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Revenue Committee
February 02, 2018

[LB739 LB824 LB920 LB1071 LB1074]

The Committee on Revenue met at 1:30 p.m. on Friday, February 2, 2018, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB739, LB1071, LB824, LB1074, and LB920. Senators present: Curt Friesen, Vice Chairperson; Mike Groene; Burke Harr; Brett Lindstrom; and Paul Schumacher. Senators absent: Jim Smith, Chairperson; Lydia Brasch; and Tyson Larson.

SENATOR FRIESEN: (Recorder malfunction)...seats.

SENATOR LINDSTROM: You need a gavel.

SENATOR FRIESEN: Okay, we are going to call the hearing to order. We have the last senator that we need arriving now (laughter). So, welcome to the Revenue Committee public hearing. My name is Curt Friesen from District 34; that's Hamilton, Merrick, Nance, and part of Hall Counties. The committee will take up the bills in the order posted. Our hearing today is part of a legislative process. This is your opportunity to express your position on proposed legislation before us today. We have one new procedure for this session: if you're unable to attend the public hearing we would like your position stated for the record, then you must submit your written testimony by 5:00 p.m. the day prior to a hearing. Letters received after the cutoff will not be read into the hearing, no exceptions. I'm going to ask that everyone turn off their cell phones and electronic devices. We have chairs up front where you can move to be ready to testify when your turn comes. The order of testimony will be the introducer, and then proponents, and then opponents, and then neutral, and then we'll have closing remarks. If you will be testifying, please complete the green form and hand to the committee clerk when you come up to testify. And if you have written materials that you would like distributed to the committee, please hand them to the page to distribute. We need 11 copies for committee members and staff; if you need additional copies, the page will make copies for you. When you begin to testify, please state your name and spell your name for the record. Please be concise. We're going to use the lights today, and we will give you five minutes. One minute will remain when the yellow light comes on, and when the red light comes on we will ask that you wrap it up. I'll introduce the staff here; I have to my immediate left is Mary Jane Egr Edson, and to...and then Kay Bergquist, and clear at the

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end is Krissa Delka. And our pages today is...Kylie Kotouc from UNL, poli sci, and Lee-Ann Sims from UNL, poli sci, from Lincoln. With that, we will start over at my far left and the senators can introduce themselves.

SENATOR HARR: Senator Burke Harr, Legislative District 8.

SENATOR SCHUMACHER: Senator Paul Schumacher, AKA the last senator (laughter); Platte, Colfax...parts of Colfax, Stanton County; District 22.

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

SENATOR FRIESEN: Senator Brasch and Senator Smith will be absent today, they're traveling. Senator Groene is in another hearing. And we may see Tyson...Senator Larson or we may not. With that, we'll open the hearing on LB739. Welcome, Senator Lindstrom. [LB739]

SENATOR LINDSTROM: (Exhibits 1-3) Thank you, Vice Chairman Friesen and members of the Revenue Committee. My name is Brett Lindstrom, B-r-e-t-t L-i-n-d-s-t-r-o-m, representing Legislative District 18 in northwest Omaha. Today I'm bringing LB739 for your consideration. LB739 expands the Sports Arena Facility Financing (Assistance) Act to include sports complexes. The intent is to allow for growth not only with new construction, but also with facilities that are already present; which brings the price tag down instead of using this act to only invest in brand-new facilities. I am passing around...passing around a few articles that discuss the enormous impact that youth sports have on economic development across the country to the tune of 53 million players resulting in \$7 billion in annual spending, and 27 percent of all trips taken solely for an organization sporting event in 2014. NBC has launched a social app that contains a searchable directory of more than 100,000 youth sports, camps, teams, and leagues. And Time launched similar apps that have over 17 million users. And investors have put over \$1 billion into the youth sports market. The idea of LB739 came to me from a constituent, who I believe will testify later, behind me. He has been heavily involved in the sporting community across the state and knows firsthand of many of our communities on how this project would benefit from the use of our turnback tax on sports complexes. My interest in LB739 comes from proposals over the past few years surrounding improvements to be made on Tranquility Park and

