

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

Revenue Committee
March 03, 2017

[LB228 LB272 LB475 LB528]

The Committee on Revenue met at 1:30 p.m. on Friday, March 3, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB272, LB475, LB528, and LB228. Senators present: Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Brett Lindstrom; and Paul Schumacher. Senators absent: Jim Smith, Chairperson; Tyson Larson.

SENATOR FRIESEN: Okay. Welcome to the Revenue Committee. My name is Curt Friesen, I represent District 34, from Henderson, Nebraska. The committee will take up bills in order posted. Our hearing today is part of the public legislative process and this is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceeding, I ask that you abide by the following procedures. Please turn off all cell phones and other electronic devices. Move to the chairs at the front of the room when you're ready to testify. The order of testimony is introducer, proponents, opponents, neutral, and closing remarks. If you will be testifying please complete the green form and hand it 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 them, please hand them to the page to distribute. We need 11 copies for all committee members and staff. If you need additional copies please ask the page to make copies for you now. When you begin to testify please state and spell your name for the record. Please be concise. It is my request that you limit your testimony to five minutes. We will be using the light system. You'll get four minutes of green, one minute of the yellow, and then when the red light comes on I'd ask that you wrap up 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. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. To my immediate left here is legal counsel, Mary Jane Egr Edson. To my further left is research analyst, Kay Bergquist. And clear at the other end of the table is Krissa Delka. And so now Senator Larson would be to my clear right, he represents District 40. I assume some of them will be joining us, they probably have other bills in different committees. Next to him would be Senator Mike Groene of North Platte, District 42.

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

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

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

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

Revenue Committee
March 03, 2017

SENATOR FRIESEN: And then next to him would be Senator Burke Harr from Omaha, District 8. We have one page with us today, Sarah Wearne. And with that we will open the hearing on LB272. Welcome, Senator Vargas. [LB272]

SENATOR VARGAS: (Exhibit 1) Thank you very much. Members of the Revenue Committee, Senator Friesen, and everyone else, thank you very much for having me. My name is Tony Vargas, T-o-n-y V-a-r-g-a-s, and I represent the 7th District of Nebraska, downtown and south Omaha. I appear before you today to introduce LB272. LB272 would amend the Nebraska Job Creation and Mainstreet Revitalization Act by requiring the Nebraska Department of Revenue to essentially complete an audit of an Historic Tax Credit project within 60 days of receiving notice from the State Historic Society that a project has been completed and approved. As Senator Schumacher's bill is after mine, I realize that you'll be hearing a lot about this tax credit program today. But since I'm up first I'll provide a brief background on the Historic Tax Credit. This Historic Tax Credit was initiated in 2015 under the Nebraska Job Creation and Mainstreet Revitalization Act and was intended to encourage investment in historic resources in both urban and rural communities. It provides a state tax credit of up to 20 percent of qualified rehabilitation expenditures. Total tax credit funds available from the state are capped at \$15 million per year and up to \$1 million per project. When a developer decides they would like to start planning a project they first submit paperwork to the Nebraska Historic Society, which processes applications and allocates credits to qualifying projects. Generally, applications are reviewed within 30 days of receiving an application, which then lets applicants know whether or not a project qualifies for the credits and does so in a relatively short period of time. Once a project receives approval from the Historic Society, the Department of Revenue reviews the expenditures that were made. However, there is no time line or deadline for the Department of Revenue to complete the audit of expenditures. LB272 simply establishes deadlines for the Department of Revenue to complete audits of projects within a reasonable period of time, within 60 days of receiving notice of project approval from the Nebraska Historic Society. Establishing a deadline for the audit will allow developers and investors and individuals that are working on these projects so they know when to expect the credit to be issued, very similarly to what we already provide the taxpayers for the Nebraska Advantage Act. There are things that we do as legislators to simplify things for taxpayers. I know I've spoken with Senator Schumacher and we have discussed the need to make things easier for taxpayers and developers and particularly people that are applying for this program. I believe LB272 begins to accomplish some pieces of that goal. I also know that the Historic Society is looking for ways to simplify the application process for the program in light of concerns that in conversations with Schumacher and from at least one applicant that we know of. As such, I'd like to work with the members of the committee on ways to simplify this program and make things easier to help move the state forward and put forward some long-vacant properties back into use. Before I'd close I'd like to comment on the use of targeted tax credit programs, the broader debate on tax reform, and the metrics we employ as legislators in evaluating the benefit of one tax benefit over another. I think and believe, as you do

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

Revenue Committee
March 03, 2017

as well, that there is a time and place for targeted tax programs. We've discussed that in the context of property taxes with the personal property tax exemption, with income taxes with the elimination of the alternative minimum tax, and other tax programs that I mentioned, the Nebraska Advantage Act. So as we look at Historic Tax Credit program in the broader debate on tax relief, I think it is important to note that this Historic Tax Credit program is one program that is clearly providing a higher-than-average return on investment. A couple of weeks ago the University of Nebraska-Lincoln, Bureau of Business Research released a report highlighting the benefits of the state's Historic Tax Credit program, which I provided to you a copy that should be in front of you. The benefits and the importance of this program cannot be understated, both from a rural and urban perspective. According to the report, the program resulted in an economic impact to our state's economy of over \$120 million, yielding over 1,600 full-time jobs, and generating over \$53 million in new wages for Nebraska workers. In addition, these projects have contributed over \$69 million to the state's gross state product and over \$5 million in new state and local tax revenues. These numbers are for 2015 projects alone. And I would remind the committee that the tax credit is capped at \$15 million of investment from the state. Fifteen million dollars of investment from the state for an economic impact of \$120 million I believe is an incredible return on our investment for ourselves and for Nebraskans. I think it's also important to highlight where these projects are taking place in neighborhoods throughout Nebraska in need of revitalization, including mine and my co-sponsor, Senator Hilkemann. And also, we're seeing this in Chadron, Columbus, Fairbury, Friend, Grand Island, Hastings, Lincoln, Norfolk, Pender, and Red Cloud. With that, I will end. I'd be happy to answer any questions that the committee may have. [LB272]

SENATOR FRIESEN: Thank you, Senator Vargas. Any questions from the committee? Seeing none, sticking around for closing? [LB272]

SENATOR VARGAS: I will stick around for closing. [LB272]

SENATOR FRIESEN: Thank you. [LB272]

SENATOR VARGAS: Thank you. [LB272]

SENATOR FRIESEN: Proponents who wish to testify in favor of LB272, please come forward. [LB272]

DAVID LEVY: Good afternoon. [LB272]

SENATOR FRIESEN: Welcome. [LB272]

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

Revenue Committee
March 03, 2017

DAVID LEVY: Thank you, Senators. I drew the short straw so I get to go first here. Recognizing that it's a Friday afternoon I will be brief. And I'm sorry, I didn't give you that. David Levy, D-a-v-i-d L-e-v-y, with the Baird Holm law firm appearing as registered lobbyist for Turner Park North and as a board member of the Nebraska Association of Commercial Property Owners and Omaha By Design in support of LB272. Senator Vargas said it very well. There's not a lot to add to that. Although, I will say that these tax credits function essentially as part of the financing stack for a development project, so they are paired with bank loans and investor funds and other sources of money to complete the project. The last part of the process with the Department of Revenue is when you've spent all of the money on the project but you haven't yet received the tax credits to monetize those to create that last part of the financing stack. So if that process drags on for nine months or a year, it creates a lot of uncertainty and a lot of difficulty in completing the financing for the construction of the project. As I think Senator Vargas may have mentioned, the statute as originally enacted has deadlines on the State Historic Preservation Office, but does not on the Department of Revenue. So this bill is an attempt to even out that process and to create some certainty on the back end of the process, which again is when the developer and owner have outlaid all the capital for the project but have not yet realized the value of the tax credits. And so this is very important to help do that and create some certainty for these projects and ultimately make this program--which as you heard has been very effective--even more effective. So with that, I'd be happy to answer any question. [LB272]

SENATOR FRIESEN: Thank you, Mr. Levy. Any questions from the committee? Seeing none, thank you for your testimony. [LB272]

DAVID LEVY: Thank you. [LB272]

SENATOR FRIESEN: Welcome. [LB272]

ROBERT HALLSTROM: Vice Chairman Friesen, members of the committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m. I appear before you today as registered lobbyist for the Nebraska Bankers Association in support of LB272. I think again to be brief, Senator Vargas has pointed out what the bill does and what the benefits of the bill are. The main aspect from a lender or developer's perspective is enhancing the predictability regarding the timing of the receipt of the credits to make sure that they are received in a timely fashion. And with that, we would just echo our support for the program in general and for the changes proposed by Senator Vargas under the bill. Be happy to address any questions. [LB272]

SENATOR FRIESEN: Thank you, Mr. Hallstrom. Any questions from the committee? Seeing none, thank you. [LB272]

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

Revenue Committee
March 03, 2017

RON SEDLACEK: (Exhibit 2) Senator Friesen and members of the Revenue Committee...
[LB272]

SENATOR FRIESEN: Welcome. [LB272]

RON SEDLACEK: Thank you. For the record, my name is Ron Sedlacek, S-e-d-l-a-c-e-k. I'm here on behalf of the Nebraska Chamber of Commerce in support of LB272. I'm not going to be redundant. What's been said is the reason why we have taken a position in support of the legislation. As I understand, you received part of a final report. This is from the Bureau of Business Research at UNL. I do have a copy of the entire report, so I'd just be happy to share that with the members of the committee. [LB272]

SENATOR FRIESEN: Thank you, Mr. Sedlacek. Any questions from the committee? Pretty quiet bunch today. Thank you. [LB272]

RON SEDLACEK: Thank you. [LB272]

SENATOR FRIESEN: Welcome. [LB272]

