 percent spent on services. Without a change in the base, this requires us to increase the sales tax rate, depend more heavily on other revenue sources, or cut spending on services that help enable economic growth. According to the Federation of Tax Administrators, Nebraska taxes 77 services, about half of the 146 services that are taxed in South Dakota, and Iowa taxes 94 services. And because services are only taxed if they have been individually added by law, the system is inconsistent. We tax a night at the movies but not a day at the spa. Barbershop and beauty parlor services are not taxed, but pet grooming services are taxed. Indoor swimming pool cleaning is taxed but outdoor swimming pool cleaning is not. This is why we support the expansion of the sales tax base and repeal of sales tax expenditures. LB563 and LB312 broaden the sales tax base, which makes the tax more neutral across a broader spectrum of final consumer expenditures. Many of the services proposed for exclusion, such as dry cleaning, interior design, and investment advice, are more likely to be purchased by higher income households, which helps offset the overall regressivity of the base expansion that may affect lower income households. That said, LB563 and LB312 are both regressive. We would, therefore, recommend that LB563 be paired with an EITC increase which would offset any increase for those making less than \$43,000. LB312 could be strengthened with a circuit breaker type of income tax credit that could be targeted to residents of the state paying property taxes. This would reduce the regressivity of the bill and minimize the amount of the property tax credit going out of state. Including such a mechanism would put us in a position of support for LB312. I would also say that we know Senator Briese's intent was that LB312 be revenue neutral, and we would express the same concerns about the earmarks and the EITC and how those show up in the bill and the fiscal note. So we would suggest an amendment here, if it were to go forward. And we also do have some concerns about the compliance of some of the sales tax base expansion, such as with accounting and legal services for consumers. I would close by saying we also have concerns about the budget shortfall expressed earlier. And with that, I would be happy to answer any questions. [LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Thank you, Ms. Fry. Questions for Ms. Fry from the committee? I see none. [LB312 LB563]

RENEE FRY: Thank you. [LB312 LB563]

SENATOR SMITH: Thank you. Next proponent of either LB312 or LB563. Welcome. [LB312 LB563]

ROBERT JOHNSTON: (Exhibit 10) Thank you. Chairman Smith, Revenue Committee, once again I am Robert, R-o-b-e-r-t, Johnston, J-o-h-n-s-t-o-n, a farmer from Clearwater, Nebraska. And I'm here today as a member of the Nebraska Agriculture Leaders Working Group testifying in support of LB312, and we have submitted a letter on LB563. Thank you again to Senator Briese for taking on this issue of generating new revenue to pay for property tax relief. We have a \$1 billion imbalance in our state when it comes to property, income, and sales tax collections. By that I mean it would take more than \$1 billion to bring revenue generated from property taxes down to 35 percent of total property, sales, and income taxes collected. While we would very much like to see this full shift back, the Ag Leaders Working Group has proposed a \$600 million plan which would take the property tax burden from 48 percent down to 40 percent. Understanding budget constraints, we have always been committed to achieving reform in a revenue neutral way, which means property tax relief should not stall because of a budget shortfall. You'll notice principle three of the Ag Leaders Principles that were circulated earlier--quite a bit earlier--mentions this directly. We are not trying to encourage new spending, nor are we trying to cut funding for state priorities. We are truly committed to rebalancing the three-legged stool. As I mentioned previously, everyone represented here is willing to pay their fair share, but property taxpayers are paying more than that. When our current school aid formula was written, 20 percent of our state income taxes were supposed to be sent back to schools. That contribution is currently at 2 percent. Meanwhile, property taxes comprise closer to 50 percent of school budgets on average and in some nonequalized school districts that's closer to 75 percent. All property taxes statewide are up 60 percent. In Antelope County, where I live, agricultural property taxes are up 125 percent. Property taxes are not simply local or an issue of personal responsibility. There is no way of accounting for these increases. Fighting over this for another year, another two years is unacceptable. Farms will have consolidated. Folks on fixed incomes will be forced into making difficult decisions about their livelihoods, and main street businesses will have shuttered. We need to act now and encourage this committee to pass LB312. Thank you again for your time, and I'd be happy to answer any questions. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Johnston. You're testifying in support of LB312. And what about LB563? [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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ROBERT JOHNSTON: I believe we were neutral on that. [LB312 LB563]

SENATOR SMITH: Okay. [LB312 LB563]

ROBERT JOHNSTON: You better not...we handed it in but I think we're neutral. [LB312 LB563]

SENATOR SMITH: Okay. All right. And tell me the organizations you represent again. [LB312 LB563]

ROBERT JOHNSTON: Today I was representing the Ag Leaders Working Group which is the Soybean Association, the Corn Growers Association, the Cattlemen, the Pork Producers, Farm Bureau, and the State Dairy Association,... [LB312 LB563]

SENATOR SMITH: All right. Very good. Thank you. [LB312 LB563]

ROBERT JOHNSTON: ...so collectively, a large number of producers. [LB312 LB563]

SENATOR SMITH: Okay. Senator Schumacher has a question for you. [LB312 LB563]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony. Did I understand your testimony right that even if this passes you'll be back for more? [LB312 LB563]

ROBERT JOHNSTON: Yeah, sure. Until we get a balanced solution, I'll be back for more. There is that. [LB312 LB563]

SENATOR SCHUMACHER: Okay. Thank you. (Laughter) [LB312 LB563]

ROBERT JOHNSTON: Yeah. If I...I'd like to comment. I've heard numerous times today about cutting the spending and for years, no matter who is the Chair of the committee, the question was always, do you go to your local budget hearings? I am one that goes to budget hearings and I will tell you that I have nine budget hearings to go to. Now I can't get to all of them. Some of them are on the same day. But I do go to budget hearings. I was on the school board for 16 years, president of a number of those years. I am currently the president of our rural district fire board. So I can say personally that I do, do my part to try to cut the spending. [LB312 LB563]

SENATOR SCHUMACHER: Thank you for that. [LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

ROBERT JOHNSTON: Some of it is, well, we've heard lots of testimony, so. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Johnston, for your testimony. [LB312 LB563]

ROBERT JOHNSTON: Thank you again. [LB312 LB563]

SENATOR SMITH: I'm sorry. Senator Groene has a question for you. [LB312 LB563]

ROBERT JOHNSTON: Oh. [LB312 LB563]

SENATOR GROENE: I want to thank you. That's how I got started and ended up here, going to budget hearings. But anyway, playing devil's advocate here. I hear a lot of rural schools saying, well, we only increased spending by 2 percent, 3 percent. What has your enrollment done? I mean we're paying a lot more per student and spending tends to go up. Shouldn't spending go down when enrollment decreases? [LB312 LB563]

ROBERT JOHNSTON: Ah, good point, but unfortunately... [LB312 LB563]

SENATOR GROENE: It doesn't. [LB312 LB563]

ROBERT JOHNSTON: ...we've heard testimony today that there are some fixed costs we can't control. Insurance was the biggest one. The farther out, the more rural logistically for the school district that 94 percent of my taxes go to, we're a large district so... [LB312 LB563]

SENATOR GROENE: Clearwater still has a school district? [LB312 LB563]

ROBERT JOHNSTON: We do. [LB312 LB563]

SENATOR GROENE: Yeah, the... [LB312 LB563]

ROBERT JOHNSTON: We're part of the Nebraska Unified number 1. [LB312 LB563]

SENATOR GROENE: So you consolidated? [LB312 LB563]

ROBERT JOHNSTON: No, we're not consolidated. We were unified and then a reorganization within the unification. We're Clearwater, Orchard, and Verdigre. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR GROENE: Together basically. [LB312 LB563]

ROBERT JOHNSTON: Together... [LB312 LB563]

SENATOR GROENE: All right. [LB312 LB563]

ROBERT JOHNSTON: ...in an effort to try to save some. [LB312 LB563]

SENATOR GROENE: All right. [LB312 LB563]

ROBERT JOHNSTON: One administrator for the three schools. [LB312 LB563]

SENATOR GROENE: All right. What about Neligh? [LB312 LB563]

ROBERT JOHNSTON: Neligh is on their own in Antelope County (inaudible). I do not pay any taxes to the Neligh district. [LB312 LB563]

SENATOR GROENE: All right. Thank you. [LB312 LB563]

SENATOR SMITH: Great. Mr. Johnston, you're correct, I do have it in my record here that you're in neutral on LB563 and you're a proponent on LB312. [LB312 LB563]

ROBERT JOHNSTON: Yes. [LB312 LB563]

SENATOR SMITH: So thank you. Thank you for your testimony. Next proponent of LB312 or LB563. Welcome. [LB312 LB563]

BOB RAUNER: (Exhibit 11) Dr. Bob Rauner, B-o-b R-a-u-n-e-r, testifying on behalf of the Nebraska Medical Association. We're testifying specifically on closing the tax exemption for pop and candy that's included within LB312. We want this closed because we think it's basically originally a mistake in Nebraska law that define them as food, and in Nebraska food is exempt to sales taxes. Most surrounding states do not consider pop to be food and, therefore, it is subject to sales taxes. I included with my testimony a copy of the Colorado law of 2009 that did close their exemption. So now I believe all states around us don't consider pop to be food; we're the last one. As far as specific line items, when this has come up in the past, closing that exemption to pop alone would save about \$12 (million) to \$13 million, or would raise revenue. We don't have an opinion what you do with that money but we think it doesn't make sense to have that in place. I

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

don't have any reference for candy as far as what that would close. The only thing I would suggest in the law, that the Colorado law does define what pop and candy are in law, whereas I think LB312 does not have that, so that might be an improvement to kind of clarify some things. And lastly, I'd like to preempt some past objections to closing the exemption. I've heard in the past that it would cause border bleed, which actually is not, of course, true, because when you go to Council Bluffs it is subject to sales tax when you buy Mountain Dew. We've heard that it's a complicated change for retailers. But basically most retail systems are automated and so simply it's a zero or a one in their system to say this is either exempt or not exempt. We've heard it's confusing to the people who's trained at the Kwik Shop and I'd say it's actually the other way around. If you walk in the Kwik Shop with your Big Gulp and you fill it at the fountain, it's subject to sales tax. If you buy the 12-pack of Mountain Dew out of the cooler, it's not subject to sales tax, and I think that's inherently confusing. So with that, I will take any questions that you have. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Rauner. Questions from the committee? So you're testifying in support of LB312... [LB312 LB563]