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Kelley Softball Complex, which sit in my district. While there is no imminent plan approved and waiting for this bill to pass in order to break ground, there have been discussions and proposals in the past few years to expand the facilities and attract large regional and national events. I am a big proponent of bringing more economic development to Omaha, especially if it will benefit my District 18. Currently the area is used for soccer, softball, adult leagues, lacrosse leagues, and other activities. Millard Public Schools and Omaha Public School facilities are consistently booked and they are finding it increasingly more difficult to schedule facility use for school-related organizations due to the high demand from outside organizations. Allowing the city to approve sports complex type projects will help lessen the load and create more court and field time. There is clearly a need for these types of facilities across the state of Nebraska. A few years ago when Lincoln hosted the State Games of America, some of the sports were moved to Omaha and surrounding communities due to the lack of available facilities in any one community. It is my understanding that our youth state baseball and softball tournaments have been held across the river in Council Bluffs due to the lack of available fields in Nebraska. Those fields are paid for with casino money. I would rather find a more suitable revenue stream in Nebraska to fund these projects that involve children's activities. While my initial interest with this bill has been with Tranquility Park, I have learned that there's a growing need for renovations to fields all over the state: Lincoln has been working on a proposal west of the Haymarket Arena; Lexington, I believe, has a plan in place; and Kearney has a need to expand Patriot Park. And I am sure there are more that we can add. LB739 does not change the mechanics of the term "backtax" already in place in the Sports Arena Facility Financing Act. The boundaries of collecting the turnback are still within 600 yards of the facility and uses the same breakdown of what percent comes from new and established businesses. I want to address the fiscal note. There is a reference that the bill does not state that the park must be publicly owned. Our intent was not...was that this was to be used for publicly owned property and the turnback could be used in conjunction with private money raised. LB739 is a solution to a statewide problem, not a solution for one city or one just one park. The intent is to allow for a funding mechanism for communities with projects to bring in regional and national championship tournaments. LB739 doesn't just waive a wand and allow all communities to automatically receive funds, it provides a mechanism for Nebraska communities to use when they decide to move forward to fund sports complexes that they are confident will bring money and grow the local economy. Passing LB739 does not mean communities are bound to using it. The decision to create these complexes are ultimately up to

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each individual city and we are just providing the groundwork for funding. With that, I'll be happy to take any questions that you may have. [LB739]

SENATOR FRIESEN: Thank you, Senator Lindstrom. Any questions from the committee? Senator Schumacher. [LB739]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you, Senator Lindstrom, for bringing this before us today. Now, what...is there any new sources of funding than the existing arenas, or is this...are these...for example, a soccer field; certainly we would not give a turnback to anything within 600 yards of the soccer field, would we? [LB739]

SENATOR LINDSTROM: Well, the 600 yards is from the perimeter of the complex itself. So, this would include the 12 facilities. If you've been by Tranquility you'll see that there are...I think there's probably...and Kelley Park...maybe 10 facilities there. So if they were to update it and provide new facilities those would count in (inaudible)... [LB739]

SENATOR SCHUMACHER: So that would be a new tax-exempt zone...turnback zone. [LB739]

SENATOR LINDSTROM: Turnback; yes, it would. [LB739]

SENATOR SCHUMACHER: So we could have umpteen of these across the state? [LB739]

SENATOR LINDSTROM: Potentially, yeah. I mean, umpteen with...again, at this point in time it's 12 that we're suggesting they build... [LB739]

SENATOR SCHUMACHER: And so if you wanted to build a shopping center, something, wanted to make something tax exempt, you could throw a soccer field off to the edge, and bingo, you win. Not tax exempt, but turnback. [LB739]

SENATOR LINDSTROM: Not just one field, it would have to be 12 in the legislation that we have before you. [LB739]

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SENATOR SCHUMACHER: And same thing, 12 football fields? [LB739]

SENATOR LINDSTROM: Twelve multi...it could be football fields, softball fields, baseball fields; any multiuse type of field. So this is geared more towards attracting those regional sporting events, but also, like I said, alleviating some of the demand on Millard Public Schools, OPS...Omaha Public Schools and their facilities as well, so. It's geared...in this case Tranquility sits in my district, so I can speak to that, but this could be used in any part of the state. [LB739]

SENATOR SCHUMACHER: So in order to qualify for this turnback, you have to have a baseball field, a softball field, a soccer field, or just...where is the number that says this has got to be... [LB739]

SENATOR LINDSTROM: Twelve. [LB739]

SENATOR SCHUMACHER: ...that you have to have 12 of them? [LB739]

SENATOR LINDSTROM: Just give me a second. [LB739]

SENATOR SCHUMACHER: At least 12 separate sports venues. I see it... [LB739]