MICHAEL SOTHAN: Welcome. Yes, thank you for letting me speak here today. My name is Michael Sothan, S-o-t-h-a-n, and I'm with Main Street Beatrice. We are a downtown, independent, nonprofit organization that is working towards downtown revitalization and community events and a variety of different things. And our community just recently was able to be on the National Register and has joined that here at the end of this last summer. And we definitely want to speak in favor of this bill, as we have several different property owners that are very excited about the possibility of using this tool, the Nebraska Historic Tax Credit, the Mainstreet Revitalization Act as a tool to really start to fight those things that Senator Vargas and everyone else has already mentioned. We do have buildings that have been sitting very much underutilized, some of them sitting vacant. And this is a tool that is really helping us see those come into better use. We've seen different developers that are looking at Beatrice now to invest money from out of the state, also instate, so both local and from folks outside of the Beatrice. We definitely are seeing a lot of excitement with this and definitely do hope that it can be improved and be a better tool as we move forward to see revitalization in downtown Beatrice. So thank you very much for your time today. [LB272]

SENATOR FRIESEN: Thank you, Mr. Sothan. Any questions from the committee? Again, thank you for your testimony. [LB272]

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

Revenue Committee
March 03, 2017

MICHAEL SOTHAN: Thank you. [LB272]

SENATOR FRIESEN: Welcome. [LB272]

CHRISTY ABRAHAM: Afternoon, Senator Friesen and members of the Revenue Committee. My name is Christy Abraham, Abraham is spelled A-b-r-a-h-a-m, and I'm here representing the League of Nebraska Municipalities. And I first just want to start off by thanking Senator Vargas for introducing this bill. He explained so well why the program is important. And the League would just like to go on record as supporting this bill. We feel that the sooner the municipalities can get the credits from this important program the more effective the program is going to be. So we just appreciate his introduction of the bill and I'm happy to take any questions you might have. [LB272]

SENATOR FRIESEN: Thank you, Ms. Abraham. Any questions from the committee? Senator Groene. [LB272]

SENATOR GROENE: Do you know how many of these projects are also TIFed? [LB272]

CHRISTY ABRAHAM: Senator Groene, that is an interesting question. I have heard situations where cities use both the Historic Tax Credit and the federal tax credit to do these projects, but I haven't heard of any examples where they're also using TIF. [LB272]

SENATOR GROENE: Well, they're in the urban areas, aren't they, because they're older buildings and stuff? [LB272]

CHRISTY ABRAHAM: A lot of the projects that I'm aware of, Senator Groene, are in historic downtowns and main streets. And, of course, as you and I well know as sitting through the TIF hearings, whether those downtown areas are substandard and blighted, I'm sorry, I don't know. I haven't heard of situation... [LB272]

SENATOR GROENE: No, they aren't. Out on 180th and Dodge is blighted (inaudible). [LB272]

CHRISTY ABRAHAM: I have not heard of a project that uses both these credits and TIF. [LB272]

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

Revenue Committee
March 03, 2017

SENATOR GROENE: I was just wondering how the study could say we...project has contributed \$5.11 million in state and local taxes if they're not paying property taxes. But you're not sure they are or they aren't. [LB272]

CHRISTY ABRAHAM: Well, it's my understanding with this program the tax credit is only about 20 percent of the total project, so it's possible that cities are still contributing funds to ensure that these projects happen. [LB272]

SENATOR GROENE: But if they're being TIFed, they're not paying local taxes or they're paying local taxes, but it isn't generating them for local uses. [LB272]

CHRISTY ABRAHAM: Yeah, in TIF, right. The developer is paying the taxes and that increased amount over the base amount is helping to redevelop that program. [LB272]

SENATOR GROENE: That would be nice to know. [LB272]

CHRISTY ABRAHAM: Okay. I will look into that. Like I said, I haven't heard of it, but if I get any information I'll be sure to share it with your office. [LB272]

SENATOR GROENE: I think there was legislation passed last year, wasn't there, where they were supposed to report to the city if they are pursuing TIF if they're also pursuing this or Advantage Act or any other program. Prior they didn't have to, but. [LB272]

CHRISTY ABRAHAM: Okay. [LB272]

SENATOR GROENE: Could you look into that? [LB272]

CHRISTY ABRAHAM: I certainly will. I'll be glad to do it, Senator Groene. [LB272]

SENATOR GROENE: All right, thank you. [LB272]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you for your testimony. [LB272]

CHRISTY ABRAHAM: Thank you. [LB272]

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

Revenue Committee
March 03, 2017

SENATOR FRIESEN: Any other proponents for LB272? I have letters here to read into the record from: Greg Youell, Omaha-Council Bluffs Metropolitan Area Planning Agency; Chris Jerram, Omaha City Council; Renee Kuhlman, National Trust for Historic Preservation, Washington, D.C. Any opponents wish to testify on LB272? Seeing none, anybody wish to testify in a neutral capacity on LB272? [LB272]

TREVOR JONES: Good afternoon, Senators, Senator Friesen. I am Trevor Jones, T-r-e-v-o-r J-o-n-e-s, I am the director and CEO of the Nebraska State Historical Society. And in that capacity I also serve as the state's historic preservation officer. Our organization is neutral on LB272. We handle the first part of this process, which is verifying the eligibility of applicants and then verifying the work plan and then verifying that the work that they planned was done. And at that point, we turn the process over to Revenue and then they make the decisions and issue the credits on that side. So we see advantages for that happening in a timely manner. We have time limits for everything that we need to do through our part of the process that's in the bill, but we don't have any strong opinions on how those time limits should be assigned or what is a reasonable time limit, so we're neutral. [LB272]

SENATOR FRIESEN: Thank you, Mr. Jones. Any questions from the committee? Senator Schumacher. [LB272]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you for your testimony. Has the Historical Society promulgated any rules and regulations pursuant to the act? [LB272]

TREVOR JONES: We have not done so at this time. [LB272]

SENATOR SCHUMACHER: Thank you. [LB272]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions? Seeing none. Welcome. [LB272]

RENEE FRY: Thank you. Good afternoon. Senator Friesen and members of the committee, my name is Renee Fry, R-e-n-e-e F-r-y, I'm the executive director of OpenSky Policy Institute. I did not plan on testifying on this bill today, but I did want to come up and answer Senator Groene's question. According to the UNL report that was mentioned earlier by Senator Vargas, of the five completed projects that had responded to UNL's Business School survey, all had also taken advantage of the Federal Historic Tax Credit and tax increment financing. [LB272]

SENATOR GROENE: So then...I'm sorry. [LB272]

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

Revenue Committee
March 03, 2017

RENEE FRY: And with that, I'm happy to take questions. [LB272]

SENATOR GROENE: I'm sorry. You were answering a question, but I...yeah. [LB272]

SENATOR FRIESEN: All right. Thank you for your testimony. Are there any questions from the committee? [LB272]

SENATOR GROENE: Sorry, Mr. Chairman. You answered the other question. [LB272]

SENATOR FRIESEN: Senator Groene. [LB272]

SENATOR GROENE: So how can the study claim they paid local taxes then? [LB272]

RENEE FRY: I don't know. [LB272]

SENATOR GROENE: I mean, there's a shell game. They pay them to the treasurer, but they really don't end up at the school or the county or the... [LB272]

RENEE FRY: Yeah, I don't know the...that would be a question for the folks who have utilized it. But according to the report, all five have taken advantage of TIF. [LB272]

SENATOR GROENE: Thank you for that. [LB272]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Thank you for your testimony, Ms. Fry. Any others wish to testify in a neutral capacity on LB272? Seeing none, Senator Vargas, you're going to close on LB272? [LB272]

SENATOR VARGAS: Thank you, Vice Chair Friesen, and thank you, members of the committee. Since you're a really tight ship here, that was very quick. I want to just reiterate. Thank you for hearing the different people that testified and the different perspectives. I want to restate the importance and the benefits of the Historic Tax Credit for both urban and rural communities. The collective impact alone...and again, this study...part of the studies that are statutorily within the bill that was passed in 2015 require that every three years that there is an audit and review. What we saw in 2015 alone is with just a \$15 million investment from the state, we saw a return of more than \$121 million. Qualifying projects created 1,600 full-time jobs and generated \$53 million in new wages for Nebraska workers. The projects continue to contribute more than \$69 million to the state's gross state product and over \$5 million in new

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

Revenue Committee
March 03, 2017

state and local tax revenues. I don't believe we can argue around these numbers that \$15 million for \$120 million investment is an incredible return for our constituents. I hope that the committee will agree with me and will move LB272 to General File. I just wanted to add a couple of different points which I think are helpful for understanding this in a broader, national context. Historical Tax Credit is a common program that is utilized across the country. Right now we see around 33 more states that are utilizing programs like this to continue to provide creation of job growth, to continue to preserve historic areas and main streets. And what we do see is that it's having an economic impact in the states that it is continuing to be supported in. And so with that, I did want to thank you. [LB272]

SENATOR FRIESEN: Thank you, Senator Vargas. Senator Groene. [LB272]

SENATOR GROENE: This was...thank you, Chairman. This credit was just started in '15? [LB272]

SENATOR VARGAS: Correct. [LB272]

SENATOR GROENE: So how did we manage to get the Old Market and the Haymarket redone without this credit prior to that? [LB272]

SENATOR VARGAS: So there are other programs that have been taken advantage of. I can't speak as to what, why, how other buildings within the Haymarket or in Old Market have taken advantage of it. But we do see in the projects that were in this report, they saw an economic impact as a result of it. And if you even just look at the number of jobs that are created as a result of the program... [LB272]

SENATOR GROENE: So would you...so if free markets and developers were doing it prior to this act, wouldn't you think they would continue to do it if this act didn't exist? [LB272]

SENATOR VARGAS: I don't think we could say whether or not they would or they wouldn't. I think what we're seeing is, as a result of taking advantage of it there's different decisions being made in the historic preservation of buildings. And that is the intention of this act, to make sure that we are preserving the historic significance of our different cities and towns and areas. And that is a different decision point being made for the different tax credit programs. [LB272]

SENATOR GROENE: All I can see is some taxes haven't been paid. Thank you. [LB272]

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

Revenue Committee
March 03, 2017

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you, Senator Vargas. [LB272]