BOB RAUNER: Uh-huh. [LB312 LB563]

SENATOR SMITH: ...and what about LB563? [LB312 LB563]

BOB RAUNER: No comment on that one. [LB312 LB563]

SENATOR SMITH: All right. So your testimony, you're talking, it sounded more like it was coming from a medical perspective. [LB312 LB563]

BOB RAUNER: Yes. [LB312 LB563]

SENATOR SMITH: ...on those types of sodas and such. Why would you not be supportive of LB563 but you would be of LB312? Just curious. [LB312 LB563]

BOB RAUNER: Our legislative committee didn't talk about it and I'm testifying on the behalf of the Nebraska Medical Association, so. [LB312 LB563]

SENATOR SMITH: Okay. All right. Fair enough. Thank you. Senator Groene. [LB312 LB563]

SENATOR GROENE: You're testifying for the American Medical Association? [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

BOB RAUNER: Nebraska Medical Association, yes. [LB312 LB563]

SENATOR GROENE: What about elective surgeries like plastic surgery, knee operations, things? [LB312 LB563]

BOB RAUNER: Uh-huh. [LB312 LB563]

SENATOR GROENE: Should we sales tax on those kind of elective surgeries? [LB312 LB563]

BOB RAUNER: Well, again, the committee had not (inaudible) opinions on basically specifically looking at those. [LB312 LB563]

SENATOR GROENE: Would you care... [LB312 LB563]

BOB RAUNER: So you're basically asking my personal opinion. I think one of the problems is how do you pass that through to health insurance billing? It could be a convoluted mess if you tried to do it. I don't know if you...it might not be doable just because of the way health insurance billing works. [LB312 LB563]

SENATOR GROENE: Well, should we tax health insurance premiums? We seem to absorb 20-30 percent increases every year. They expect us to do that. Why not put another 7 percent for sales tax on health insurance premiums? [LB312 LB563]

BOB RAUNER: Well, because that basically just gets passed straight to the consumer. [LB312 LB563]

SENATOR GROENE: All of this is passed through. [LB312 LB563]

BOB RAUNER: Yeah, but now we're talking...we're talking about sales tax exemptions here. This is a loophole where somebody decided to give somebody a benefit by exempting them from sales tax based on what I consider no rationale whatsoever. [LB312 LB563]

SENATOR GROENE: I consider breast implants the same thing, enlargement, so. [LB312 LB563]

BOB RAUNER: Well, yeah, then you could throw that in the bill, too, if you wanted. You're the senator. (Laugh) [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR GROENE: Well, thank you. [LB312 LB563]

BOB RAUNER: Okay. [LB312 LB563]

SENATOR SMITH: Thank you. I see no further questions, Mr. Rauner. Next proponent for either LB312 or LB563. Proponents. Welcome. [LB312 LB563]

KENNETH RHOADES: (Exhibit 12) Thank you. Senator Smith, Chair, committee members, I am Kenneth Rhoades, K-e-n-n-e-t-h R-h-o-a-d-e-s. I'm an ag producer and landowner from Keith County, Ogallala, Nebraska. Property taxes have and are a huge burden for our operation today. While I have a diversified operation, it takes nearly all of our wheat crop just to pay for the property taxes on our farm. Some will say that ag producers can afford the higher property taxes because commodity prices have been very good until recently. While in general that may be true, in our case we had three years of severe hail, so high commodity prices were a moot point for our property, but our property tax bill has kept increasing. That is why I have traveled 300 miles to testify in support of LB312. One of the things that people are probably going to say is that this is a change or a shift of taxes. Change is hard to do, but look around. Look at all the things that have changed or shifted. Ag, schools, and business have all had changes or shifted in how they operate. What is wrong with changing or shifting our tax structure to modernize and keep it somewhat equitable? We shouldn't have a tax source that pays a disproportionate share of the total sources of tax revenue base of property, income, and sales tax. I acknowledge that valuations and local spending are major factors affecting property taxes, but there are state regulations that set parameters on valuations and local spending that inhibit property tax reform. While both this bill will provide property tax relief, other legislation may possibly be needed to help address valuation and local spending issues. LB312 is a step in the right direction for property tax reform which will help meet the needs of Nebraska citizens, and want to encourage your support. [LB312 LB313 LB563]

SENATOR SMITH: Thank you, Mr. Rhoades, for your testimony. Questions for Mr. Rhoades? I see none. I do not recall you testifying on the earlier bill. Do you want to include your testimony for LB313 or not? [LB312 LB313 LB563]

KENNETH RHOADES: Yes, I would. [LB312 LB313 LB563]

SENATOR SMITH: Okay. [LB312 LB313 LB563]

SENATOR GROENE: I have a quick question. [LB312 LB313 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Okay, Senator. [LB312 LB313 LB563]

SENATOR GROENE: If he drove far, he deserves some questions. [LB312 LB313 LB563]

SENATOR SMITH: Yeah. [LB312 LB313 LB563]

SENATOR GROENE: Is Ogallala equalized? [LB312 LB313 LB563]

KENNETH RHOADES: Pardon? [LB312 LB313 LB563]

SENATOR GROENE: Funding, TEEOSA funding. [LB312 LB313 LB563]

KENNETH RHOADES: Well, actually, I'm in South Platte. I actually live at Big Springs.  
[LB312 LB313 LB563]

SENATOR GROENE: All right. So you're probably not. [LB312 LB313 LB563]

KENNETH RHOADES: And so our property is in a school district and the levies just keep going and where, in the worst spot, is we had a \$7 million bond that was passed. So our taxes, although the school came up this very last year they didn't increase, but we had the \$7 million school bond on top of that. So actually it did increase. [LB312 LB313 LB563]

SENATOR GROENE: Thank you. [LB312 LB313 LB563]

SENATOR SMITH: Further questions for Mr. Rhoades? Seeing none, safe travels home. [LB312 LB313 LB563]

KENNETH RHOADES: Thank you. [LB312 LB313 LB563]

SENATOR SMITH: Thank you for testifying. Next proponent of either LB563 or LB312. Welcome. [LB312 LB563]

DAVID GRIMES: Ready? [LB312 LB313 LB563]

SENATOR SMITH: Yes. [LB312 LB313 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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DAVID GRIMES: Thank you, Senators, for staying late tonight to listen to all of us. I am David Grimes, D-a-v-i-d, last name G-r-i-m-e-s, here to speak as a proponent for LB312 and, if I may, LB313 in a way... [LB312 LB313 LB563]

SENATOR SMITH: Yes. [LB312 LB313 LB563]

DAVID GRIMES: ...as well. Thank you. I farm. Our family has a farm in Kearney County. I've farmed since 1975, started in Lancaster County, now we farm in Kearney County. I've served on school boards, fire boards, extension boards. And just excuse me but a brief Government 101, as I learned it and understand it, government in Nebraska works well as long as property taxes increase. Property values and taxes increase every year. About two thirds, 70 percent, of the cost of the government is the people because that's what it takes to run a government, is the people. Personnel costs go up just about every year and so then the taxes have to go up to meet those costs. In the past few years you've heard all kinds of numbers and in the past few years the cost of running government kept going up and it worked good because we had those huge increases in real estate values in the rural areas that allowed you folks to oversee probably one of the largest, fastest tax increases in Nebraska that we've ever had. It didn't require an act or a motion or a vote. It allowed resources that were needed to be sent from the state to places like Lincoln and Omaha for their schools that grew. I don't know what you're going to do in the next few years because it's very unlikely we'll have those large property increases. Just to react or, I shouldn't have used that word, but just to bring up what's...I'm glad that we got into a discussion about what's wealth, and I really believe that owning a farm is not a lot different than having investment accounts or a 401(k). As I farmed over the years, I bought some land because at the time it seemed like that was the most cost-effective way for me to farm. If you're a good accountant, land is a cost. It's a cost of doing business. It's also somewhat an investment, just like if you own a gas station, your pumps and your building would be that investment as well. My yellow light is on. I want to...I've got a few ideas on some solutions for you to consider so I'll quickly try to go through them and then summarize. Property doesn't pay taxes; people do. I think the property tax credit that comes from the state, which hasn't kept up with the increase in taxes, would sure help. Thank you. But that property tax credit currently goes to the county treasurers and gets deducted from property tax bills. I think if you're worried about giving undeserved tax breaks to rich people...I'm sorry. Would you allow me to continue quickly? I'll go as fast as I can. Instead of if you're worried about allowing undeserved tax breaks to rich people, I think another alternative to the property tax credit would be to pay it directly to people, to the taxpayers. According to Market Journal, which is a university broadcast and I just heard I this weekend, they reported that the average farm in Nebraska pays \$25,000 a year in property taxes. That could be used for a reference to what's average at least for farms and then you could go by that. But if you paid the tax directly to taxpayers, you could tie it to income. You could do this all on the state income tax form. You could put a limit on the amount of tax credit that goes to per taxpayer based on, you know, a family, a filer, if you will. And then my other suggestion just

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

very quickly because they're issues that have been brought up today, good people work in our government. We have a good state and a good government. But again, about two thirds, 70 percent, of the cost of running that government is personnel. You're never going to get a handle on the growth in government till you get a handle on being able to control the cost of the personnel. Everything else you cut helps a little bit, but it just can't add up. First thing to do to get a handle on that, reduce the levy and the budget limits. We all know, everybody is good at math, they know what can be spent by each level of government, and that gets figured into what gets demanded and requested. Reform or abolish the CIR. We need to put levy limits on school bonds. We can also have...I'm sorry, am I going too long? [LB312 LB313 LB563]

SENATOR SMITH: Yeah. Yeah, we probably need to wrap it up. [LB312 LB313 LB563]

DAVID GRIMES: Okay, I'll wrap it up. Thank you for allowing me speak tonight and I would be happy to answer any questions that you might have. [LB312 LB313 LB563]

SENATOR SMITH: Let's see if you have any questions here. Any questions for Mr. Grimes? Senator Groene. [LB312 LB313 LB563]

SENATOR GROENE: Because of the votes, you're outvoted, the people with property are outvoted on bond issues. [LB312 LB313 LB563]

DAVID GRIMES: Yes. [LB312 LB313 LB563]