SENATOR LINDSTROM: Yeah. [LB739]

SENATOR SCHUMACHER: ...on the top of page 5. [LB739]

SENATOR LINDSTROM: Yeah, so that's where the legislation...that's where it talks about the 12. [LB739]

SENATOR SCHUMACHER: And two baseball fields count for two sports venues? [LB739]

SENATOR LINDSTROM: That would be correct, yeah. But you...you know...based on what would...what the area would support from the plans that I think we're talking about several soccer fields, several multiuse fields that could be used for soccer, football, field hockey, there

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would be soft...yeah, softball, baseball, football, all the sports that are listed here, fields that are listed here in the statute. [LB739]

SENATOR SCHUMACHER: Do you remember, Senator, how the money flows through this thing? Does any of these funds that come from the turnback go back to the state and not... [LB739]

SENATOR LINDSTROM: It's just for the use there through... [LB739]

SENATOR SCHUMACHER: ...on all the bondages? So you take the sales tax money, presumably, that comes from within 600...about 1,800 feet, then, of one of these complexes... [LB739]

SENATOR LINDSTROM: Yeah. [LB739]

SENATOR SCHUMACHER: ...and you give that back to the public entity that built the complex? [LB739]

SENATOR LINDSTROM: Yes. [LB739]

SENATOR SCHUMACHER: And the state...basically the exposure for loss for the state would be that if the state didn't have this plan and somebody built a facility with some of these sports fields and things sprung up within... [LB739]

SENATOR LINDSTROM: Yeah. [LB739]

SENATOR SCHUMACHER: ...basically 1,800 feet is 3,600...a radius of 3,600 feet... [LB739]

SENATOR LINDSTROM: Right. [LB739]

SENATOR SCHUMACHER: ...that we would get sales tax money off of that. [LB739]

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SENATOR LINDSTROM: That's correct. So the...I believe it's 24 months prior to the date of completion of the project itself. So any existing business...I can only speak, again, this is my district. There are several bars, restaurants, but there is quite a bit of land around that area. So anything after the completion, so we would...most likely you would see some either hotels, motels, and some other retail development around that area to accommodate the amount of people coming into that area. But, yes, with the new projects being built, that sales tax would be used for that facility. And any existing sales tax in that area would be used for this facility for a short amount of time. [LB739]

SENATOR SCHUMACHER: And so if they built one of these facilities and I was unlucky enough to, three years before, build a sports bar or something that charged sales tax--shopping mall, something--a mile away. And now they build one of these facilities and my competitor goes within 1,800 feet of the facility and he still has to charge a sales tax on his products, right? So we don't have... [LB739]

SENATOR LINDSTROM: Yeah, either...both facilities would still charge the same sales tax. [LB739]

SENATOR SCHUMACHER: It's just that this is a way for the city to get the money to pay for the sports venues? [LB739]

SENATOR LINDSTROM: Yes, it would be turned back for that specific project. [LB739]

SENATOR SCHUMACHER: And how long can they turn it back? [LB739]

SENATOR LINDSTROM: It'd be in the statute, but at least 24 months prior to the project and then 48 months after. [LB739]

SENATOR SCHUMACHER: So it's basically the city is giving up six years of revenue. [LB739]

SENATOR LINDSTROM: Well, four years after the date of the completion. [LB739]

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SENATOR SCHUMACHER: Okay. And the state is giving up the state sales tax revenue.
[LB739]

SENATOR LINDSTROM: Right. [LB739]

SENATOR SCHUMACHER: And so the state is actually kicking in about five-sevenths of the project. [LB739]

SENATOR LINDSTROM: In a sense, although I'm not quite sure if without this legislation what type of economic development would go up around there, so. It could be nothing to the state, it could be something after that time period is up because nothing would have maybe existed without this type of deal. So, long-term, I think it would be better for the state when the turnback sunsets on the project. [LB739]

SENATOR SCHUMACHER: But if I don't...if I eat a hamburger at the restaurant near this facility, I'm probably not going to eat the hamburger at the facility a mile away. [LB739]

SENATOR LINDSTROM: It's possible, I mean, it just (inaudible)... [LB739]

SENATOR SCHUMACHER: Thank you. I at least got an idea of how your...how it has been set up. [LB739]

SENATOR LINDSTROM: Okay. [LB739]

SENATOR FRIESEN: Thank you, Senator Schumacher. Senator Harr. [LB739]