SENATOR VARGAS: Thank you very much. I appreciate the time. [LB272]

SENATOR FRIESEN: That will close the hearing on LB272. We will now open the hearing on LB475. Senator Schumacher. [LB272 LB475]

SENATOR SCHUMACHER: (Exhibit 1) Thank you, Senator Friesen, members of the Revenue Committee. My name is Paul Schumacher, S-c-h-u-m-a-c-h-e-r, represent District 22 in the Legislature here today to present LB475. LB475 seeks to terminate the taking of applications for LB191 that was passed back in 2014. LB191 has taught me a lesson and that is when a bad bill comes to the Legislature and you're in a position to kill it, kill it. Don't try to get cute with it. Don't try to get creative with it, because in the end it isn't going to work. You can't make sour milk sweet by pouring sugar in it. When this bill was brought to the original...LB191 was brought to the Revenue Committee in 2013, it was a bad bill. It basically, if you read through it, said that these credits would be available to fix up old buildings any way you wanted to fix them up as long as the facade, the front of it, stayed the same for five years. You could even knock the facade off after five years without penalty. And you would get a 20 percent tax credit up to a \$1 million for doing that. There was no limit on the program. This thing could be \$100 million a year. And seeing as how the credits go really, really fast, it probably would have been \$100 million a year because it was free money. Not only was it a credit against your own taxes, it was a fully refundable and assignable credit. I guess it was an assignable credit would be a better way to put it. So you could sell to somebody else. You could move it back and forth between corporations. And it only applied to businesses even though its purported reason was to be historic. Applying just to businesses, it eliminated historic courthouses, eliminated all kinds of historic public and nonprofit type of buildings that of one would say was history. Essentially, it was a developers dream child designed to have the state pick up a substantial amount of money. And if you linked to the projects together right, really it was pretty easy to exceed \$1 million. It couldn't get out of committee, except right in the final days of the session the group lobbying for it came to the committee and said, you know, nobody is going to prioritize this. It's late in the session. Why don't you guys put it out? Just put it. Well, split vote put it out. Next year it had a priority. It was Senator Nordquist's bill and it came to the floor and I threw a fit: Unlimited credits; history, that it was a sham. Only five years of history had to be built in. Fully assignable credits. Very little management authority, including a bunch of if the history department didn't do something for 30 days it was automatically approved--all kinds of stuff. And the thing was on the ropes. That's where I made a mistake. I started talking with Senator Nordquist and I said, well, what about limits? Well, he thought that \$4 million would be great plenty. Well, we got a little clever. We just got done getting rid of city/county aid. And we were all feeling pretty sorry about that. And in the bill there was a vehicle to restore our city/county aid. By working with the

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

Revenue Committee
March 03, 2017

definitions of a district and saying that anything that supported structures in the district was eligible as a project, very broad definition intended clearly to emphasize the main street rather than the historic part of the title of the act. And I think I handed a handout to you or it should have been circulated, but basically fairly easy for communities to comply with. You had to declare a historic district. There was no limit on the size of the historic district. A county could declare its entire self to be a historic district. Platte County since has, along with a few other areas. And you applied. You could fix roads going up to historic structures, anything that contributed to the economic viability of the district, basically a grant and aid program for (inaudible). Now, very simple process, very clearly in the statute what the history department shall do, and time limits on when they could do it. And it basically was a form of aid, far more to help out small communities as well as it was in its original intent to assist developers of old buildings in downtown Omaha. And so a grand compromise was reached and passed. You heard that the history department did not promulgate any rules and regulations. It decided to rule by fiat. And when Platte County presented its ordinance, it responded with a rash of bureaucratise. So I went down and talked to the folks there. And, oh, we didn't realize this. We didn't realize that. Oh, yeah. Oh, sure. Yeah, it's all here in the ordinance. Yeah, you complied with the ordinance. And they approved the Platte County ordinance. Complied with the ordinance. I knew it did because I helped them draft it. And we were able to get \$300,000 for Behlen Manufacturing Company to put a roof on the Behlen factory in Columbus. It was over 50 years old. That was one of the requirements. Still had the same front end, same facade, it met the...and it was in a historic district of Platte County. It met the requirements. Very, very little paperwork. And so I personally sent out a letter to about a hundred cities, counties, and villages saying, hey, it looks like it's going to work. Get in line because if you don't, the money is going to line down to downtown Omaha. Send your applications in. This is what you have to do in order to qualify. Well, I soon began getting replies that they had contacted them. And, oh, no. Oh, no. It couldn't work this way. It wouldn't work this way. And they basically thought that I had been on pulling their leg, either that or didn't know what I was talking about. And very difficult to get it. In fact, they turned a simple process into Web pages, and this is just a guideline to the form, 18 pages long. Clearly, the money started going to where it was supposed to go in the very beginning. And although there's a few token projects have gotten approved after much perseverance by the local folks, we all know where most of the money went. Fortunately, there was a cap of \$15 million a year and sunset after four years. I think the first action could happen in 2015 and had to be over with by 2020. What this does is this moves the sunset to right now. That sunset got extended last year I think it was with the blanket extension of credit sunsets that occurred on a bill. It didn't come out of Revenue Committee. It came out of the Executive Board to extend the sunsets on all the credits. I had a bill prepared last year to do exactly this--in fact, this is a ditto of it--and decided not to file it to see if they could have another year to get their act together and start treating people fairly, consistent with the original intent of the act and with some rules and regulations rather than backroom fiats. That didn't happen so the bill got filed this year. This bill is \$12.5 million to \$15 million a year and we need that money. We can't afford to put heating and

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

Revenue Committee
March 03, 2017

air conditioning into this building, but we can afford to do \$15 million of cash money--that's what these things are because these still are assignable credits; they're going to get used--and we can afford to do that. There may be ways to assist old Omaha buildings in getting renovated, but this is a poor way to do it. As far as all the talk about economic spinoff and, boy, it created a bunch of jobs and this, that, and the other thing, that doesn't address the fact those jobs, if those buildings were worthwhile to begin with, would have been developed anyway. Doesn't address the fact that there were other programs that also contributed to those jobs. So these are inflated figures that aren't in the real world. And, yes, they're supportive. If anybody give you \$1 million of free money on your project, you'll take it. But what it was intended to do as well as anything else was to help the small town business place that had a...still had its original facade and wanted to do \$25,000--there's special rules for smaller communities that we made sure were in there--\$25,000 worth of repairs on the building that they could very easily and efficiently get help of up \$5,000, 20 percent. You don't see those in there. That whole intent of the Legislature and of that compromise has been blatantly ignored by the history department. And you can just imagine the intense lobbying going on to get it ignored. So the time is right. We need the money. We need to cut it off. The fiscal note is \$12.5 million. And I'm not quite sure why it's not \$15 million, but I think it must be the way the things feather in and how the action of the money is actually disbursed and the credits claimed. So we need the money. It has been a bad experience and a bad experiment. And the fact that to this day the history department has not promulgated any rules or regulations, has chose to ignore the plain text of the law and rule by fiat and what appears to be favoritism is something that merits the termination of this bill at this time. I'll be happy to take any questions. I didn't ask the people from Platte County to come down and tell my...would tell you their story briefly. Platte County wanted to use it to do some work on the court house. They assigned a deputy county attorney to make the application. She came and through this thing on my desk and she says you've got to be kidding. Those people will just run you in circles. We had a business on main street. It was an old car dealership. They wanted to convert it. They would still have the same facade. An engineer wanted to make the application. I told him I thought this was a great place for it because they were going to put old fire trucks in the place. And he told me you've got to be kidding. Those people, it's just a nightmare of bureaucracy. And so on. I'll answer any questions. That's why I'm here today. [LB475]

SENATOR FRIESEN: Thank you, Senator Schumacher. Questions from the committee? Senator Groene. [LB475]

SENATOR GROENE: Thank you, Chairman. So we incentivize for growth and we don't collect any property taxes because of TIF. We don't collect any income taxes because of the credit. Wouldn't we be better off if they went out in the pasture and built a brand new building... [LB475]

SENATOR SCHUMACHER: Oh, that wouldn't be history. [LB475]

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

Revenue Committee
March 03, 2017

SENATOR GROENE: ...and used a bulldozer on the old building as far as historic, as far as what's good for the state? [LB475]

SENATOR SCHUMACHER: A new building may very well be desirable. These may be new buildings behind the facade as far as the statute is written, and you can take the facade off five years later and put a new front of it if you like because the penalty time for keeping the thing active is only five years. [LB475]

SENATOR GROENE: Do you know what...who the officer is? [LB475]

SENATOR SCHUMACHER: The officer is the director of the state history department or Historical Society. [LB475]

SENATOR GROENE: So it says, "shall file a request for final approval containing all required information with the officer on a form". [LB475]

SENATOR SCHUMACHER: Right. So you basically can say I've done what I said I was going to do on the inside. The facade looks the same. And the officer signs off that you turned it into condominiums or a dance hall or whatever. [LB475]

SENATOR GROENE: Then where do you put the application for your credit, Department of Revenue? [LB475]

SENATOR SCHUMACHER: The history department approves the application. If they don't do it within 30 or 60 days, it's automatically deemed approved. And then when you complete it and they certify that you did what you said you were going to do, then the Revenue Department issues the credits and I guess there's some audits. [LB475]

SENATOR GROENE: What's the dollar amount on it? [LB475]

SENATOR SCHUMACHER: The dollar amount I think is up front, because they've got to reserve the credits for you out of the \$15 million. And these things go like wildfire. There was one amendment to the bill that happened last year. The way it was originally written, the credits couldn't be taken against an insurance premium tax, and so the insurance companies couldn't get in on the act when they financed the fixing up of an old building basically. And they came in and the thing that we passed last year said it would apply also to the insurance premium area. And I managed to get out of them, yes, and the small communities can have instead of an April 1 deadline, \$4 million is reserved for them if they can...instead of a January 1 deadline, \$4 million