SENATOR GROENE: You think something like a 60/60 rule would be something, I don't know if it's constitutional, either you have a 60 percent turnout at the election or you win by 60 percent? [LB312 LB313 LB563]

DAVID GRIMES: Yeah, I don't know if that's legal or not, so I guess I'm not sure. I think an alternative, and you're talking about a bond election, correct? [LB312 LB313 LB563]

SENATOR GROENE: Yeah. [LB312 LB313 LB563]

DAVID CRIMES: You know, to get a good bond interest rate, we'll always have to tie them to property because it's just such a safe, you know, risk for an investor. But I think you could incorporate an optional sales tax or a local sales tax and/or a local income tax. And that way it spreads the burden of that additional tax, if you will, on all the taxpayers, not just the ones that might have a heavier portfolio of farmland or a home or whatever. [LB312 LB313 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR GROENE: Thank you. [LB312 LB313 LB563]

SENATOR SMITH: See no further questions, thank you, Mr. Grimes, for your testimony.  
[LB312 LB313 LB563]

DAVID CRIMES: Thank you for staying late and allowing me to speak. [LB312 LB313 LB563]

SENATOR SMITH: (Exhibits 13, 14, and 15) You bet. Thank you for your testimony. Other proponents of either LB312 or LB563. We do have some letters for the record. Proponent letters for the record on LB312: Brandi Reimers, Nebraska City; and Mark Kruger, CF Webtools. And proponents of LB563: Jason Hayes, NSEA. We now move to opponents of either LB312 or LB563. Opponents. All right, welcome. [LB312 LB563]

DENNIS PATE: (Exhibit 16) Good evening, Chairman and the members of the Revenue Committee. Thank you for staying so late. Thank you for giving me the opportunity to talk. My name is Dennis Pate, D-e-n-n-i-s P-a-t-e, representing Omaha's Henry Doorly Zoo and Aquarium. I'm here to testify as an opponent to LB312. You know, I didn't think I'd be back here quite so soon. It was just two years ago, almost to the day, that I appeared before this same committee and...but it does give me an opportunity to update you. It's kind of rare that you all agree to a tax exemption and then a couple years later hear from us to see how that worked out, how that benefited the state and, if so, by how much. And so it's a nice opportunity for me to be able to update you on all that. So I'm here on behalf of the board, foundation, the staff, and really the thousands of animals who depend on us for their care. What has changed since I was here two years ago? Well, quite a bit. And I guess the big question is, did we deliver the economic impact that we said we would? And the answer is, we did by a whopping 68 percent in two years' time. So the economic impact to the state climbed from \$144 million to \$216 million in two years' time. So the partnership that we've had with the state absolutely contributed to that kind of success. We drew over 2 million people this past year. You all know that's more people that reside in the entire state. And so it made a major, major difference for us. We did this because we had incredibly generous donors who wanted to see the zoo grow and prosper. And for them to know that the state was a partner with them in seeing the zoo grow and economic impact grow is really important to them. You know, a lot of this had to do with what donors did for us. We rescued 17 elephants with two partner zoos, which I'm sure you've all heard about over the last few years. We built the African grasslands. We built a splash ground and we addressed the street issues in front of the zoo to make it safer for families, and we added 498 parking spaces, all within the last two years. The sales, the state sales, use, and lodging tax impact grew by 58 percent in the last two years, so really, really major increases and that was just during the first year of the tax exemption. Our out-of-state visitors climbed to 38 percent of our total attendance. So really we can't really grow the zoo by just sticking with Omaha and the

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Transcriber's Office

Revenue Committee  
February 22, 2017

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surrounding area. We have to go regional in order to really grow the zoo, and we've done that to the tune of 38 percent now. So those are the people that buy gas, that stay in hotel rooms, all of that sort of thing, so it's really worked out very beneficially for us and for the state. We have a lot of education benefits that we have and those have all grown: 60...86,000 students that visit. Students come from 61 of the 93 counties in Nebraska, so really big impact on all of that. Our donors have contributed over \$200 million just in the last six years at the zoo, so they have a big stake in the growth at the zoo. I've got the red light and I'll stop right there. I want to thank you. I think what you're doing in vetting all of these tax exemptions is important. It's been a long time for some of them. But I'm here to tell you that our partnership with you has benefited everybody, including you. So thank you for giving me the opportunity. I'm happy to take questions. [LB312 LB563]

SENATOR SMITH: Okay. Thank you, Mr. Pate. [LB312 LB563]

DENNIS PATE: Okay. [LB312 LB563]

SENATOR SMITH: And let me...I was going to ask you a question. I think you touched on it right at the end. You gave a number, over the last six years the amount of private investment. [LB312 LB563]

DENNIS PATE: Yes. [LB312 LB563]

SENATOR SMITH: About how much did you say? [LB312 LB563]

DENNIS PATE: Over \$200 million. [LB312 LB563]

SENATOR SMITH: Over \$200 million. [LB312 LB563]

DENNIS PATE: Yeah. [LB312 LB563]

SENATOR SMITH: And then what...how much did you see as a...you called it a partnership with this exemption over the last couple years. How much was that? [LB312 LB563]

DENNIS PATE: Well, it's only been one year and it's been about \$1.5 million. [LB312 LB563]

SENATOR SMITH: Okay. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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DENNIS PATE: One of the issues we have, Senator, is that while we get incredible capital investment, it's still incumbent upon the zoo to staff, pay the insurance on. This is African grasslands exhibit alone, we built 28 new buildings in 28 acres. So there's a considerable operating expense to all of this, but it paid off. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Pate. Do we have questions? Senator Groene and then Senator Brasch. [LB312 LB563]

SENATOR GROENE: So all this happened because you didn't pay \$2 million, you didn't pass through \$2 million of sales tax. [LB312 LB563]

DENNIS PATE: No, but it was an important consideration. [LB312 LB563]

SENATOR GROENE: Do you pay property taxes on those buildings? [LB312 LB563]

DENNIS PATE: No. [LB312 LB563]

SENATOR GROENE: So because we didn't make somebody in Iowa and Missouri or Illinois pay 7 percent sales tax, they came to the zoo? [LB312 LB563]

DENNIS PATE: No, but I can tell you when we consider price increases, the gate is one of the last places we go. We're very sensitive to those sorts of things. We do surveys every year with other accredited zoos who draw about what we draw, that \$1.5 million kind of range, and we were just a little bit below the median on all that. [LB312 LB563]

SENATOR GROENE: So... [LB312 LB563]

DENNIS PATE: And so our board wants us to be accessible to everybody. [LB312 LB563]

SENATOR GROENE: So by giving tax exemptions to you, it increased all of this economic growth. So are we doing the wrong thing here? Should we be cutting sales tax so that we get more economic growth like you experienced because we gave an exemption? It should follow, shouldn't it? [LB312 LB563]

DENNIS PATE: I think there's very few institutions that can claim this kind of benefit to the state in the growth. So, you know, there's two ways to go about this. You can cut or you can grow your

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

institution to result in more. We've taken the side of growing the institution. We did that and, oh my God, it's paid off for everybody. [LB312 LB563]

SENATOR GROENE: So if we cut property taxes for agriculture, that would really grow the implement sales, my business, the feed business, new pickups. So shouldn't we all share in some of this cost? Tourists from Iowa and Indiana, shouldn't they help us? [LB312 LB563]

DENNIS PATE: I think one of the big differences is we're a nonprofit. All the extra money we get, it gets reinvested in the zoo. A lot of my colleagues around the country, their nonprofit zoos are tax exempt all the way. We continue to pay sales tax on food and gifts, so that's an important distinction I think. [LB312 LB563]

SENATOR GROENE: And pretty...weren't you very successful, rated number one in the whole United States, when you were paying sales tax? So it didn't hurt you. [LB312 LB563]

DENNIS PATE: No, it didn't hurt us, but that was based...that was two years ago. It was based on public comments and it didn't hurt us. But I knew and the board knew that the zoo could still be better yet. And we want to be a regional attraction, is all I can tell you and really build that even more. [LB312 LB563]

SENATOR GROENE: Thank you. [LB312 LB563]

SENATOR SMITH: Senator Brasch and then Senator Harr. [LB312 LB563]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, Mr. Pate, for coming forward today. [LB312 LB563]

DENNIS PATE: Uh-huh. [LB312 LB563]

SENATOR BRASCH: And I am, for one, very happy to hear the good news for the zoo. I was on this committee two years ago and... [LB312 LB563]

DENNIS PATE: I remember. [LB312 LB563]

SENATOR BRASCH: ...and your challenges and you've turned them all into opportunities. And... [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

DENNIS PATE: Thank you. [LB312 LB563]

SENATOR BRASCH: ...my philosophy or my belief truly is that Nebraskans help each other, whether you're on the farm, you're in the zoo, regardless of what field. And at this point, the reason and the purpose for this bill, and I, for one, do believe removing an exemption is an increase in a tax. It's more money out of your pocket, so it's not the course that I would choose to take. But now I'm wondering when is it the turn for the zoo or anyone else that comes forward saying that you may be nonprofit but how many employees do you have? [LB312 LB563]

DENNIS PATE: Full-time, 300; seasonally it goes up to 800. [LB312 LB563]

SENATOR BRASCH: Exactly. And there's farmers out there that rely on their living as well and they're looking for an answer or looking for some assistance... [LB312 LB563]

DENNIS PATE: Uh-huh. [LB312 LB563]

SENATOR BRASCH: ...maybe from the Legislature. But a private partnership, is there anything that you believe that farming can do better for tax relief other than removing exemptions and increasing sales taxes? Have you thought about it? [LB312 LB563]

DENNIS PATE: I've thought about...what I have thought about I think is it's about time we reviewed all of these exemptions. I think it's a great idea to do all of that. My point is that we're adding to the state coffers, not taking away. We're helping the state raise additional revenue. [LB312 LB563]

SENATOR BRASCH: And agriculture is one in every four jobs in our state as well, so. And I'm not taking away from... [LB312 LB563]

DENNIS PATE: Uh-huh. [LB312 LB563]

SENATOR BRASCH: ...the value of the zoo. [LB312 LB563]

DENNIS PATE: Uh-huh. [LB312 LB563]

SENATOR BRASCH: It is tremendous what you do. But I'm hoping that other fields, other job creators in the state realize that there is something at risk and that's the major economy. But I'm

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

glad for the report. I'm glad you used your exemptions wisely. And I have no other questions. Thank you very much. [LB312 LB563]