SENATOR HARR: Thank you, Senator Friesen. And thank you, Senator Lindstrom. I brought something similar my first year, and it seems like about every two years we do something with the turnback tax. So I'm going to start with page 4 and look at the fiscal note. And I think you addressed this, but it says "sports complex means a facility." Is it your intent that that be a public facility? [LB739]

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SENATOR LINDSTROM: Yes. [LB739]

SENATOR HARR: Okay, and that's where you did just make that change right there? [LB739]

SENATOR LINDSTROM: Yeah. [LB739]

SENATOR HARR: Okay. And then, is there anything about that these fields have to be contiguous with each other? So that I don't have a situation where I have...let's mention OPS. They say...they have a sports facility and it's each one of their schools and it forms the 12 of these, and they get turnback tax for each one of them. [LB739]

SENATOR LINDSTROM: Well, there would be an intent of that, that it would be contained within an area. [LB739]

SENATOR HARR: So we could define that? [LB739]

SENATOR LINDSTROM: We could, sure, sure, yeah. [LB739]

SENATOR HARR: Senator Louden got me on that one. [LB739]

SENATOR LINDSTROM: (Laughing) Oh, okay. [LB739]

SENATOR HARR: If you can believe that. And then...so the turnback tax, the way it works...and I can't remember...I think we're limited to one project per county, aren't we? Isn't there something like that in there? [LB739]

SENATOR LINDSTROM: I'm not familiar with that. There could be people behind me that could speak to that. [LB739]

SENATOR HARR: Okay. If someone from the city is here. And then my other question is; so there's a turnback tax and we gave a certain percentage that goes to the project, and then a certain percentage goes to projects around the state? [LB739]

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SENATOR LINDSTROM: If people...if those municipalities would utilize this project they could do it, really, anywhere in the state if they wanted to. Under this statute, we're talking about 12 separate... [LB739]

SENATOR HARR: Yeah. [LB739]

SENATOR LINDSTROM: ...facilities. So, yeah, I mean, if, theoretically, if a smaller town wanted to do this, we would have to look at maybe changing the 12... [LB739]

SENATOR HARR: Yeah. [LB739]

SENATOR LINDSTROM: ...to make it a lower obviously... [LB739]

SENATOR HARR: Well, and by the way... [LB739]

SENATOR LINDSTROM: ...to facilitate that... [LB739]

SENATOR HARR: ...I think, like, Kearney, we have the interstate, would be a great place to do this. And I even said maybe we have fields over here, hotels may not be within 600 feet, but they'd move there for that. But my question is...because youth sports are taking over the world, and my weekends (laughter). What happens...I lost my train of thought for a second there. My question is what happens...why not...the 20 percent fund has gotten...so 80 percent goes to it, 20 percent goes into a fund that then gets disbursed around the state. Can we change the definition, because that 20 percent fund has gotten too big and we can't spend that money down fast enough. Would you be willing to have an amendment that says smaller towns can use sports complexes for the 20 percent fund? [LB739]

SENATOR LINDSTROM: I wouldn't have a problem with that. [LB739]

SENATOR HARR: Okay. [LB739]

SENATOR LINDSTROM: Yeah. I see this as a... [LB739]

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SENATOR HARR: And maybe you could make it smaller, right? [LB739]

SENATOR LINDSTROM: Sure. [LB739]

SENATOR HARR: Six or something, I don't know and I'd love to hear from...hopefully the league is here because I know they watch this fund like a hawk. And they could maybe give us what is a good amount for the...I can't remember what the other fund is. I think it's 20 percent. I don't even know if it's called the 20 percent fund, but something we could do to...if we're going to help the big towns, let's figure out something we can do to help the small towns. [LB739]

SENATOR LINDSTROM: Absolutely. Absolutely. [LB739]

SENATOR HARR: That's all I ask, honestly. [LB739]

SENATOR LINDSTROM: Yeah, and I agree with that. I...as a kid playing sports and obviously as a dad you're probably going to a lot of that stuff. It's expanding, it's become regional now. [LB739]

SENATOR HARR: Yeah. [LB739]

SENATOR LINDSTROM: (Inaudible) At YMCA...just go to the YMCA and play basketball. Now they're playing baseball, 70 games... [LB739]

SENATOR HARR: Right. [LB739]