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

Revenue Committee
March 03, 2017

is reserved to them for late applications that could come in up to April 1. I don't know if that's worked or not worked. But certainly if they're spinning people crazy on the applications process it hasn't worked. [LB475]

SENATOR GROENE: So this goes to the Historical Society. So the local community redevelopment authority who's getting a TIF application in a small town probably knows, but they don't know if there's an application into the Historical Society. [LB475]

SENATOR SCHUMACHER: I don't think there's an obligation to cross reference those at all. There very well could be any number. There could also be with one of these, there's some federal history grants or credits that could also be applied for. And they can apply for LB840 and the list of free money sources is pretty long in this. And I think, probably done right, you maybe even part of an Advantage Act investment. So you can play this thing any way from Sunday and then claim that you're getting \$80 gazillion worth of economic benefit from it. [LB475]

SENATOR GROENE: Well, I was sent a message from the Urban Affairs counsel that says when we did that last year we only tied TIF with the Advantage Act and we did not tie it to this one when they have to report what credits and what tax incentives they are trying to...you're supposed to let the city know how many tax credits and different programs there, but it's only tied to Advantage Act. Maybe we need to add that to this one. Thank you. [LB475]

SENATOR SCHUMACHER: Something better than add that to this one. [LB475]

SENATOR LINDSTROM: Seeing no other questions, thank you, Senator Schumacher. [LB475]

SENATOR SCHUMACHER: Thank you. [LB475]

SENATOR LINDSTROM: We will now move to proponents of LB475, proponents. Good afternoon. [LB475]

RENEE FRY: Good afternoon. Members of the Revenues Committee, my name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We're here in support of LB475. The UNL report that was mentioned earlier by Senator Vargas and others indicates that the tax credits generated a certain amount of jobs and economic activity. However, investments in education, roads, Medicaid, and Corrections also result in job creation and economic activity. And as we're looking at significant budget cuts, we have to ask ourselves where we're getting the biggest bang for our buck. And this tax credit is a spending program just like the other spending through the budget, much of which is on the chopping block. And as I mentioned before, these

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

Revenue Committee
March 03, 2017

programs are also getting the federal historic tax credits and tax increment financing. Furthermore, according to Dr. Timothy Bartik of the Upjohn Institute, Nebraska's business incentives are greater than the U.S. average by 79 percent. He finds that Nebraska could reduce its incentives by about 40 percent or \$80 million and still be very competitive with the rest of the country. Dr. Bartik notes that high incentives have been a hallmark of Nebraska tax policy going back to the 1990s. Business taxes have been reduced fairly substantially but incentives have remained high even as business taxes in the state have decreased. LB475 is just one way that the Revenue Committee could help shore up the budget shortfall and the \$288 million dollars gap between the Appropriations preliminary budget and projected revenues. Other options would be to freeze this program or cap it at a lower level. Thank you for your time. I'd be happy to answer questions. [LB475]

SENATOR LINDSTROM: Thank you, Ms. Fry. Any questions? Seeing none, thank you very much. [LB475]

RENEE FRY: Thank you. [LB475]

SENATOR LINDSTROM: Next proponent. (Exhibit 2) We do have one proponent here, letters for the record: Larry Scherer with the NSEA. We will now move to opponents, opponents of LB475. [LB475]

TREVOR JONES: (Exhibits 3-7) Senators, my name is Trevor Jones, T-r-e-v-o-r J-o-n-e-s. I am the director and CEO of the Nebraska State Historical Society and also, through my office, the state historic preservation officer. And I am here to speak in opposition to LB475. We are passing around some handouts for you. I've got sort of some basic things: the application for the tax credit which is the part that we administer before it goes to Revenue once the credits are actually issued and as well as some before-and-after pictures of some of the projects that have been accomplished in 2015 and again in 2016. So the senator earlier spoke about the application process. This application process is actually a three-step process. Part one is really short and sweet and simple. It's basically to find out if your building and your project is eligible for a tax credit, if it meets the criteria. So it's some basic contact information, a few pictures of your building, if it's already listed on the National Register, part of a historic district, that information about where it is, where it comes from, that kind of material. And then we have time to review that and basically say, yes, your project is eligible. Then you go on to part two and this is where it gets a little bit more complex. Senator Schumacher said that the process is quite simple but if you read LB191, it requires us to hold projects accountable to standards and it defines standards as, "the Secretary of the Interior's Standards for the Treatment of Historic Properties as promulgated by the United States Department of the Interior or (b) specific standards for the rehabilitation, preservation, and restoration of historically significant real property contained in a

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

Revenue Committee
March 03, 2017

duly adopted local preservation ordinance or resolution that has been approved by the officer"-- that would be my office-- "pursuant to section 3 of this act." So we, in fact, have to verify that this work complies, in the most part, almost always with the Secretary of Interior's standards. These are a large and complex series of standards developed on a national level over the last 30 years. There's a huge body of information about what is allowable or what is not allowable according to those and the law binds us to this for projects that don't have a local ordinance attached. And we work almost exclusively with projects that do not. In part of this process, in part two, the applicant also has to have a plan in place that we need to look at and it needs to be detailed. Again, LB191 says, "The application shall include plans and specifications, an estimate of the cost of the project prepared by a licensed architect, licensed engineer, or licensed contractor, and a request for a specific amount of credits based on such estimate." So basically applicants have to have way more than a germ of an idea. They have to know exactly what they're trying to accomplish and it has to be drawn up by a professional for us to move forward with that phase two. So there tends to be a lot of back and forth in that process as we ask questions, look, try to find out whether they're going to put the HVAC system, those kinds of things back and forth. And then once we approve that stage then we go on to stage three, the third stage of the application which is really the verification part that LB191 requires us to do as well is that basically we need to verify that the work that they performed was the work that they said they would perform and that their costs were the costs that they said that they were going to incur. Once we verify that piece, that's the last stage of the application. We send it out to Revenue and then they make decisions and verify that the expenses are allowable as delineated in the 15-section act that is LB191. So we would like to have that as a simpler process, but the law constrains us in terms of how we can do that. In the first year of this act we did have almost all applications came from the Omaha area. And we feel that that's because this bill was a long time coming and Iowa has had a tax credit program for years. And we had developers that were lined up and waiting. In 2016, it was much, much more diverse. We had 16 projects in Omaha and 14 projects in the rest of his state, including small projects in rural areas and nonprofits and some large projects in rural areas as well. And some examples of those have been passed around to you. So I will take any questions that you have. [LB475]

SENATOR LINDSTROM: Thank you, Mr. Jones. Any questions? Senator Groene. [LB475]

SENATOR GROENE: Is there an age limit? Does a building have to be 50 years old, 100 years old? Does everybody of that generation that built it have to be gone? [LB475]

TREVOR JONES: No, it has to be 50 years old and it either has to be...been judged historically significant or be part of historic district or have a local ordinance that has designated it historic as well. [LB475]

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

Revenue Committee
March 03, 2017

SENATOR GROENE: So Senator Schumacher said the whole county was historic. So do you come in and say, all right, so that... [LB475]

TREVOR JONES: The bill gives us the provision to review those decisions. I don't really have the particulars of that at hand. I've been here six months so that's not something I'm familiar with. [LB475]

SENATOR GROENE: Is there federal guidelines? Do you match the federal guidelines? [LB475]

TREVOR JONES: LB191 requires us to match the federal guidelines. It says that we need to use the Secretary of Interior's standards and that's the standards we use. [LB475]

SENATOR GROENE: It says may or shall? [LB475]

TREVOR JONES: Verify here. It says standards means and it defines standards. I believe it requires it. I can see if I can find it in my notes. Brian (phonetic)? [LB475]

_____ : 2.8. [LB475]

TREVOR JONES: 2.8? [LB475]

SENATOR GROENE: That's okay. [LB475]

TREVOR JONES: Okay. [LB475]

SENATOR GROENE: You can get back to me. [LB475]

TREVOR JONES: Yep, I would be happy to. [LB475]

SENATOR LINDSTROM: Seeing no other questions, thank you, Mr. Jones. [LB475]

SENATOR GROENE: Thank you, Mr. Chairman. [LB475]

TREVOR JONES: Thank you. [LB475]

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

Revenue Committee
March 03, 2017

SENATOR LINDSTROM: Next opponent. Good afternoon. [LB475]

DAVID LEVY: Good afternoon, Senators. This makes it easy having both of you on the same side. [LB475]

SENATOR LINDSTROM: (Laugh) Senator Harr is back. [LB475]

DAVID LEVY: (Exhibits 8 and 9) Oh, Senator Harr, okay. Again, good afternoon. David Levy, D-a-v-i-d L-e-v-y, Baird Holm Law Firm, registered lobbyist for Turner Park North and also appearing as a board member of Omaha by Design and the Nebraska Association of Commercial Property Owners in opposition to LB475. I want to read to you a letter from Randy Chick who is the director of the business improvement district and the Community Redevelopment Authority for the city of Hastings. I know the committee has received this letter as well, but I think it's worth reading. The letter is dated February 27. Mr. Chick says, I'm writing to inform you that my position on the Nebraska Job Creation and Mainstreet Revitalization Act has changed. In 2013 when this bill was adopted, I was concerned that the bill would only help the larger metropolitan areas. I have had to eat my words as our community has recently attracted a developer to purchase and rehabilitate a 110-year-old brewery building in our downtown into 35 affordable apartments. This \$8 million investment would not have occurred without the assistance of State Historic Tax Credits provided by the Nebraska Job Creation and Mainstreet Revitalization Act. Some of the reasons the credit is needed are rural main street communities have much lower market rental rates for both commercial and residential spaces, making projects difficult to cash flow without incentives. There are few, if any, comparables for bank appraisals making financing extremely difficult. To be brief, quote, I thought this would not work for small towns, but it does. I would appreciate your support to keep the State Historic Tax Credit intact and if you have any questions please do not hesitate to contact me. Sincerely, Randy Chick. I think Mr. Chick's statement proves much better than I could that this program does work and it works for small towns and it helps these small towns revitalize their communities and make use of buildings that are economically very difficult to reuse otherwise but are served by existing infrastructure and existing municipal services. And by reusing those buildings, these cities not only revitalize their main streets and their downtowns but they also make most efficient use of existing municipal facilities and services, thereby saving additional public money. I want to touch briefly on the handouts I sent around. One is a map of the United States. It's a few years old. It shows I believe it was 37 states at that time had state historic tax credit programs. The other is a report on the state of Kansas' program that is similar to the report that you've received on Nebraska's program from the university. The main thing I want to point you to in the Kansas report is the last page, the back page, and the other side of it. One of those pages shows by the size of the dot in the counties across Kansas, the size of the dot is the dollars of projects that have benefited from their state historic tax credit program. On the other side it's the number of projects. You can see dots in almost every county in Kansas all the way across the state to the far western edge,