DENNIS PATE: Thank you. [LB312 LB563]

SENATOR BRASCH: Thank you, Chairman Smith. [LB312 LB563]

SENATOR SMITH: Senator Harr. [LB312 LB563]

SENATOR HARR: Thank you, Mr. Pate, for coming down here. I'm going to probably pile on a little bit too and complain about the zoo. [LB312 LB563]

DENNIS PATE: Okay. [LB312 LB563]

SENATOR HARR: Last Friday, couldn't get anywhere, man, there were lines all around the zoo. It was backing up all the traffic. So thanks for all you do for Omaha. Thanks for all you do for the state. Keep up the good work and hopefully we'll get some new roads out there for you. [LB312 LB563]

DENNIS PATE: Thank you. I appreciate that. [LB312 LB563]

SENATOR SMITH: Senator Schumacher. [LB312 LB563]

SENATOR SCHUMACHER: Thank you, Senator Smith. And thank you for your testimony. Essentially, the bottom line on your exemption is that it helps with reoccurring operating expenses necessary to sustain capital improvements caused by rather considerable (inaudible). [LB312 LB563]

DENNIS PATE: And I would add to that the interest in the donors in creating some sort of partnership here where there's more than just the donors that are invested in how well the zoo does. [LB312 LB563]

SENATOR SCHUMACHER: Thank you. [LB312 LB563]

SENATOR SMITH: All right. Mr. Pate, you're testifying in opposition of LB312. What about LB563? [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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DENNIS PATE: We've only focused on LB312 at this time. [LB312 LB563]

SENATOR SMITH: Very good. All right. Thank you for your testimony today. [LB312 LB563]

DENNIS PATE: Thank you. [LB312 LB563]

SENATOR SMITH: Next opponent of LB312 or LB563. Welcome. [LB312 LB563]

MARSHA FANGMEYER: (Exhibit 17) Senator Smith, members of the committee, my name is Marsha Fangmeyer, that's M-a-r-s-h-a F-a-n-g-m-e-y-er. I'm a lawyer, practicing with the firm of Fangmeyer, Aschwege, and Besse in Kearney with a satellite office in Ravenna. I'd first like to say that I've been here for the entire afternoon. It has been a very interesting afternoon. I have certainly learned a lot and I want to thank each and every one of you for the work that you do on this issue. And I do not have any answers for you. I wish I did. If I had a brilliant idea I'd run for office, but I don't and I won't. I am here as representing the Nebraska State Bar Association. I am a past president of the association and I am here speaking strictly on the portion of LB312 which proposes a tax on legal services, and I would be remiss, as a leader of the bar, if I were not here to address this issue. People come to lawyers for help, not because they want to but because they need to. Legal services are not the next shiny object. People come to us in order to get a problem solved. Those problems can range from things like a guardianship for a disabled child or a parent; an injury they had on the job; a teenager in trouble with the law; or a myriad of family law issues--divorce, parenting time, support, division of property, and adoption, which is actually one of the few things that we lawyers do that is really a lot of fun. Well, they also come to us to incorporate their small businesses, assist with the sale of a home or a business, and on and on and on. And today those are just a handful of things that come into my office on a weekly basis. I was also reminded today, though, of one of the things that I did in the '80s. I represented farmers. I represented farmers in trying to reorganize their debt and I represented them in Chapter 12 bankruptcies, and I hope we never see those days again. This is an access-to-justice issue and, as the Bar Association, that is one of the things that we work very hard on is to break down the barriers of access to justice. A sales tax on legal services will increase the cost and create another barrier for the average hardworking person who needs a lawyer but has limited funds. This is also surely likely to increase the already high number of folks who represent themselves, or try to, adding another burden to the judicial system as judges help pro se clients wend their way through the system. And I practice in front of at least half a dozen judges on a regular basis and over the last few years I have increasingly heard their complaints about...or not...their concerns about pro se clients. And my red light is on and I can finish up really quickly. Okay? [LB312 LB563]

SENATOR SMITH: Yes, please close. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

MARSHA FANGMEYER: I just want to point out one real quick thing. I didn't understand the part of the bill that excludes legal services performed for the furtherance of a for-profit business. This looks to me like you're asking to tax the fees that I received in a personal injury case of...and making my client pay those taxes but the insurance company doesn't have to pay the tax on the fees they pay to legal counsel. As I said, the Bar Association, we have worked very hard as an association and with the Supreme Court to break down the barriers and provide access to justice for all Nebraskans, and this is just one more barrier and we oppose it. Thank you. [LB312 LB563]

SENATOR SMITH: Thank you, Ms. Fangmeyer, for your testimony. Questions? [LB312 LB563]

MARSHA FANGMEYER: Convinced you all, I'm sure. [LB312 LB563]

SENATOR SMITH: Very good. Thank you for your testimony. The next opponent of either LB312 or LB563. And if I could see a show of hands of those remaining to testify tonight. All right. Welcome. [LB312 LB563]

VICKI CLARK: I thank you. Senator Smith and the committee, thank you for allowing me to testify. My name is Vicki Clark, V-i-c-k-i C-l-a-r-k, and I am an Uber driver in Lincoln, mostly Lincoln and Omaha, and I am in here in opposition to LB312 and LB563. I have some bullet points here that I'm going to rattle off, but I also have some story. I'm concerned about implementation problems. How do I pick up a person in Lincoln and drop them off in Omaha or Crete or Roca or Waverly or any of the other towns I've been in and who pays how much of what where? Is it just from Lincoln to or once I cross the Omaha border, is that their...I, you know, what do you do? Second, how do I actually acquire this money from my clients? Is it Uber who is going to collect it and then they pay it? Am I going to collect it? I have a card reader, but if it comes out to cents do I have to carry change? One of the things about Uber they like is that Uber drivers don't carry cash. Any fare increase creates a more expensive product and lowers usage. Uber, in the last four...well, in the last three years in my tenure, and I started when Lyft and Uber started in Lincoln and Omaha. I was one of the first. They have slashed the price, Uber has, four times in this last three years with the intent of getting higher ridership. And every time they do a price increase of any kind or safety fee increase, which they just did last week of 35 cents per ride, they lose riders. Now the problem with losing riders is it impacts low-income populations, the "carless" tourists. I know the perception is very often that Uber drivers just drive drunk teenagers around...or, excuse me, young adults. (Laughter) But, you know, I don't guard anybody. But I drive immigrants. I drive people to school. I drive people to the laundry. I drive them to the grocery store. I drive them to the doctor. I drive them to their lawyer. I drive quite a few people to and around the university. Many, many, many engineering students from Brazil,

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

I'm not quite sure why, but I have them. It's a barrier to entry for drivers because fewer trips result in lower driver income. My income since the beginning of Uber starting has dropped by at least a half if not two thirds. Okay. It's a good time, as people have maybe passed out my business cards. I have branded myself and I'm trying to make a business. I have a Web site. I have...excuse me, my light is off. [LB312 LB563]

SENATOR SMITH: If you can close very quickly on... [LB312 LB563]

VICKI CLARK: Okay. I am trying to brand myself and have a business and by doing that I'm not...I am the lowest of the low (laugh) on the totem pole for businesses. I am a part-time single proprietor. I drag home maybe 280 bucks a week. So 7 percent, 17 percent, 3 percent--it doesn't matter, it's going to impact me and my business. Thank you. [LB312 LB563]

SENATOR SMITH: Thank you, Ms. Clark, for your testimony. We appreciate you... [LB312 LB563]

VICKI CLARK: Any questions? [LB312 LB563]

SENATOR SMITH: We appreciate you hanging around and testifying tonight. [LB312 LB563]

VICKI CLARK: It's what I do. [LB312 LB563]

SENATOR SMITH: Thank you very much. So if I can keep everyone inside your three minutes, and then also, just as a reminder of those remaining to testify we are getting late. We probably have another hour and a half, two hours to go. If you're not going to be able to remain but you do want to sign in for the record, there is a white form in the back of the room. If you have to leave, you're not able to stay here to testify, you can sign that and that will become part of the record. Welcome. [LB312 LB563]

GREGORY FERRIS: (Exhibit 18) Thank you, Chairman Smith, members of the Kansas...the Nebraska Revenue Committee. Excuse me. I'm used to being in Kansas. I'm from Wichita; I get to drive back tonight. I'm here on behalf of Genesis Health Clubs to oppose the portion of LB312 that places a new tax on fitness instruction. [LB312 LB563]

SENATOR SMITH: And let me stop you. If you could just state your name and spell it for us. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

GREGORY FERRIS: I'm sorry. I apologize. Greg Ferris, G-r-e-g F-e-r-r-i-s. Thank you for reminding me. Apologize. [LB312 LB563]

SENATOR SMITH: Thank you. [LB312 LB563]

GREGORY FERRIS: Genesis Health Clubs is one of the largest privately owned health clubs in the Midwest. This includes 31 clubs in Kansas, Oklahoma, Missouri, and 10 additional clubs in Nebraska. Last year Genesis invested \$30 million as a new investment in Nebraska and plans to invest at least that much again this year. These investments are in the form of acquisitions, upgrading clubs, and new employees. The Nebraska clubs alone have over 700 employees and over 70,000 members. We're very concerned about the negative impact of LB312 and the operations it will have on our ability to continue to invest in Nebraska. If this bill passes as written, it will be...Nebraska will be the only state that Genesis operates that will have a tax on its fitness instruction. And, frankly, I'm not sure that Genesis would have looked at Nebraska had this already been in place, because it's very negative in our operation and how we do it. You have a letter from IHRSA that talks about fitness. In an effort to save time, I'm going to skip the health issues, which I think are very important, and go right to one point that I think is real important, and that is that every member of Genesis Health Clubs currently pay sales tax to belong to Genesis Health Clubs. So by taxing them again once they're in the door, you're in effect doubly taxing them. In a younger life, when my hair was black, I sat on that side of the table and one of my mentors taught me that a fair tax is one that someone else pays and all other taxes are okay, but. So I think that in this situation, however, since this will represent a double taxation, that this part of the bill should be excluded. We would ask that you would remove Section 77-2701.16 and (3)-t (sic--2(4)(t)). And that's the one that adds the tax on recreational activities. Genesis pays an enormous amount of taxes, sales tax, property tax, income tax to Nebraska. We applaud your efforts in what you're trying to do but we think in this case that this double taxation is a mistake and should not happen. With that, I'll be glad to answer any questions. And I'm sorry I rushed through because, man, I can't believe you guys have been here this long. (Laugh) [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Ferris, for your testimony. I see no questions. Maybe we need to get you to set up a satellite location here in the Capitol so we can keep that freshman 15 off. [LB312 LB563]