SENATOR LINDSTROM: ...and they're going all around the region and oftentimes they're bypassing Nebraska, in some cases that I've heard, where they go to Des Moines or Kansas City, even to maybe South Dakota. And so, we just don't necessarily have the facilities to handle that type of of group... [LB739]

SENATOR HARR: And right, they're now a mini Little League World Series that goes on during the College Worlds Series. And I know a lot of them play in Iowa... [LB739]

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SENATOR LINDSTROM: Um-hum. [LB739]

SENATOR HARR: ...right? It would be great if we could have them in Nebraska and staying in Nebraska, and having some more hotels around that. So, I get what you're trying to do. And the other...you know, this is...the one thing I will add, just for the record, because someday, maybe, someone will read this. My other concern in that the turnback tax was originally started; hey, you build something and we should collect...the state should pay for some of that benefit of what goes in there; i.e. the Qwest, Century, CenturyLink or whatever it's called two years from now. It's kind of been bastardized in that someone sees a big development going on and they think, oh, let's put something near there to get that turnback. Or, hey, I want to do this development, but we're near a flood plain. Well, let's put fields on it, and then because of that field we can use turnback tax and that'll help with the development. And we kind of bastardized the whole turnback tax a little bit. I'd love to see if there's some way we can have an oversight committee to make sure these committees...and I don't know how to do that because I've thought about it and I don't have an answer. So I'm just making a record so when someone smarter than I comes along...than I am...they can figure that out. But thank you, very much, for bringing this. [LB739]

SENATOR LINDSTROM: Sure, and I have no problem tightening up legislation there... [LB739]

SENATOR FRIESEN: Thank you, Senator Harr. Couple of questions... [LB739]

SENATOR LINDSTROM: Sure. [LB739]

SENATOR FRIESEN: ...that I guess I have. Right now, there's just three facilities that do that? [LB739]

SENATOR LINDSTROM: In the state? [LB739]

SENATOR FRIESEN: Yeah. [LB739]

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SENATOR LINDSTROM: I'm not aware...I'm not quite sure. I think there was one project a few years ago in La Vista. [LB739]

SENATOR FRIESEN: La Vista one is kind of on hold and they're not going yet? [LB739]

SENATOR LINDSTROM: As far as I know, I don't think anything's being built there currently. [LB739]

SENATOR FRIESEN: It mentions here that there's three current projects and... [LB739]

SENATOR LINDSTROM: Okay. [LB739]

SENATOR FRIESEN: ...you know, the fiscal note on that would have been \$9.9 million in '16-17. [LB739]

SENATOR LINDSTROM: Um-hum. [LB739]

SENATOR FRIESEN: So, I mean it's...it is a substantial amount of money, I guess, in a time when we're short of revenue, and so I noticed the fiscal note really can't project anything because we don't have a specific project limited...initiated here. But again, like you're saying, you're looking at could be multiple sites across the state. [LB739]

SENATOR LINDSTROM: Sure, this could be used in any municipality that would want to increase the flow of people coming from out of state, or...and again taking some of the burden off of the local sports complexes at schools as well. If you've ever driven past Tranquility on a Sunday or Saturday, that's just mostly local folks that are there and it is...there are thousands and thousands of people that are out there on the field. And so if we can expand a little bit. They have the ice...Moylan Ice Complex right there. And then some land back behind there as well, and then it goes all the way to the north side on Fort, into the Kelley Field area. There's room for either updating the fields or a little bit of expansion there. And again, this is in my district, so...but again, this can be used for any place in the state, I'm just familiar with the ability to use it in that area that I'm... [LB739]

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SENATOR FRIESEN: So it could be a totally new construction field or a renovated existing... [LB739]

SENATOR LINDSTROM: Yep. [LB739]

SENATOR FRIESEN: ...facility that... [LB739]

SENATOR LINDSTROM: Yep. [LB739]

SENATOR FRIESEN: ...meets these. Now is it...is it severely limited to those special sports listed, or are there...is skateboarding a sport? [LB739]

SENATOR LINDSTROM: We don't specify... [LB739]

SENATOR FRIESEN: Okay. [LB739]

SENATOR LINDSTROM: ...in here. I would consider skateboarding a sport. [LB739]

SENATOR FRIESEN: Does it require to be listed or is it open to interpretation? [LB739]

SENATOR LINDSTROM: Well, I think if you had, say, an outdoor...well, here it says "outdoor arena primarily used for competitive sports." I suppose if you had a skate park out there and you want to set up a competitive tournament using the skateboard, in my opinion I think that would probably qualify for that. [LB739]