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

Revenue Committee
March 03, 2017

southwestern corner, northwestern corner. You see some fairly big dots in the middle of the state. Their state historic tax credit program has been around much longer than...longer than ours and you can see that given time and the opportunity to work these programs truly do benefit cities and towns of all sizes and all characters. I want to say also I agree with Senator Schumacher, that this program can be challenging to use. I represent developers and other people who want to use this program. I'm all for simplifying it. But let's also remember that there has to be a balance here. If I came to the committee with a bill that was like Senator Schumacher described the bill as initially being with no standards and no requirements for public money to incentivize these programs, that wouldn't go very well. There have to be some standards. There has to be a balance so that the projects that benefit from this program are the projects that it's targeted to and the projects that actually need it. That balance may not be in the right place right now. I fully acknowledge that. But this program works. Absolutely this program works. We can argue about the numbers in the UNL report, but they're impressive. This program does great things for economic development. I would urge you strongly do not kill this program but rather let it continue to work and I would be more than happy to work with the committee, Senator Schumacher, the Historic Preservation Office, anybody else to try and continue to improve the efficiency and effectiveness and administration of this program. You know, I'll just close by saying as compared to other incentives like the Advantage Act, on a dollars-per-job-created metric, whatever metric you want to look at, this program is probably the most effective incentive program we have in the state of Nebraska. It certainly stacks up very, very well against any of the others and I would urge you to let it continue to work and let it continue to grow and develop and mature. With that, I'm happy to take any questions. [LB475]

SENATOR LINDSTROM: Thank you for your testimony. Any questions from the committee? Senator Groene. [LB475]

DAVID LEVY: Yes, sir. [LB475]

SENATOR GROENE: Thank you, Mr. Chairman. So an \$8 million project in Hastings, was it Hastings that letter was from? [LB475]

DAVID LEVY: Yes, sir. [LB475]

SENATOR GROENE: How many dollars of tax credits would that generate? [LB475]

DAVID LEVY: That would generate potentially \$1 million of tax credits: 20 percent of the cost of the project up to \$1 million. So if I'm doing my math right...am I doing that math right? Yeah, I think so. So no more than \$1 million of tax credits. And with that project actually I don't believe they got quite \$1 million, but I'm not positive. [LB475]

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

Revenue Committee
March 03, 2017

SENATOR GROENE: So right away they turn around and sell the tax credits and then they apply that as collateral to the bank loan. [LB475]

DAVID LEVY: Effectively that's right. [LB475]

SENATOR GROENE: I can understand how they can hire lawyers and lobbyist then. I couldn't figure out if it was just a little bit of help, I understand how they can pay you. Thank you. [LB475]

DAVID LEVY: Sure. [LB475]

SENATOR LINDSTROM: Any other questions from the committee? Seeing none, thank you very much. [LB475]

DAVID LEVY: Thank you. [LB475]

SENATOR LINDSTROM: Next opponent. [LB475]

ROBERT HALLSTROM: Senator Lindstrom, members of the committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m. I appear before you today as registered lobbyist for the Nebraska Bankers Association in opposition to LB475. I have also, for the record, signed in on behalf of the Nebraska Chamber of Commerce and Industry which is also opposed to the bill. I would just briefly say we supported the adoption of the original act. Logically, we do not want to see it go away, particularly in light of the university report which shows that there's been a significant positive economic impact which far outweighs or exceeds the cost of the program. So with that, I'd be happy to address any questions of the committee. [LB475]

SENATOR LINDSTROM: Thank you, Mr. Hallstrom. Any questions from the committee? Senator Groene. [LB475]

SENATOR GROENE: Thank you, Chairman. At what point does the state or government break even or start generating taxes to overcome the credit? I mean you restore an old building. They're not paying property taxes for 15 years because of TIF; \$1 million on an \$8 million project, that's going to take a while, isn't it, for...to the state gets back in the green on this thing? [LB475]

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

Revenue Committee
March 03, 2017

ROBERT HALLSTROM: Senator, I'd probably have to do the analysis on those numbers, you know, and that would be predicated upon whether or not in fact there was both TIF applicability and historic tax credits on that particular project. [LB475]

SENATOR GROENE: Well, we were told the five projects that were analyzed all got TIF. I'd be darned surprised if any of them didn't. [LB475]

ROBERT HALLSTROM: Yeah, and I don't know that, Senator. I apologize for not having that information. I think they were referring to the ones in the Haymarket if I heard them correctly, or the Old Market if it was in Omaha. And I don't know how...whether that same applicability is out in the rural areas of the state. [LB475]

SENATOR GROENE: Thank you. [LB475]

ROBERT HALLSTROM: Thank you. [LB475]

SENATOR LINDSTROM: Thank you. Seeing no other questions, thank you, Mr. Hallstrom. [LB475]

ROBERT HALLSTROM: Thank you. [LB475]

SENATOR LINDSTROM: Next opponent. [LB475]

MICHAEL SOTHAN: Thank you, Chairman and Committee, for again letting me come up here. My name is Michael Sothan, S-o-t-h-a-n. Again I'm the executive director of Main Street Beatrice, an independent nonprofit that's just set on trying see downtown revitalization in Beatrice, Nebraska. And I also live in a little town that's...Steele City, Nebraska, 50 people. And I don't know I actually have...we just recently have had eligibility to be able to try to utilize these tax credits. Obviously they're fairly new. But being from a little town of 50 people, I know that in that community there's people that are considering using the historic tax credit. We have a small historic district in our little town and people are actually trying to look at using this to see extra businesses come into town. Right now there's currently only two and they are actually looking at having a third business possibly with this. And so even in little towns of 50 people, this is a tool that is something that is viable. And Jefferson County, the county that I live in, they've just completed a project. They're getting ready to do another one, a project that has sat...a property that has sat vacant for a number of years, their theater. And they're now getting their theater back into that town, the only theater that will be in that county mainly because of the ability of having this tax credit. I again...I'm right there in Beatrice. I work with our property owners on a daily

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

Revenue Committee
March 03, 2017

basis, our business owners on a daily basis. And we just got on the National Register of Historic Places and we filled a room, I mean packed a room with people that are wanting to find out information about this. We've had nonstop interest in this. We have now got one property owner that is putting in an application. We've got several others that are considering it--everything from small projects on the \$25,000 level up to hundreds of thousands of dollars. A lot of these are buildings that they had never intended on investing money into a downtown building. A lot of them had thought about going out and building a brand new building. But the issue with that is with our communities these buildings become a liability if we do not invest in them. Beatrice knows that first hand. We just had a building that the city of Beatrice had to tear down because the property owner was negligent, unfortunately did not have any resources with which for the city to go after them. But it was threatening a very viable business. Maybe you've heard of the Black Crow Restaurant and others. And it was threatening existing businesses that are creating property taxes, sales taxes because this person let their property go so far that then the city had to tear it down costing the city of Beatrice over \$150,000. With just being able to put on a new roof, they would have been able to save that. And this tax credit is starting to help us reverse that tide of negligent property owners. We're seeing people actually getting excited about wanting to buy downtown properties, not letting these sit here and be vacant, not letting them just be completely depressed. We have depressed property values in our downtown. And with this, we're going to start seeing a change with some people investing, in one project maybe \$300,000, in others, several thousand dollars into their buildings. We know that we're going to start to see long-term impacts. We're going to start to see community pride. We already are seeing community pride coming back to our downtown. We're seeing people getting excited wanting to open up businesses because they think that the downtown has opportunity ahead of itself and that's certainly the case. It's not just because of this historic tax credit. There's no doubt about that. But this is a huge part of the piece of the puzzle for us to be able to make this work. And we are a town of just short of 13,000, a little over 12,000. You know, our downtown has had issues and people do look at this and they go, oh man. You know, there are some rules here. But at the same time, at the end of the day, most of them are looking at it and going, you know what, I think I'm going to have a better product once I get it done by using this historic tax credit because my building will be more aesthetically pleasing, it'll be better quality, and I couldn't have done it without this. I was actually...just got off the phone yesterday. Right at about 5:10 I received a phone call in our office of a developer that is looking at downtown Beatrice as well. These are folks...and this is not the first time we've had a developer that's been looking at downtown Beatrice. Since we got on the National Register of Historic Places at the end of last summer, I've received phone calls from at least four different developers that are looking at bringing money into our downtown to actually invest in that. Main Street Beatrice, this is our 20th year here. We have never had a single developer contact us wanting to do a project in downtown Beatrice. But with this historic tax credit and with us getting on the National Register, we have had significant interest in doing \$1 million projects, \$2 million projects, \$25,000 projects, all across the board. And so without this tool, I know that we would not see the type of investment into our downtown

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

Revenue Committee
March 03, 2017

that we are talking about right now. I also know that some of these developers that have been looking at downtown Beatrice are concerned and are actually looking at maybe investing this money in Kansas or in Kansas City and not Beatrice because of the fact that there is uncertainty with this tax credit right now. And that definitely does frustrate us because we do want to see our downtown, we want to see Beatrice be a strong community. And so I do hope that the committee will consider that and see this as a very effective tool for small towns such as Beatrice. And it is available for much more than just our main street, but it's creating great pride and we're looking forward to the opportunities that this presents. [LB475]