GREGORY FERRIS: We have two in Lincoln, so more than happy for you to join. [LB312 LB563]

SENATOR SMITH: And also, thank you for your investment in our state and for your willingness to do that. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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GREGORY FERRIS: Thank you very much for the opportunity to be here. [LB312 LB563]

SENATOR SMITH: Next opponent of LB312 or LB563. Welcome. [LB312 LB563]

MARK BROHMAN: (Exhibit 19) Good evening. Chairman Smith and members of the Revenue Committee, my name is Mark Brohman; that's spelled M-a-r-k B-r-o-h-m-a-n. I'm the executive director of the Nebraska Environmental Trust. I'm here today to testify in opposition to LB312 but only one small portion of the bill. But at the same time while I'm up here, I'm testifying neutral on LB563. As you heard from Senator McCollister, he did take out the portion dealing with lottery proceeds, so we are neutral on LB563 and in opposition to one portion of LB312. I'm handing along pages 31 and 32 of LB312 and on page 32 you will see line 1. We object to one section and that's where it has 77-2704.38 and that's being repealed under the current bill and I've inserted that section of law below so you can read it. It basically is dealing with the sales exemption for use taxes imposed on the sale of lottery tickets. So it's right there for you to see. I also want to make a correction to the fiscal note. I mentioned this the other day during LB452 when we were looking at these bills. We estimated the first year being an entire fiscal year and not a half year, so we overestimated the cost to us that first year. So it should be \$2.2 million instead of \$4.4 million for the first year. The fiscal note on this bill is eight pages, very confusing. It's very difficult to follow and you really can't tell exactly how it's impacting and where. What we believe is that our impact to the trust is between \$1.4 million and \$5 million annually. That could be about a fourth of the funds that we currently receive so it's a pretty significant amount. There may be some constitutional issues that were brought up on LB452 and are brought up in some of the letters that were submitted today, especially from the lottery department. You'll see some language about that constitutional issue. We don't know the exact impacts of this bill to the funding of the beneficiaries, meaning us, the educational folks, the State Fair, and problem gamblers. But according to the lottery staff, there is a high likelihood that the new tax on lottery sales would be borne by the beneficiaries. So those are the four beneficiaries that get those funds. There are 44 states currently charging...or 44 states that currently have lottery and none of them charge sales tax on any of the lottery products. In closing we would ask that Section...the last section of the bill, portion 77-2704.38, be struck. And with that, I'd be happy to answer any questions. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Brohman. Questions from the committee? I see none. Thank you for your testimony. [LB312 LB563]

MARK BROHMAN: Thank you. [LB312 LB563]

SENATOR SMITH: Next opponent. Welcome. [LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

GENE BRAKE: Thank you, Chairman Smith. I'm Gene Brake, G-e-n-e B-r-a-k-e. I'm president of the Nebraska REALTORS Association and I'm representing them. We are opposed to LB312 because it will increase the cost of housing in Nebraska for buyers and sellers. The sale of a home is the largest and most difficult transaction most will have in their lifetime and it should be handled with the help of a professional. Most have in Nebraska. Our concern is that tax on service will increase the cost of housing and/or push sellers to avoid the tax by selling it themselves. There are so many services on-line and out of state, such as Zillow, TurboTax, [legal.com](http://legal.com), that they can use. I don't see how that will benefit the state of Nebraska or our profession. Thank you. If you have any questions... [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Brake. Questions for Mr. Brake? I see none. Thank you to you and your agent members for what you do in our state. [LB312 LB563]

GENE BRAKE: Thank you. [LB312 LB563]

SENATOR SMITH: Welcome. [LB312 LB563]

BRIAN GILLILAND: Thank you. Good evening, Chairman Smith and members of the Revenue Committee. My name is Brian Gilliland, B-r-i-a-n G-i-l-l-i-l-a-n-d. I'm here appearing in opposition to LB312 on behalf of the Nebraska Beverage Association. The members of the Nebraska Beverage Association include distributors of nonalcoholic beverages and include distributors of Coca-Cola, Pepsi, and Dr. Pepper products. Nationally our industry has a direct economic impact of over \$140 billion and employs over 233,000 people. In Nebraska we employ about 1,700 people. The economic impact is \$1.1 billion. The Nebraska Beverage Association's objection is found in Section 6. The bill provides that soft drinks, candy, and bottled water would be excluded from the definition of food. Existing tax law defines food as "Food and food ingredients means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value." The three items specified fit squarely within the definition. Why separate them out and declare them to not be food? If the state separates those items because the state does not consider them to be healthy or for whatever reason it doesn't like them, that is a dangerous door to open. What will be next? Cookies? High-fructose corn syrup? Some cereals? Whole milk? High-fat beef cuts? Additionally, we don't believe soft drinks are defined in the statute. That raises the concern about what exactly is a soft drink. Webster's defines a soft drink as "a usually carbonated nonalcoholic beverage" and may include juice or beverages that contain some percentage of juice. It may include milk. It's just not clear. The part of the definition that seems to apply would be nonalcoholic. We would suggest that that is a broad category for which Nebraskans would have different views of what is included. We urge the committee to indefinitely postpone LB312. I'd be happy to ask/answer any questions. [LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Thank you, Mr. Gilliland. And I know it's very warm in here. [LB312 LB563]

BRIAN GILLILAND: (Inaudible.) [LB312 LB563]

SENATOR SMITH: Questions for Mr. Gilliland? I see none. Thank you very much. [LB312 LB563]

BRIAN GILLILAND: Thank you. [LB312 LB563]

SENATOR SMITH: Welcome. [LB312 LB563]

LOY TODD: (Exhibits 20-22) Thank you, Senator Smith. Members of the committee, for the record, my name is Loy Todd, L-o-y T-o-d-d. I'm the president of the Nebraska New Car and Truck Dealers Association. Appreciate your patience and I...our testimony in opposition to LB312 and neutral on LB563, I wanted to make sure that in no way diminishes the fact that we understand the property taxes are a serious problem and need to be dealt with. However, we don't believe that the approach by LB312 is one that's going to be helpful; in fact, we believe it will be counterproductive. If there's one thing that you can rest assured, it's that motor vehicles are already sufficiently taxed in the state of Nebraska. And the approach by LB312 is one that would be unique in the country except for the state of California. The trade-in allowance is...exists in every state except for California. The other states that don't have one because it will show up on a list are states that tax motor vehicles different, either no sales tax at all or a cap of \$300 on sales tax or a tax where the rate for motor vehicles is lesser than the rate for another product. You know, when you put in excise taxes, you know, they're going to affect sales. It's just that simple. You've heard testimony today that \$7 or \$7 changes things, \$3 changes things. When you talk about the impact of the elimination of the trade-in allowance on a motor vehicle, that's monstrous. My dealers were absolutely petrified of what this can do. When my dealer sells a new car, he hopes to make around 2.5 percent on that vehicle, on a new motor vehicle. The state of Nebraska is in the car business with us. The state of Nebraska makes somewhere around 10, 11, up to 14 percent on that same sale. State of Nebraska makes that within 30 days, in cash, of our sale. The dealer takes a little longer to make what they make. And if you take a look at the handouts that I've provided there, you look at the amount of money, revenue that's generated by motor vehicles to not just the Highway Trust Fund--people think that that's where motor vehicle taxes go--if you look at that chart, that second chart, the sales tax is \$260 million on motor vehicles and \$60 million of that goes to counties for roads; \$60 million of that goes to cities for roads. The motor vehicle tax, which is the property tax, motor vehicles already are subject to both the sales tax and the property tax. On the property tax, \$150 million went to schools last year; that's to local schools. Another \$104 million went to counties and cities. We already have

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Transcriber's Office

Revenue Committee  
February 22, 2017

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the fourth to highest taxes...fourth to seventh highest taxes in the country. I can tell you that if you repeal the trade-in allowance, we're going to go straight to number two. We can't catch California and I hope we don't ever try. But that's where we are and it isn't even that we're limited to that. If you look down all the other fees that are added to motor vehicles and every year we come in and get to fight off some others, we...there's a bill this year for the...a trust fund for brain injuries. Every year...a couple years ago it was ATV to give some Game and Parks funding. Everybody wants to put just a little bit more on a car because there's so many of them and it's such an easy calculation and I just want to urge this committee to not include this in the package if you're going to do it. The sales will decrease and I...and you're not just going to just lose the increase. You're going to lose a lot of the sales. I'd be glad to answer any questions. Oh, by the way, LB563 is a separate issue and we are neutral on LB563. [LB312 LB563]

SENATOR SMITH: Neutral on LB563, okay. Mr. Todd, just very high level, what is the economic footprint of your members in our state, number of employees... [LB312 LB563]

LOY TODD: The handout, the handout that... [LB312 LB563]

SENATOR SMITH: Is that on here? [LB312 LB563]

LOY TODD: ...the first one, we have over 7,500 employees in the state of Nebraska. They're some of the highest paid employees in the state. [LB312 LB563]

SENATOR SMITH: All right. [LB312 LB563]

LOY TODD: We're statewide in influences everywhere. We...our national has estimated that we're responsible for about 15,000 jobs in the state of Nebraska. [LB312 LB563]

SENATOR SMITH: Okay. [LB312 LB563]

LOY TODD: We do...we generate...just my dealers generate over 18.5 percent of the sales tax in the state of Nebraska. [LB312 LB563]

SENATOR SMITH: All right. Thank you. [LB312 LB563]

SENATOR GROENE: Just a quick question. [LB312 LB563]

SENATOR SMITH: Senator Groene. [LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

SENATOR GROENE: If I go to another state, there's other states, do they...is there any state that doesn't sell...charge sales tax on cars? [LB312 LB563]

LOY TODD: Yeah, there's... [LB312 LB563]

SENATOR GROENE: Well, Arkansas don't have any sales tax. [LB312 LB563]

LOY TODD: Yeah, states that have no sales tax typically are that way. [LB312 LB563]