SENATOR FRIESEN: Okay. [LB739]

SENATOR LINDSTROM: I don't think that's necessarily the intent or what the project...but I think you could make an argument to say if there's skateboarding tournaments that they could be used...if they use that. [LB739]

SENATOR FRIESEN: Okay. Any more questions? Senator Schumacher. [LB739]

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SENATOR SCHUMACHER: Thank you, Senator Friesen. We passed a bill this morning...not passed, advanced a bill this morning about firearm sports. Along the same lines as Senator Friesen's questions; shooting ranges? [LB739]

SENATOR LINDSTROM: I suppose...it's...it would include an indoor facility based on competitive sports. If it was, I suppose they could classify that in one of the arenas or venues that...if it was competitive in nature. They could... [LB739]

SENATOR SCHUMACHER: Flying drones around and landing them? [LB739]

SENATOR LINDSTROM: I suppose. (Laughing) I've never done it, but I suppose it could be used for that, yeah. [LB739]

SENATOR SCHUMACHER: All right. [LB739]

SENATOR FRIESEN: Thank you, Senator Schumacher. Senator Harr. [LB739]

SENATOR HARR: What about Quidditch? (Laughter) [LB739]

SENATOR LINDSTROM: Well, you know what's fun about having young kids, I actually know what that is (laughter), in Harry Potter. So, yeah, if you can find a broom that flies, sure. [LB739]

SENATOR HARR: All right. Just wanted to make sure. Thanks. [LB739]

SENATOR FRIESEN: Thank you, Senator Harr. This was one-question Friday (laughter). Any other questions from the committee? Seeing none, thank you, Senator Lindstrom. Proponents, who wish to testify in favor of LB739. [LB739]

JEFF MAUL: Great discussion. [LB739]

SENATOR FRIESEN: Welcome. [LB739]

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JEFF MAUL: Vice Chair Friesen and members of the Revenue Committee, my name is Jeff Maul, J-e-f M-a-u-l. I'm the director of the...executive director of the Convention and Visitors Bureau here in beautiful Lincoln, Nebraska. But I'm also appearing on behalf of not only the bureau, but the Lincoln Chamber of Commerce and our friends at the Nebraska Travel Association. The Travel Association itself is a trade association representing nonprofit as well as for-profit groups and businesses across the state that have a direct interest in promoting tourism. Each organization is in favor of the potential redefinition of the current language of the Sports Arena Facility Financing Act and the expanded definition of what constitutes a sports facility complex statewide. My testimony today will focus on the growth of youth sports nationwide, as well as the opportunity that sports-related facilities have on the quality of life as well as the wellness of all of Nebraska. With that being said, I want to quickly remind the committee of the impact that tourism has on our state. Tourism is Nebraska's third-largest industry behind only agriculture and manufacturing. And under the leadership of John Ricks of the Tourism Commission, will continue to drive new visitors to our state annually. While it's no secret that sports is a big part of our state at the collegiate level, and we hope will only get better, tourism professionals have known for years that youth sports tourism is a vital part of Nebraska's economy, resulting in overnight stays that broaden the lodging as well as the sales tax base. Over the past three years, sports tourism bookings in Lincoln and Lancaster County have accounted for over 75 percent of our annual room-night bookings. With only limiting...with the only limiting factor on additional growth being the lack of facilities for hosting tournaments, primarily in baseball, softball, basketball, and volleyball. Nationwide, youth sports tourism, which is near and dear to our heart, represents a \$15 billion market with a 55 percent growth since 2010, according to the WinterGreen Research firm, a private firm that tracks industry trends and standards. With that kind of growth, the time is now to allow for communities statewide to have financing mechanisms for renovations of existing complexes or new construction. In addition to the above stated benefits to the lodging and sales tax collections, I want to remind people of the wellness-related activities provided by local parks and rec departments, YMCAs, and organizations like the Nebraska Sports Council and the Cornhusker State Games. These very same facilities and improvements are used by these organizations and others, and provide year-round usage. As we move forward in 2018 and future years, I want to thank the Revenue Committee for their careful consideration of financing that help supplement the ability of communities across our great state to enhance their tourism destination as well as

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the quality of life opportunities for Nebraskans. I can personally say that tourism is important for me, right here in Lincoln, and my family. It's important in Omaha, but it's even more important to my colleagues in rural areas of the state. We appreciate your help over the years, and look forward to much success in tourism for years to come. This concludes my testimony, and I'd be happy to answer any questions at this time. [LB739]