SENATOR LINDSTROM: Thank you. Senator Harr. [LB475]

SENATOR HARR: Thank you, Senator Lindstrom. [LB475]

SENATOR LINDSTROM: I'm sorry, we have a question. [LB475]

MICHAEL SOTHAN: Oh, I'm sorry. I apologize. [LB475]

SENATOR HARR: So I'm reminded of an old adage in the banking industry which is: your idea, my money--bad idea. Why should...why wouldn't Beatrice take, if this is so great for Beatrice, why wouldn't Beatrice take it upon itself and issue its own historic tax credits or offer this money? Why is it the obligation of the state to provide this money? [LB475]

MICHAEL SOTHAN: And I can definitely see your point there. With things that have been going on in Beatrice, we have had a lot of changes here this last few years. I've been there now for four years. And we've been seeing a much more aggressive approach in trying to address these issues in our downtown. At the end of the day though, we have no ability as the city of Beatrice to make the impact that you guys can with income taxes and everything else. Yes, we can do some things with property taxes, but they can't really even abate property taxes here. We can maybe try to do some other stuff. But unfortunately these projects, while they do create extra sales taxes, they create property taxes, they do all this, we just don't have the ability to have as much of an impact, I feel, as you guys can with the ability that you have as the state of Nebraska. [LB475]

SENATOR HARR: Do you guys balance your budget? [LB475]

MICHAEL SOTHAN: Does Beatrice? [LB475]

SENATOR HARR: Yeah. [LB475]

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

Revenue Committee
March 03, 2017

MICHAEL SOTHAN: Yes. Oh, yeah. And I'm not with the city of Beatrice. [LB475]

SENATOR HARR: Well, we're \$900 million in the hole. And at some point we've got to decide between "want-to-haves" and "got-to-haves." And when I hear that it helps certain localities, I don't want give a soliloquy here, so I'll just leave it at that. [LB475]

MICHAEL SOTHAN: Okay. And I do understand that. [LB475]

SENATOR LINDSTROM: Thank you. Any other questions? Senator Groene. [LB475]

SENATOR GROENE: Thank you, Chairman. Do you TIF those program downtown? [LB475]

MICHAEL SOTHAN: Some of these projects are looking at doing...utilizing TIF. Some are not. But I would say that the majority of them, we are starting to. Beatrice has not ever considered using TIF for downtown projects, but we've just recently...our city administration has changed the way that they are utilizing it. [LB475]

SENATOR GROENE: Do you use TIF, because that's where it's supposed to be used, downtown? [LB475]

MICHAEL SOTHAN: And it is, but our city, our actual city administration, until this last year did not realize it...was not applying it for rehabilitation of buildings. And so this is... [LB475]

SENATOR GROENE: What were they applying it for? [LB475]

MICHAEL SOTHAN: Mostly for industrial development... [LB475]

SENATOR GROENE: Outside the circle? [LB475]

MICHAEL SOTHAN: ...things...definitely certainly outside of the central business district. [LB475]

SENATOR GROENE: You know what you just said. Anyway, I look at that \$8 million business in Hastings and if it's two mills over 15 years, you're looking at \$2.4 million more in property taxes being abated, plus the \$1 million of historical. Do you know what the federal historical tax credit is? [LB475]

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

Revenue Committee
March 03, 2017

MICHAEL SOTHAN: The federal historic tax credit is also a 20 percent. [LB475]

SENATOR GROENE: So now we're up to \$2.4 million plus another \$2 million. We're at \$4.4 million out of \$8 million. [LB475]

MICHAEL SOTHAN: And again, with these buildings, the challenge...the reason why I think a lot of this is there is these buildings are going to be generating hopefully also sales tax and other things. But at the same time, these historic buildings they do cost a lot more money... [LB475]

SENATOR GROENE: I understand. [LB475]

MICHAEL SOTHAN: ...as far as for our communities even to try and take advantage of these. [LB475]

SENATOR GROENE: I understand where you're coming from. I'm not criticizing you. I'm just...we're just tax crediting ourselves into a \$900 million deficit. [LB475]

MICHAEL SOTHAN: Yep. And hopefully we're planning for the long term though, too. [LB475]

SENATOR LINDSTROM: Thank you. I just have a quick question. With the four developers that you mentioned, did they mention the tax credits specifically? [LB475]

MICHAEL SOTHAN: Actually, yes. All of them so the only reason why Nebraska has become competitive for them to look at investing their money into our community and the only reason why downtown Beatrice was being considered was because of us being on the National Register and having access to...actually in combination the state historic tax credit. Otherwise they said they will take those dollars to other states that already have the state historic tax credit to pair that with it. [LB475]

SENATOR LINDSTROM: And all four said that? [LB475]

MICHAEL SOTHAN: All four of them have said that. And so it's one of those things where for downtown Beatrice to be able to see that type of investment, we're never going to have an opportunity at that. Even locally we can not see multimillion dollar projects. Right now we just don't have that capacity. We are going to see hundreds of thousands of dollar projects and

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

Revenue Committee
March 03, 2017

thousands of dollar projects, but we will never see that type of investment into our community without this tax credit program. [LB475]

SENATOR LINDSTROM: Okay. Any other final questions? Seeing none, thank you very much for your testimony. [LB475]

MICHAEL SOTHAN: Thank you. [LB475]

SENATOR LINDSTROM: Next opponent. Good afternoon. [LB475]

JOSEPH SANIUK: (Exhibit 10) Good afternoon. Thank you for letting me come and speak today. My name is Joe Saniuk, J-o-e S-a-n-i-u-k. I am an architect with AO in Omaha. I am also here as the president of a not-for-profit: Restoration Exchange. We are the preservation organization in Douglas and Sarpy County. Our big events is actually tomorrow where we have a conference that teaches people how to preserve their homes, preserve their businesses, preserve their neighborhoods. We have people from all over the state attend our conference at Metropolitan Community College. Passed around a letter with...I want to talk about a few salient points in there. Currently, as an architect, we've got a ten-person architecture firm. We've got three projects in our office right now which are planning on using this act. The emergency clause as written in this bill would effectively kill those projects at this time. We would find ourselves having to work with our owners on trying to figure out another way to do the project if the projects...if the act were ended. We see that there's component that developers go through where, whether it's federal tax credits, state tax credits, and TIF funds that maybe...and VIP funds that may be applied to a project, they're all...every project is different. Every project uses the funding sources differently. One thing that I would say about TIF funding, that is also a moving target since it's dictated by the county and the county assessor as to how much...there may be...the project may have so much TIF funds available but they're only going to be awarded a certain amount of funds with the TIF. And the other thing I wanted to talk about, Mr. Jones had talked about the process and the rules. We do go by the guidelines of the National Park Service and the Secretary of Interior Standards. My office and the people working on projects are in frequent communication with the State Historic Preservation Office on these projects to make sure we have the same understanding of the National Park Service rules. The way that...it's very specific in how you do that process. And it seems like that does...and sometimes cost more money than if you would just replace the windows system or clean off masonry or some sort of thing. So we are abiding by the rules and they are pretty stringent in most cases. With that, I'd be more than happy to answer any questions that you may have. [LB475]

SENATOR LINDSTROM: Thank you, Mr. Saniuk. Any questions? Seeing none, thank you very much. [LB475]

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

Revenue Committee
March 03, 2017

JOSEPH SANIUK: Thank you. [LB475]

SENATOR LINDSTROM: Next opponent. Good afternoon. [LB475]

CHRISTY ABRAHAM: Good afternoon, Senator Lindstrom and Senator Harr. My name is Christy Abraham. Abraham is spelled A-b-r-a-h-a-m. I'm here representing the League of Nebraska Municipalities. And as you've heard from the previous testifiers, there are reports that indicate that these tax incentives are having a positive economic benefit to Nebraska and to municipalities in particular. I think in the first year, as you heard, a lot of projects in Omaha were given tax credits. But that really is being spread out throughout the state. And the smaller communities that we're hearing from are really excited about revitalizing their downtown and that's mostly what they're using the tax credits for. Every municipality that we talk to wants a revitalized downtown. I turn 46 next week, so let me tell you, I'm past being hip and cool. But the research I have done has shown that young people really are attracted to vibrant downtowns and it can both attract and retain those folks. So we would just like to go on record as supporting...I'm sorry, Senator Schumacher, opposing this bill. Thank you so much. I'm happy to take any questions. [LB475]

SENATOR LINDSTROM: Thank you, Ms. Abraham. Any questions from the committee? Seeing none, thank you very much. [LB475]

CHRISTY ABRAHAM: Thank you. [LB475]

SENATOR LINDSTROM: Next opponent. Good afternoon. [LB475]

SARA KAY: Hi. Good afternoon, members of the Revenue Committee. My name is Sara Kay and my name is spelled S-a-r-a K-a-y. And I'm the executive director of the American Institute of Architects, Nebraska chapter. And we're here in opposition to LB475. Obviously you've heard a lot this afternoon. And I was just going to add that this is truly still a young program, so I'm hoping that you will save the program. It has benefited communities across Nebraska, small and large. And I'm originally from North Platte and so I was going to talk to Senator Groene about the benefits of how it could be used in North Platte. We'll have to talk about that another time. So are there any questions? [LB475]

SENATOR LINDSTROM: Thank you, Ms. Kay. Any questions? [LB475]

SARA KAY: Thank you. [LB475]

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

Revenue Committee
March 03, 2017

SENATOR LINDSTROM: Seeing none, thank you very much for coming. Next opponent. Seeing none, we do have letters of opposition. (Exhibits 11-15) The first letter is from Mayor Chris Beutler of Lincoln; Greg Youell from Omaha-Council Bluffs Metropolitan Area Planning Agency; Chris Jerram with the Omaha City Council; Renee Kuhlman with National Trust for Historic Preservation out of Washington, D.C.; and Randy Chick out of Community Redevelopment Authority in Hastings. We will now move to neutral testifiers. Seeing none, Senator Schumacher, if you'd like to close. [LB475]