SENATOR GROENE: So if I... [LB312 LB563]

LOY TODD: But you can't beat it...you can't beat it by... [LB312 LB563]

SENATOR GROENE: You got pay to pay it up front. [LB312 LB563]

LOY TODD: If you go to Wyoming and you go...all our surrounding states you'll save some money if you can register them there but you can't. And so it's the registration process that captures the taxation because you...under the compacts that exist and the way we tax motor vehicles, they're taxed where they're garaged more than six months at a time is how it's supposed to work. Now there is border bleed. Right? I can tell you that there are thousands of cars registered in Iowa and South Dakota owned and operated by Nebraskans all the time. The incentive is there to cheat but...and this will increase that. If you...if we want to export motor vehicle registrations, this would be a good way to do it. [LB312 LB563]

SENATOR GROENE: Thank you. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Todd. Thank you. I see no further questions. [LB312 LB563]

LOY TODD: Thank you. [LB312 LB563]

SENATOR SMITH: Next opponent. Welcome. [LB312 LB563]

KATHY SIEFKEN: (Exhibit 23) Good evening, Senator Smith and members of the committee. My name is Kathy Siefken, K-a-t-h-y S-i-e-f-k-e-n, representing the Nebraska Grocery Industry Association here in opposition to LB312. In the past, sales tax have played a significant role in supporting the state's budget. The service side is now so much larger that our members believe

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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that it is time and it makes sense to review taxing services. Our concern is that we need to consider what is and what is not good tax policy as we move forward. Having said that, we do not support taxing any food or beverages of any kind. Sales tax on those basic necessities of life are regressive and harder on low-income citizens of this state but, more importantly, if this bill passes, the impact on our food industry would be very damaging. Carving out segments of our business wrecks havoc in our industry. Our challenge is really in identifying the products that would be taxed. There are over 300...there are over 30,000 to 40,000 items in a typical grocery store. There are approximately 10,000 new product introductions in the beverage and candy categories each year that we would have to track. In addition to that, there are also new product formulas that come out and we would have to read the labels on each and every one of those products to determine if they fit in with the streamlined sales tax definition. If we deviate from those definitions, we run the risk of being out of compliance with streamline which means we run the risk of our ability to collect Internet taxes. If during an audit the Revenue Department comes in and finds an error because we may have made a mistake, our retailers would be responsible for not only paying the tax that they didn't collect, they would also have a penalty on top of that. And while retailers can subscribe to a service that would tell them what products are or are not taxable, the problem with that is that it's a \$25,000 a year service to provide that to a single grocery store. That's what they're paying over in Iowa. The problem that we've got is that the definition dictates that chocolate chips, M&M baking chips, and black licorice candy is taxable while Kit Kats, Pixy Stix, Twix bars, and red licorice are not. It's a very difficult definition to try to do in a grocery store. So putting this into perspective, this bill would be the same thing as requiring a farmer to identify every three-quarters by one-inch standard bolt that they put in their farm equipment. The deal is, we're talking about thousands of items that are not easily identified. Soft drinks were discussed a little earlier by Brian so I'm not going to go into that, but the definitions of soft drinks are just as onerous and burdensome as the definition of candy. And then we get to bottled water. There are people in this state that use bottled water because they have contaminated water in their neighborhoods or in their communities because of high nitrates, because of flooding contamination or other natural disasters. There are people that use bottled water in our grocery stores because they have immune deficiencies and they are health issues. Those bottled water installations in grocery stores are they filter the water, they use reverse osmosis, they use ultraviolet light to kill the bacteria, and they make those waters...the water in the state to our customers much more safe because it uses local water to remove the contaminants. There are other exemptions that do impact us. We are not opposed to those. So just because we don't like the candy, water, and soda doesn't mean that our people won't be impacted by this expansion into services. If you have...thank you for your time and if you have any questions, I'd be happy to try to answer them. [LB312 LB563]

SENATOR SMITH: Thank you, Ms. Siefken. Questions from the committee? I see none.  
[LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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KATHY SIEFKEN: Thank you. [LB312 LB563]

SENATOR SMITH: Thank you. Welcome. [LB312 LB563]

JENNIFER VARENHORST-WOHLERS: Good evening, Senator Smith and everyone else on the Revenue Committee. My name is Jennifer Varenhorst-Wohlers; it's J-e-n-n-i-f-e-r V-a-r-e-n-h-o-r-s-t, hyphen, W-o-h-l-e-r-s. Now that I've taken the first minute, I'll go ahead and start. I am also a Lyft and Uber driver. As Vicki stated earlier, she was one of the first ones. I was also in that first wave on both of them. Uber and Lyft both pay a \$25,000 annual permit fee to the state in order to operate here. It was part of the original legislation. I remember that you were on that committee because I also sat through those hearings. I like hearings. [LB312 LB563]

SENATOR SMITH: It was painful. [LB312 LB563]

JENNIFER VARENHORST-WOHLERS: It definitely was but we did get through them. It would also hurt the progress that's made on the drunk driving reductions. I know any given Saturday for football games I do 20 to 30 rides on a Saturday between...depending on what time it starts, like noon until 3:00 a.m.; depends on, again, kickoff time. But I can seat six people in my car. And if I'm doing 30 rides a night with six people that are not driving drunk, that are not attempting to get into their vehicle and cause harm to someone else or to themselves, it's a huge plus and it's a win for everyone. It's...there is a 10/11 story came out earlier this January that said that the drunk driving rates had been reduced by 31 percent; 31 percent may not sound very large but when you're considering that that's lives on the line, that is a huge impact. And to go through and make a sales tax on that, it's probably going to have to go through Uber or Lyft. When people get those rate increases, as Senator Groene said, he doesn't...probably will tip his barber because now he's got \$1.60 extra that's being added in. Same thing works on the Uber and Lyft side of things. Lyft, you can tip through the app; Uber, more than likely, people are going to be tipping you with cash or they're not going to tip you at all. So if there is an additional sales tax that's coming in on this, people are going to see that. They don't necessarily relate it to, hey, this isn't going to the driver, this is going to essentially the state through the company; they're going to see it as here's the extra that I paid on this and not see that it's not going to the driver. As a driver, I've got three children. Two of them are daughters. One of them is in high school. There is a lot of stuff that I will not be able to afford for them if this does go through, if the rates of how many riders are wanting to take rides reduces, which you're paid per ride. There is no set amount on it. It depends on where you pick them up, where you drop them off. And as Vicki said, I have taken people from the Railyard up to Fremont. I don't know where exactly they're going because they want to give you directions and they'll tell you, in town even, oh, hey, it's just over here. Turns out I'm going to Hickman. Is it going to start where I originated the ride or is it going to start with the tax where I end the ride? Sometimes you don't know. So I don't know exactly. There's quite a few

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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logistics that have to go through to be figured out on this, along with a laundry list of other small self-employed businesses that are being included in on it. So if anyone has any questions, I'd be happy to answer them. [LB312 LB563]

SENATOR SMITH: Well, thank you. Thank you for being here to testify and appreciate the service that you provide in our state. And I have your application on my phone so. [LB312 LB563]

JENNIFER VARENHORST-WOHLERS: Okay, well, good. [LB312 LB563]

SENATOR SMITH: Do we have questions from the committee? I see none. [LB312 LB563]

JENNIFER VARENHORST-WOHLERS: All right. [LB312 LB563]

SENATOR SMITH: Thank you. [LB312 LB563]

JENNIFER VARENHORST-WOHLERS: Thank you. [LB312 LB563]

SENATOR SMITH: Welcome. [LB312 LB563]

RON SEDLACEK: Good evening again, Mr. Chairman and members of the Revenue Committee. For the record, my name is Ron Sedlacek, S-e-d-l-a-c-e-k, here on behalf of the Nebraska Chamber of Commerce as well as I've been authorized to speak on behalf of, and make sure they're on the record, Omaha Chamber, Lincoln Chamber, Columbus Chamber, Bellevue, Fremont, Holdrege, Norfolk, and Blair Chambers. The state chamber and many of the local chambers have expressed their concerns in regard to LB312 and LB563, particularly those provisions where they believe there are business transactions, business inputs, the services that would apply. And we've had longstanding policy against taxing such business inputs or business-related services. Of course, this has been recognized since 1962 with the McClellan study, the Syracuse tax study following that, the Burling tax study, and the 2013 Tax Modernization Committee report to the Legislature. The fact is that there are several exemptions that are core structural aspects of a modern tax system that many states no longer consider them exemptions and they don't quantify them in the tax expenditure report, unlike Nebraska which we still do. But at any rate, I'll keep the testimony short for you all and just state our position on the record. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Sedlacek. I see no questions. Thank you for the testimony. Next opponent. Welcome. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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LISA BRADLEY: Thank you. Thank you, Senator Smith and members of the committee, for staying so late, and bless you. My name is Lisa Bradley, L-i-s-a B-r-a-d-l-e-y. I am representing the Nebraska State Board of Massage Therapy. And the State Board of Massage Therapy is in opposition to both LB312 and LB563. Massage therapy, as quoted by the Mayo Clinic, is generally considered part of complementary and alternative medicine. The U.S. News and World Report says, "Once viewed as a luxury, massage is increasingly recognized as an alternative medical treatment. According to a recent consumer survey sponsored by the American Massage Therapy Association, 77 percent of respondents said their primary reason for receiving a massage in the past year was medical or stress-related." The American Hospital Association surveyed 1,000 hospitals about their use of complementary and alternative medicine therapists and more than 80 percent said they offered massage therapy. Upwards of 70 percent said they used massage for pain management and relief. The State Board of Massage Therapy feel that imposing a tax on massage therapy would be doing a disservice to clients that rely on those sessions for pain relief. This is not fluff and buff because we just want to get our hair done and nails done. To be considered also, many clients use HSA or FSA accounts and to help relief from this. To be considered as a qualified medical expense, the IRS regulations state that medical care expenses must be primarily to alleviate or prevent a physical or mental ailment. We fear that if massage therapy is taxed and classified as a personal service, clients will lose the ability to utilize these funds. Under the Iowa Department of Revenue, Iowa's sales and use tax, taxable services, the code states that massage is taxable unless performed by a licensed massage therapist. This language is included for purposes of unlicensing practice and to add the charge of tax evasion onto those possibly involved in human trafficking. The Iowa State Board of Massage has stated that licensed massage therapy is not included in taxation because it is considered a medical practice. We don't tax medical services as acupuncture, physical therapy, chiropractor, or other alternative or complementary medical practices. We, the board, feel that massage therapy implicitly fits into the same categorization as these practices and for that very reason they should not be taxed. [LB312 LB563]