SENATOR SCHUMACHER: Thank you, Senator Lindstrom, members of the committee. In recapping the testimony of the Historic Director, he made three points of what needs to be done in order to qualify. Either have to comply with a bunch of federal regulations or you have to be in a historic district. What is a historic district? We made it really simple to make up one. And all you have to do is pass an ordinance, a pretty simple thing to do, or a resolution if you're a county that provides for some standards and requirements that reflect the heritage and values of the community and require that the building be at least 50 years old and have basically its original facade--done. Pretty clear from the testimony that there is a heavy bias to ignore that part of the law. In order to be historically significant or qualify for this act, you have to meet one of two tests. The first test is the complicated thing you've heard about: all kinds of requirements, federal register, being on this form, having all these tests; or the second one, and the statute says "or," not "and," "or," deliberately says "or." Or be located in one of these districts that is subject to a resolution which has been approved, and the resolution, the statute says, shall be approved by the history department if it meets certain very minimum standards. Platte County passed one; very easy, very simple to pass one. And it has to be approved--no if, ands, or must about it. And the officer determines either the property is historically significant, or it contributes to the economic viability of the district. In the case of a county that declares itself to be historic, contributes to the economic viability of the county, or the little town of 50. There's no big, complicated federal bureaucracy they have to deal with, none whatsoever if you do it under option, what they call, (d) (i). That's it. It has to be a licensed contractor. That's not hard to find. A lot cheaper than a licensed architect, but a licensed contractor is good enough for government work. And they've got to verify that you followed through with your plan. And the only thing they really have any input on the plan on is whether or not the front of the building stays the same for five years. That's it. Clearly somebody either doesn't understand the law as it was written or chooses to put a spin on the law that is contrary to the clear language of the law. I heard something about economic development. What if the same \$1 million that was talked about on the \$8 million project, instead of being given to rehabilitate an old building were given to the business with the greatest potential in town? Who do you suppose would have produced more economic activity, and on an ongoing basis, not just a one-time shot with then some minor economic activity afterwards? This law has been badly misadministered or misadministered to deliberately ignore its provisions. Clearly, the League of Municipalities, if it were concerned about this, should have been in there encouraging the history department to read the law as it was written. At any rate,

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

Revenue Committee
March 03, 2017

it's time now to basically, in the face of the economic crisis that we are now in, with our state revenues, to retire this particular experiment. And maybe if it's revived at some point in the future, to be revived with the history department having some respect for the language of the law. I'd be happy to take any questions. [LB475]

SENATOR LINDSTROM: Thank you, Senator Schumacher. Any final questions? I do just have one final question. You talk about the provisions of the law, the concept, are you opposed to the concept itself? Would this change if, say, we were flush with cash as a state? Or does this stem back from a couple years ago? Just talk about a few of those issues. [LB475]

SENATOR SCHUMACHER: Okay. Right now we've got to shake every nickel out of everything. And that's...and this is \$15 million a year of nickels. Clearly, making the argument that it should either be suspended or terminated--extremely persuasive, particularly when you look at the fact we're...we cut our own funding for this building out and there's no more historic building in the state. If we weren't in an economic pinch then I don't know how you write a bill or an amendment to a bill that says, oh and by the way, history department, we really meant what we said. Do not ignore the "or". In that respect, it was, as intended, a pretty much string-free way to contribute to economic viability of political subdivisions, whether that's entire counties or entire communities. That's why the law deliberately left the door open for an entire city or an entire county to declare itself to be historic. It was designed as a supplement, half of it was designed as a supplement for city and county aid that we had just got done cutting. And it has clearly not been applied that way. And were we not in a pinch and were there some indication that the thing would be responsibly administered according to what we wanted to and according to what was intended to then I wouldn't be in so much opposition. But I know in Platte County, which has an approved ordinance, that people are being spun every way from Sunday and told they have to comply with a bunch of federal regulations in order to get the money. And that frankly is not true. If it contributes to the economic viability of the county, if it has a licensed contractor, and it has a...if it's a sewer pipe that goes past...and contributing economic liability, it doesn't even have to be 50 years old, or a fiber optic cable or something like that. This was city and county aid, as well as the historic spin on it. It's not been administered that way. And my opinion would change if we had a bunch of money. [LB475]

SENATOR LINDSTROM: Thank you, Senator Schumacher. Seeing no other questions, that will end the hearing on LB475. We'll now move to LB528 introduced by Senator Harr. [LB475]

SENATOR HARR: Thank you, Mr. Lindstrom, members of the Revenue Committee. My name is Burke Harr, H-a-r-r. I'm from Legislative District 8 and I'm here on LB528. LB528 is an effort to build on some of the early success of the New Markets Job Growth Investment Act which was enacted back in 2012. The act essentially encourages investment and job creation in low-income

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

Revenue Committee
March 03, 2017

communities by providing additional financing for real...for businesses that cannot secure traditional financing or otherwise have difficulty raising additional capital. And the fact, which parallels the federal...and the act, which parallels of federal New Markets Program, has been successful in encouraging additional investment in low-income communities. For that, it's been a success. However...and the act has resulted in \$142 million in new investment in Nebraska located throughout the state with \$19 million in Omaha, \$22 million in Lincoln, and \$100 in greater Nebraska. However, the act has some limitations--most significant, the act prevents investors from participating in the state program investing in qualifying businesses by requiring those investors to have received an allocated federal New Markets Tax Credit. Unfortunately, this has only happened once since the federal New Markets Program was created. And to put in context, of the \$50 billion allocated under the federal New Markets Tax Credit Program, \$23 million has been allocated to a Nebraska CDE. As a result, Nebraska's businesses are forced to rely on out-of-state investors in order to raise additional capital or financing. The state program also does this absent any guarantee that an out-of-state investor will bring additional federal dollars into our great state. As the senator from Columbus said...may recall, this was one of the goals of the state program when it was originally enacted. LB528 not only helped raise capital for Nebraska business by allowing Nebraska-based investors to make investments in their own communities and to do...and do so in circumstances where such financing is difficult to obtain, but it also creates jobs and additional investment in communities that might go overlooked by the national investors participating in the federal program. LB528 would also eliminate a requirement that a business receiving an investment be the primary occupant of the building, as the requirement does not exist under federal law, and it allows the Nebraska Investment Finance Authority, NIFA, to support economic impact projects financed through the state program. With that, I'd be happy to answer any questions. [LB528]

SENATOR LINDSTROM: Thank you, Senator Harr. Any questions from the committee? Seeing none, thank you, Senator. [LB528]

SENATOR HARR: Thank you. [LB528]

SENATOR LINDSTROM: We will now have proponents. Good afternoon. [LB528]

JEFF ROYAL: Good afternoon. Senator Lindstrom and members of the committee, thanks for having me today. My name is Jeff Royal, J-e-f R-o-y-a-l. I am the president of Dundee Bank in Omaha and I appear before you today in support of LB528. Before I address LB528, I'd like to give you some background on our bank. We are an affiliate of Security State Bank in Ansley, Nebraska, which is located in Custer County. Security State Bank was founded in 1915. Our bank branch in Omaha was started in 2006. And one really interesting thing about our organization is we get nice, broad perspective of all the good work going on in the state and I

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

Revenue Committee
March 03, 2017

think we're in a really unique position to see the benefit of this program as it relates to the rural part of our state and also the urban part of our state with our two locations in two very different geographic areas in the state of Nebraska. As Senator Harr mentioned, the state New Markets Program requires a community development entity, also called a CDE, to enter into an allocation agreement with the federal CDFI fund before they can participate in the state program. So in order to be able to get an allocation under the state program, the way that it is set up today you have to have received a federal allocation from the CDFI fund. And though there are 2,000 CDEs formed in the states, only one Nebraska CDE has ever received a federal allocation of federal New Markets Tax Credit dollars. That was Commercial Federal in 2003, which leads to my next statement which is it's going to be really difficult for any Nebraska entity to ever get an allocation of federal credits unless it gets an allocation of state credits because the process with the CDFI fund and the application process with the Treasury really favors CDEs that have received a prior allocation. And in our case and in the state of Nebraska, given the fact that only one has ever been obtained and that was in 2003, it seems very unlikely that a Nebraska CDE is able to get an allocation of federal credits without an allocation of state credits. And while we've tried unsuccessfully the last three years to get a federal allocation, we have not yet been successful. At this point then we are relying on out-of-state CDE to make investments in Nebraska without any guarantee that federal dollars are also being invested in the state. So there are CDE that have received a federal allocation, which is the only way that you are eligible to receive a state allocation and those are people that office in places like Napa, California, and St. Louis and New Orleans and Ohio. And they've received our state allocation because they have received a federal allocation, but they are not required to use federal dollars along with that state allocation when they make those investments in our state. So since they are not required to bring those dollars along, I feel like our interests are aligned. We've applied three times unsuccessfully to get a federal allocation. If we were successful in a federal allocation, the last three times we've applied we have limited the use of our federal dollars to the state of Nebraska which is not the case with these CDEs that have received state of Nebraska credits and are, in fact, not bringing dollar-for-dollar match from federal dollars along with the state program. So really any change to the program the way it's set up right now is a bad result for them, but they also are not Nebraska-domiciled organizations with boots on the ground in both the rural and urban area and I think, in our case, able to make great decisions as it relates to job creation and the true use of this program. And additionally in our case, if we get a state allocation we think it really improves our chances of a federal allocation, which we would again commit to using 100 percent federal dollars along with these state dollars to create jobs in Nebraska using the program. So LB528 would simply allow CDE that did not receive federal allocation to participate in our state program and allow Nebraska companies, including ours, to finance more projects in our own communities. Thank you in advance for support of LB528 and I'd be happy to answer any questions you may have. [LB528]

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

Revenue Committee
March 03, 2017

SENATOR LINDSTROM: Thank you, Mr. Royal. Any questions from the committee? Seeing none, thank you very much for coming. Next proponent. Good afternoon. [LB528]

ROBERT HALLSTROM: (Exhibit 1) Senator Lindstrom, Senator Schumacher, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m. I appear before you today as registered lobbyist on behalf of the Nebraska Bankers Association in support of LB528. Senator Harr grabbed the same statistics that are contained within my written testimony, so I won't repeat those. And Mr. Royal has walked the walk and talked the talk and tried to make the program work and has given the indications of why the legislation ought to be adopted to make the changes to enhance the ability of the use of state tax credits in the application and acquiring of federal tax credits more likely for use in Nebraska. With that, I would be happy to address any questions that the committee may have or to alternatively engage in a colloquy at this point. [LB528]

SENATOR LINDSTROM: Thank you, Mr. Hallstrom. Senator Schumacher. [LB528]

SENATOR SCHUMACHER: Thank you, Senator Lindstrom. Thank you, Mr. Hallstrom. Are familiar enough with the act--I'm doing this to get it in the...some legislative history in the record here--familiar enough with the act and how it works and whether these credits are refundable or assignable? I mean we talk about a CDE, what's that? How does this thing work? [LB528]

ROBERT HALLSTROM: Well, Senator, you probably would have been better served to ask those questions of Mr. Royal when he was up here as opposed to me. I would be happy to get that information and sit down with you separately and provide you with an outline of a schematic of how the program actually operates. [LB528]

SENATOR SCHUMACHER: Thank you. [LB528]

SENATOR LINDSTROM: Thank you, Mr. Hallstrom. Next proponent. (Exhibit 2) Seeing none, I do have a letter of support from Barry Kennedy with the Nebraska Chamber of Commerce and Industry. We will now move to opponents, opponents of LB528. [LB528]

SEAN KELLEY: (Exhibit 3) Good afternoon. Senator Lindstrom, Senator Schumacher, Revenue Committee staff, my name is Sean Kelley, S-e-a-n K-e-l-l-e-y, appear today as a registered lobbyist on behalf of the Advantage Capital Partners in opposition LB528. Just to provide a little history on why this requirement is in the act, that is to ensure Nebraska would act as a magnet for federal dollars and federal investment, along with the state act. As you can see in the handout, we had an average of \$4.7 million in federal investment prior to the state act passing. Since that passed, \$49 million a year has been invested. So that's a 938 percent increase. So the

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

Revenue Committee
March 03, 2017

intent of the original act has proven to bring in more federal investment. One aspect of the proponents' testimony was that you cannot get a new allocation or it's very difficult. I'd just like to mention of the last two-year allocation that was awarded late last fall, 10 percent of the new awardees were first-time applicants. So it is achievable. And last, there will be \$7 billion in federal investment coming in and if we were to pass LB528, Nebraska would not be as attractive for those federal funds to come here to Nebraska. With that, I'd be happy to answer any questions. [LB528]

SENATOR LINDSTROM: Thank you, Mr. Kelley. Senator Schumacher. [LB528]

SENATOR SCHUMACHER: Thank you, Senator Lindstrom, and thank you for your testimony, Mr. Kelley. This is a...is there a fixed amount of money that we put toward these credits each year? [LB528]

SEAN KELLEY: There is. [LB528]

SENATOR SCHUMACHER: And if it were burned up by somebody who could not access or did not have a proven ability to access the federal money, there would be less of an incentive for the people who could access to come to our dance. [LB528]

SEAN KELLEY: It would. [LB528]

SENATOR SCHUMACHER: Thank you. [LB528]

SENATOR LINDSTROM: Thank you. Seeing no other questions, thank you, Mr. Kelley. [LB528]

SEAN KELLEY: Thank you. [LB528]

SENATOR LINDSTROM: (Exhibit 4) Next opponent. We will now move to neutral testifiers, anyone wishing to testify in a neutral capacity. Seeing none, we do have one letter from Timothy Kenny with the Nebraska Investment Finance Authority in a neutral capacity. And with that, we will invite Senator Harr to close. [LB528]

SENATOR HARR: Thank you. Thank you all for being here. Luckily this bill didn't have a time limit on it because if it had, Senator Schumacher, you used 20 percent of the time. That's all I have. Thank you. [LB528]

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

Revenue Committee
March 03, 2017

SENATOR SCHUMACHER: That's not unusual, Senator Harr. [LB528]

SENATOR LINDSTROM: Thank you, Senator Harr. [LB528]

SENATOR HARR: Oh, I'm on the next one. [LB528]

SENATOR LINDSTROM: Yeah. And that will end the hearing on LB528. We will now invite Senator Harr to introduce LB228. [LB528]

SENATOR HARR: Members of the Revenue Committee, my name is Burke Harr, H-a-r-r, and I'm here...well, I represent LD8 and I'm here on LB228 which changes provisions relating to a rent-restricted housing project. In 2015, I introduced LB356 which gave guidance to counties on how to value rent-restricted housing projects. LB356, I'm proud to say, passed 45-0; 4 people were present and not voting. LB356 also created the Rent-Restricted Housing Projects Valuation Committee and the committee has requested the following changes to...found within LB228. It allows for the reports to be filed electronically, it changes the date of filing the reports from October to July, it requires the Department of Revenue to forward reports on the counties by August 15, it allows the committee to create different cap rates for different housing projects if it is unique enough to warrant such a difference. This is...as you can see from the fiscal note, it does not have one. That's all I have. Thank you. [LB228]

SENATOR LINDSTROM: Thank you, Senator. [LB228]

SENATOR HARR: It's a simple cleanup bill. [LB228]

SENATOR LINDSTROM: Thank you, Senator Harr. Seeing no questions, thank you. [LB228]

SENATOR HARR: I will stay for closing. [LB228]

SENATOR LINDSTROM: Okay. Sounds good. We will now have proponents. [LB228]

JUSTIN BRADY: Senator Lindstrom and members...member of the committee, my name is Justin Brady, J-u-s-t-i-n B-r-a-d-y. I appear before you today as the registered lobbyist for the Housing Policy Network. They had worked with this committee and the body and Senator Harr on LB356 and they have an individual that...from the Midwest Housing Equity Group in Omaha that sits on this valuation committee. And from...an individual from the private sector, they

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

Revenue Committee
March 03, 2017

support the changes. As Senator Harr laid out, was truly a cleanup bill to that bill passed a couple years. With that, I'll try to answer any questions. [LB228]

SENATOR LINDSTROM: Thank you, Mr. Brady. Any questions from the committee? Seeing none, thank you. [LB228]

JUSTIN BRADY: Thank you. [LB228]

SENATOR LINDSTROM: Next proponent. Good afternoon. [LB228]

ROB OGDEN: Good afternoon. Senator Lindstrom and committee members, I am Rob Ogden, R-o-b O-g-d-e-n, and I'm deputy county assessor in Lancaster County, but I am one of the members that sit on the board for the low-income housing group. And we put together this request to help solidify our job, one, so we can get it done more efficiently, have more time to do it; also to help the private sector people that are submitting information to us to only have to submit it to the state rather to both the state and the individual counties that have a project. So with the cleanup, it would only go to the state. State will send the information to the counties. The other technical things, if you have any questions I'd be glad to answer. [LB228]

SENATOR LINDSTROM: Senator Schumacher. [LB228]

SENATOR SCHUMACHER: Thank you, Senator Lindstrom, and thank you for your testimony. What is the...this allows for a different capitalization rate than the rest of the state if this committee suggests that...or not this committee but the committee in the bill suggests that? What is the current cap rate? [LB228]

ROB OGDEN: We determine that every year. And this last year, for 2017, valuation is 6.5 percent. [LB228]

SENATOR SCHUMACHER: And just for the record in case anybody reads this, what is a cap rate and how does it work? [LB228]

ROB OGDEN: Okay. Capitalization rate is a rate used to convert net operating income from a property after operating expenses to capitalize that income into a value that is considered the market value of a project. It's a common usage in the income approach for most commercial properties. [LB228]

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

Revenue Committee
March 03, 2017

SENATOR SCHUMACHER: So you take basically the net profit off of a property or the net income after you pay the bills... [LB228]

ROB OGDEN: Excluding property taxes, in this case, because we load the tax rate into the cap rate--on top of the 6.5 percent we add whatever the tax rate is--and any of the lending costs, any additional costs that aren't related to running the property are excluded. [LB228]

SENATOR SCHUMACHER: And then you take that number after those exclusions, project it down the road assuming it would go for 50 years until it becomes historic or something (laughter). And then...so you take that revenue and then, what, you discount it using a 6.5 figure? [LB228]

ROB OGDEN: Well, we call it capitalization and we capitalize it because we're capitalizing an income into a value. [LB228]

SENATOR SCHUMACHER: So basically what amount of money today would generate this revenue stream for long period of time using a 6.5 percent interest rate. [LB228]

ROB OGDEN: Yes. That's a good simplification. [LB228]

SENATOR SCHUMACHER: Yeah, well, I'm pretty simple. Thank you. [LB228]

SENATOR LINDSTROM: Thank you. Any other questions? Seeing none, thank you, Mr. Ogden. [LB228]

ROB OGDEN: I appreciate your time and I appreciate Senator Harr for introducing this. [LB228]

SENATOR LINDSTROM: Next proponent. [LB228]

BETH BAZYN FERRELL: Good afternoon. For the record, my name is Beth, B-e-t-h, Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials. I'm appearing in support of the bill. We'd just like to thank Senator Harr for introducing this bill, as well as the prior legislation that created the committee. It had always been a challenge to figure out how to value these rent-restricted properties and so the committee was a great development in the whole process and we do support the technical cleanup in this bill. Be happy to answer questions. [LB228]

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

Revenue Committee
March 03, 2017

SENATOR LINDSTROM: Thank you very much. Any questions from the committee? Seeing none, thank you. Next proponent. Seeing none, we will now move to opponents. Seeing none, anyone wishing to testify in a neutral capacity? Seeing none, Senator Harr waives closing and that will end the hearing on LB228 and that will end the hearings for today. Thank you very much. Have a great weekend. [LB228]