SENATOR SMITH: Thank you, Ms. Bradley. [LB312 LB563]

LISA BRADLEY: Thank you. [LB312 LB563]

SENATOR SMITH: Questions for Ms. Bradley? Roughly how many members do you have? [LB312 LB563]

LISA BRADLEY: Pardon me? [LB312 LB563]

SENATOR SMITH: How many members do you have in your association? [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

---

LISA BRADLEY: Nebraska Association has 300 and some. There are 1,467 massage therapists in Nebraska, over 1,400 massage therapists in Nebraska. This would affect a lot of people. The ripple effect to the public safety and health would be detrimental. [LB312 LB563]

SENATOR SMITH: Well, thank you for waiting around and testifying tonight. [LB312 LB563]

LISA BRADLEY: Thank you. [LB312 LB563]

SENATOR SMITH: Next opponent of LB312 or LB563. Welcome. [LB312 LB563]

REBECCA OHLSON: (Exhibit 24) Thank you. My name is Rebecca Ohlson, R-e-b-e-c-c-a O-h-l-s-o-n. I am the Nebraska chapter president of the American Massage Therapy Association which is the largest nonprofit, professional association serving massage therapists, massage students, and massage schools. So I represent our 400-plus members of the Nebraska chapter. I have been a licensed massage therapist also since 2001. Today I want to share our opposition to the bills, LB312 and LB563, specifically the mention of massage within personal care services. We would like for you to amend both bills and strike out massage within both. We feel it is in the best interest for Nebraska and the massage profession for you to consider this amendment. Massage has historically always been healthcare. It was developed in Europe as part of the drugless healing system. Nineteenth century, everyone got their education from there, came back to the United States and started to implement. Medical school curriculum included massage as a modality for both physicians and nurses. After allopathic medicine became mainstream due to the science-based medicine, massage became a branch of medicine that also includes physical therapy. Fast-forward to 2017, integrative healthcare is becoming more mainstream. We utilize Western medicine, and then also integrate with patient-centered healing focusing on the whole person, the mind, body, and spirit. So types of integrated modalities do include massage, yoga, Pilates, meditation, acupuncture, and so on. Hospitals and clinics such as Duke Integrative Center, Mayo, Cleveland Clinic, Memorial Sloan, and M.D. Anderson Cancer Center in Houston are also prominent examples of how they have integrated this, including massage therapists. These bills single out massage and place us under a category that we do not belong. We are healthcare professionals and are a part of the healthcare team. We work in a variety of clinical settings from hospitals, physician clinics, physical therapy clinics, athletic training room, chiropractic, and others. It was already mentioned about our AMTA survey and how 78 percent do feel their massage is medical related. There was also recent survey or a recent report on CBS morning news that American College of Physicians are finding that new guidelines for treating new...for treating low back pain. Their statement is for treatment, pain lasting less than three months, patients should use "heat wraps, massage, acupuncture and spinal (manipulation)." They are not recommending drugs as their first treatment option. So to conclude our opposition to the bills LB312 and LB563, that is directly related to the massage portion: LB312, page 7, line 24;

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

---

LB563, page 7, line 21. Please strike out massage in both bills. Massage is healthcare. We want to be regulated in the same manner as other healthcare professionals who are not subjected to these types of taxes. [LB312 LB563]

SENATOR SMITH: Thank you, Ms. Ohlson, for your testimony. I see no questions from the committee. Thank you for waiting around tonight. [LB312 LB563]

KATIE ZULKOSKI: Good evening, Chairman Smith, members of the Revenue Committee. My name is Katie Zulkoski, Z-u-l-k-o-s-k-i, testifying today on behalf of the Nebraska Veterinary Medical Association. The NVMA opposes the imposition of sales tax on veterinary services. Current law provides an exemption for veterinary services to pet-related and livestock-related services. This bill, Section...LB312, specifically Section 2 on page 7, would impose a sales tax on animal specialty services and pet-related services which then would include the veterinary services. And we think drawing a line in the legislation between when these services are pet related versus livestock related may be a difficult task. Further, for both livestock and, as was mentioned, for business-input reasons, both livestock and pet-related services can be a business-input expense and so we would encourage the committee to see all veterinary services in that way. And with that, I'm happy to answer any questions. [LB312 LB563]

SENATOR SMITH: Thank you, Ms. Zulkoski, for your testimony. I see no questions from the committee. Thank you. [LB312 LB563]

DON WESELY: (Exhibit 25) Mr. Chairman, members of the Revenue Committee, my name is Don Wesely, D-o-n W-e-s-e-l-y. I want to give you some good news. This hearing has been long and there has been a lot of interaction. And it turns out I met a relative of mine I'd never met before. There was a Dan Wesely that testified earlier, never met Dan. I had no idea. And so there, that's a great outcome. If nothing else happens, you've got some family coming together here. Anyway, I represent the NSSOA, which is Nebraska Self Storage Owners Association. I have a letter that I've passed out from Bill Lange who heads the NSSOA. Just to be brief, the basic points we'd make, we think there are only six states that have a sales tax on storage services in the whole...now Senator McCollister thought maybe there was eight or nine but, in any event, not very many states tax storage services. And one of the reasons I think is that it isn't really a service; it's renting space. It's renting storage space. It would be no different than renting an apartment or a, you know, an office space or something like that. And if you're not going to put everybody in the same playing field, level playing field, we don't think that's fair. So we oppose both LB563 and LB312. And there are 400 of these self-storage facilities around the state of Nebraska. So that's all I'll share with you at this point. [LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Thank you, Mr. Wesely, for your testimony. I see no questions. [LB312 LB563]

DON WESELY: Thank you. [LB312 LB563]

SENATOR SMITH: Thank you. Welcome. [LB312 LB563]

MICHAEL McHALE: (Exhibits 26 and 27) Good evening, Chairman Smith, members of the Revenue Committee. My name is Michael McHale, M-i-c-h-a-e-l, M-c-H-a-l-e. I am the general counsel and policy analyst for the Nebraska Catholic Conference. And the conference represents the mutual public policy interests of the three bishops of Nebraska. And we're testifying in opposition to LB312 primarily with respect to provisions regarding education and we're also submitting opposition testimony to LB563 regarding the tax on the interment of human remains, so just these specific provisions. So my testimony here will focus on the education in LB312. Again, we're in opposition to LB312 insofar as these provisions we think would disproportionately burden private schools and, thus, in effect, the right of low-income parents and students to choose the school best suited for them. And in particular, LB312 would eliminate the sales tax exemption on school lunches offered by public or private schools, along with the sale of food at an approved function of any such school. Additionally, LB312 would eliminate the sales tax exemption on fees and admissions for school events, whether a public or private school. These provisions would have a residual impact on the cost of education, especially in private schools. Because our private schools are (a) nonprofit and (b) do not receive government funds, these costs would fall back on, for our schools, the taxpaying donors and tuition-paying families who in a certain sense you could say would be paying twice. They would be paying for the cost through tax dollars at public school but then with respect to private school they'd have an additional cost that would ultimately fall back on them. And even a low increase in tuition for some of our at-risk schools, especially, would have a big impact on those schools and on lower income families. And then in addition, we want to be sure that LB312 doesn't have the effect of, and I assume this would be unintentional, of imposing a sales tax on tuition. And this goes to the provision in the bill and in current law regarding fees and admissions for school events. And the way that provision is drafted is interesting, to say the least, and we just want to be sure that the unintentional effect wouldn't be to effectively impose a tax on fees and admissions for private schools. I think the intent of that passage is to go to events. But as Justice Kagan said at Harvard Law School a couple years ago, "(Well, I think) we're all textualists now..." Courts looked at the plain language of text. And again, we just want to caution. And I'm sure Senator Briese, he's already mentioned a willingness to make sure that concern is completely clarified if necessary. We just want to make sure we're not unintentionally taxing tuition at private school. And with that, I'd be happy to take any questions. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Thank you, Mr. McHale, for your testimony. I see no questions from the committee. Thank you. [LB312 LB563]

MICHAEL McHALE: Thank you. [LB312 LB563]

SENATOR SMITH: Welcome. [LB312 LB563]

JOHN LINDSAY: Senator Smith, members of the committee, for the record, my name is John Lindsay, L-i-n-d-s-a-y, appearing on behalf of the Nebraska Association of Trial Attorneys. Ms. Fangmeyer testified earlier regarding the same section that we have concern with and that's on attorney's fees for nonbusiness purposes. One of her arguments was that it does come up with it seems like a pretty unfair result that in a personal injury case one side's legal services are taxed and the other side's legal services are not taxed. And that does not seem to be a fair result. Second thing, just a reminder that it's not a tax on the attorneys; it is a tax on the person who is injured. The whole goal of tort law is to get people back to the position that they were in prior to the accident. But by imposing a tax on the legal services that gets them to that level, it guarantees that they'll be below where they were prior to the accident. With that, I'd be happy to answer any questions. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Lindsay, for your testimony. I see no questions. Thank you. [LB312 LB563]

JOHN LINDSAY: Thank you. [LB312 LB563]

SENATOR SMITH: Competition for the last testifier spot. [LB312 LB563]

SENATOR SCHUMACHER: That's the one that gets the exemption, right? [LB312 LB563]

SENATOR SMITH: Welcome. [LB312 LB563]

KORBY GILBERTSON: (Exhibits 28-30) Good evening, Chairman Smith, members of the committee. For the record, my name is Korby Gilbertson; it's spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n, appearing today as a registered lobbyist on behalf of the following organizations: the Nebraska Society of CPAs, the Nebraska State Fair Board, Speedway Motors, Tyson Foods Incorporated, the Nebraska State Cemetery Association, and the Home Builders of Lincoln, Metro Omaha Builders Association, in opposition to LB312 and LB563. I've also had distributed to the committee letters that I was asked to hand out on both of the bills that were created by a coalition of organizations and associations that voice concerns about the bills' tax policy and criteria we

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Transcriber's Office

Revenue Committee  
February 22, 2017

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believe should be followed when developing tax policy for the state. These bills just seem to miss the mark on several points. I'm going to try to address those as I kind of address the separate clients that I'm representing up here right now, so I'll try to do this quickly. The first client that I mentioned is the Society of CPAs. Obviously CPA services are used by all people of the state. It is a portable service. If you look at the letter that I presented by the coalition, one of the concerns is that you should not charge a sales tax on a service that is portable. The second concern with that would be that it is a service that larger industry or businesses can absorb and hire their own in-house CPAs and they would not have to pay that tax, so it would be unfairly taxed onto people that have to use them just for their personal use. The second issue is for the Nebraska State Fair Board. I see Senator McCollister did offer to take that language out of his bill. However, in LB312, that language still exists. I would direct your attention to the fiscal note which points out some constitutional issues as well as the fact that because the lottery tickets have to be sold at face value, that cost would have to be absorbed within the cost of that ticket. Third issue would be for Tyson Foods, the language about custom meat slaughtering, cutting, and wrapping. While we don't believe that...Tyson does not actually do custom meat slaughtering but we think that it could potentially be argued by an auditor or someone that they do, do custom meat cutting and packing for, say, if they grind meat for a customer's specifications. Then they could see an auditor perhaps taking a view that that would be a taxable service. And finally, for the Cemetery Association, interment on human remains, we feel that this is very vague and would like to know if it would include the other ancillary services around that. Would it include the funeral services, what the remains are interred in, and other things that are very unclear in the legislation? With that, I will finish up and be happy to answer any questions. [LB312 LB563]

SENATOR SMITH: Thank you, Ms. Gilbertson. Nice job of finishing before that light turned red. [LB312 LB563]

SENATOR GROENE: I got a question. [LB312 LB563]

KORBY GILBERTSON: (Laugh) Yeah. Yes. [LB312 LB563]

SENATOR GROENE: I got a question. [LB312 LB563]

SENATOR SMITH: All right. Senator Groene. [LB312 LB563]

SENATOR GROENE: Do you represent the parking lot, swimming pool, cleaning and maintenance and dating/escort services? [LB312 LB563]

KORBY GILBERTSON: No, I do not. [LB312 LB563]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR GROENE: So I don't think they had representatives here so we can tax those guys, right? [LB312 LB563]

KORBY GILBERTSON: Senator, you get to make the tax policy, so. [LB312 LB563]

SENATOR GROENE: Thank you. [LB312 LB563]

SENATOR SMITH: All right. Thank you. Thank you for your testimony. [LB312 LB563]

KORBY GILBERTSON: Thank you. [LB312 LB563]

SENATOR SMITH: Next opponent of LB312 or LB563. [LB312 LB563]

MICHAEL KEARNEY: All right, I was nervous when this day started, but now I'm too tired to be nervous, so thank you very much. And I'm here. My name is Michael Kearney, M-i-c-h-a-e-l K-e-a-r-n-e-y, and I'm the manager of the Ambassador Wellness Center in Nebraska City, Nebraska, and I'm here to not oppose the whole thing but just oppose the portion about the fitness instruction that goes underneath the recreational activities. I guess I'm hoping to either strike that or maybe restructure that, how that, how fitness instruction is looked at. And the Genesis guy was up here and he gave you the statistics and you guys have the IHRSA letter and that's what I have, so they took all my stuff. But I guess when we talk about personal training, and that's kind of what I'm talking about, personal training a lot of people look at as a luxury. But one example of a person that I have is her name is Alicia (phonetic). She's a member of the wellness center. And I don't know how long ago, but she has a big scar across her head. She was very functional. Now she's not very functional. Her health has gone down immensely over the years. Her mom takes care of her and I don't believe they have any more therapy in insurance or anything like that, so they'd come to me. I'd pretty much work with her about a half hour twice a week and have to actually pull her up and put her in machines and get her to do exercises. And when she wrote the check for personal training at the wellness center, she was...she...her hands were shaking. And so I guess I'm kind of looking, you know, you start adding taxes onto something like that and that makes it pretty tough for people. And I don't know how many people I have come to me each week and...or year and say that they don't have any more physical therapy to do therapy, they don't know what to do, and they come to me for that help, so. And like the Genesis guy said, the membership is already taxed. But I guess we're just looking for that fitness instruction that may be taken out of the bill or even just taken out of recreational activities in general. I think it's time that maybe we restructure that to name it something different. And I think he said it was underneath 77-2701.16 and the IHRSA letter does say that. But I think it's actually that number and it's under 4(t) not 3(t). And I think that's it. The other

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Transcriber's Office

Revenue Committee  
February 22, 2017

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thing I would have is, for answers, how to gain some money is tax candy and pop. That's all I have to say. [LB312 LB563]

SENATOR SMITH: Thank you, Mr. Kearney, for your testimony. [LB312 LB563]

MICHAEL KEARNEY: Yes, um-hum. [LB312 LB563]

SENATOR SMITH: So how long have you been in your profession? [LB312 LB563]

MICHAEL KEARNEY: I have worked at the Ambassador, I started as an intern in '98 and I just worked my way up and I've...now I'm running it for about 17 years. [LB312 LB563]

SENATOR SMITH: Very good. [LB312 LB563]

MICHAEL KEARNEY: So, yeah. [LB312 LB563]

SENATOR SMITH: Now would...could you venture a guess, roughly, how many are employed in your profession in the state? [LB312 LB563]

MICHAEL KEARNEY: In our profession? Ooh. [LB312 LB563]

SENATOR SMITH: And if you don't have those numbers, I'm just...I know there's a lot. [LB312 LB563]

MICHAEL KEARNEY: I have no idea, you know, and I know there's a bill coming up on the 24th in front of--I don't know if it's you guys or somebody else--where they want to license your personal trainers in Nebraska and I'd still... [LB312 LB563]

SENATOR SMITH: Okay. [LB312 LB563]

MICHAEL KEARNEY: I don't know, I go either way on it. I'd be fine with it but... [LB312 LB563]

SENATOR SMITH: Okay. [LB312 LB563]

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Transcriber's Office

Revenue Committee  
February 22, 2017

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MICHAEL KEARNEY: ...personally but, yeah, I don't know what the numbers are. [LB312 LB563]

SENATOR SMITH: Okay. [LB312 LB563]

MICHAEL KEARNEY: Anybody can get a personal training license and that's...that is a problem. [LB312 LB563]

SENATOR SMITH: Um-hum. Well, thank you for waiting around... [LB312 LB563]

MICHAEL KEARNEY: Thank you. [LB312 LB563]

SENATOR SMITH: ...and coming down and testifying today. [LB312 LB563]

MICHAEL KEARNEY: Thank you. [LB312 LB563]

SENATOR SMITH: (Exhibits 31-44) Appreciate it. Are there any other opponents to either LB312 or LB563? We do have some letters for the record in opposition. In opposition to LB312 we have the following: Greg Adams representing Nebraska Community College Association; Scott Brettmann, American Society of Farm Managers and Rural Appraisers; Joe Moore, International Health, Racquet and Sportsclub Association; David Geier, Commission on Problem Gambling; Sara Kay, the American Institute of Architects, Nebraska chapter; Christi Janssen, the Durham Museum; and Duane Hovorka, Nebraska Wildlife Federation. And sending letters in for the record in opposition to LB563 we have: Greg Adams, Nebraska Community College Association; Sara Kay, the American Institute of Architects-Nebraska; and Duane Hovorka, Nebraska Wildlife Federation. And we now move to those wishing to testify in a neutral capacity, neutral capacity. We do have letters for the record in a neutral capacity. For LB312 we have: Nathan Leach, Lincoln, Nebraska; and Brian Rockey, Nebraska Lottery. And in a neutral capacity on LB563 we have Nathan Leach, Lincoln, Nebraska; Brian Rockey, Nebraska Lottery; and Nebraska Agriculture Leaders Working Group. We now invite Senator McCollister to close on LB563. [LB312 LB563]

SENATOR MCCOLLISTER: Chairman Smith and members of the committee, I salute your indulgence and patience. It's been a long night. In talking about taxes, it is an uncomfortable topic. I think it's Abraham Lincoln that said tax neither me or thee, tax the man around the tree, and that's what we're hearing tonight. The last systematic review of our sales taxes was in 2002. It's high time we do that again. This bill was narrowly focused, as you heard tonight. It is specific and we include a few more taxable items that haven't been included before and took out

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Revenue Committee  
February 22, 2017

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the exemptions for others. With regard to the interment services, we considered maybe giving an exemption for that, but if you chose to move my bill forward you could put that in or take it out at your pleasure. That's certainly something the committee could do it themselves. And I think LB563 would generate about \$29 million in tax revenue to the state. It would go to the General Fund. So I think it's incumbent upon us to utilize that money, particularly this year when we're so short of cash. Thank you, Mr. Chairman. [LB563]

SENATOR SMITH: Thank you, Senator McCollister, for your closing on LB563. Remaining questions from the committee for Senator McCollister? I see none. And we now invite Senator Briese to close on LB312. [LB312 LB563]

SENATOR BRIESE: Thank you again, Chairman and members of the Revenue Committee. I certainly appreciate everyone being here tonight to testify on both sides of these bills and I understand why many groups want to protect their exemptions and exclusions. But we need to recognize the need to craft a proposal driven by principles of fairness and consistency, not by special interests. LB312 provides us with an opportunity, an opportunity to stand with all Nebraskans for significant property tax relief. Let's take advantage of this opportunity to do so. Thank you. I'd be happy to answer any questions you have on any of the specific exemptions or any thoughts or anything you want to talk about, but, if not, I'm good to go too. [LB312]

SENATOR SMITH: Senator Groene. [LB312]

SENATOR GROENE: Senator McCollister said something about tax the man behind the tree. How about taxing trees? They got a lot more in eastern Nebraska. [LB312]

SENATOR BRIESE: I should put that down, so there you go. [LB312]

SENATOR GROENE: Thank you. [LB312]

SENATOR BRIESE: Yeah, thank you. [LB312]

SENATOR SMITH: Trying to lose your last friend? (Laughter) Any... [LB312]

SENATOR GROENE: Well, I'm cutting all the trees down in my yard, I'm telling you that much. [LB312]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 22, 2017

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SENATOR SMITH: Any other questions for Senator Briese? I see none. Thank you, Senator Briese, for your closing on LB312. And that concludes our hearings for the day. Thank you.  
[LB312]