SENATOR FRIESEN: Thank you, Mr. Maul. Any questions from the committee? Seeing none, thank you for your testimony. [LB739]

JEFF MAUL: Thank you, so much. [LB739]

JEFF LeDENT: Good afternoon. Thank you for your time to speak to you today on LB739. My name is Jeff LeDent, J-e-f-f L-e-D-e-n-t. I'm the full-time general manager of Millard United Sports. And for the last nine years, and prior to that, I served as a volunteer on the executive board for them. I also had the pleasure of playing as a kid in that same organization, so. Millard United Sports was formally Millard Athletic Association. We were founded in 1940, and in 2016 we merged with Kingswood Athletic Association to become Millard United Sports. Our organization serves baseball, softball, flag football, and tackle football. We also manage and maintain 41 fields throughout the city of Omaha, 26 of them for the city of Omaha. With all that going on, you know, why am I here today? And it's simply put; it's the need. The need for more fields, complexes, multi-sports supercomplexes that the state can be proud of. I commend the other youth organizations in the city in Omaha and around the state for doing the best that they can with aging facilities. Many, if not most, of our youth state baseball tournaments take place in Iowa. We just don't have the capacity or the inventory in Omaha to host all of those events. The simple truth is that it's becoming increasingly more difficult to compete with surrounding states and their superior complexes--such as Iowa, Kansas, Missouri--that are way ahead of us in the sports tourism department. We don't have to look very far to look for examples of what can be done. Des Moines, Council Bluffs, Ankeny, Kansas City all have multiple venues that Nebraska simply cannot compete with. Overland Park has a premier complex; it has 12 lit, synthetic turfed fields, soccer pitches, 24 baseball and softball fields. It's a beautiful, thriving complex. There's many more in those states: Racoon River, Holiday Park, Fountain Bluff, Tiffany Springs, Mid-America Sports Complex, 3&2 Sports Complex in Johnson County. All are examples of what's

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possible in Nebraska. Sports tourism, as it has been mentioned, is a \$15 billion-a-year industry that has just exploded in the recent years. Omaha and all of Nebraska is missing out on a true revenue potential due to lack of quality complexes. We have events that can fill these complexes, if we were just to build them. Triple Crown Sports is who hosts the tournament during the College World Series; brings 500-plus teams in a 10-day period to Omaha. How do we expand on that? Those teams are capped, that event could be larger. How do we get those teams to return to Omaha, to Nebraska? We need to blow them away with facilities. We need to have something that we can be proud of. I'd like to give you two examples of sports tourism and the economic impact it could have. The first example is personal. I have a daughter that's in travel soccer. In 2016, we traveled and played in 11 out-of-state tournaments in one year. That travel alone in the money we spent during those events was nearly \$15,000. Take that times the other 16 members on that team and that's \$240,000 collectively that we spent from one team alone. Those numbers are staggering, but that money is leaving our state. The second example is on a larger scale. Westfield, Indiana, population of 37,000 people. The mayor of Westfield, Andy Cook, had an idea that most didn't agree with at the time. His idea was to turn 40 prime acres of cornfields into a sports youth destination. He built 31 soccer pitches that could be used for football, lacrosse, and hockey as well, 26 baseball and softball diamonds, and 88,000 square feet of indoor space for basketball and volleyball. That vision now creates 1.2 million visits per year and an economic impact of \$145 million. The city's population has tripled since the year of 2000. That vision has paid off, and then some. All of this is possible, but it does take a public and private partnership. Groups like ours can't do it alone. But with tools like this we can work together to bring tourism back into Nebraska. We can expand experiences for local users as well. Thank you, again, for your time and consideration of this bill and the opportunity to speak to you today. Any questions? [LB739]

SENATOR FRIESEN: Thank you, Mr. LeDent. Any questions from the committee? Senator Schumacher? [LB739]

SENATOR SCHUMACHER: I'll see if I can make it into one question (laughter) since it's one-question...thank you for...thank your appearance. Thank you, Senator Friesen. Why, if this is a good idea and people will swarm to these kind of facilities and they're really needed, doesn't a private sector provide them? I mean, in the time I've been in the legislature, we've always said

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we've got to lower taxes, we've got to shrink government, we've got to wither away the state, and we need private schools because the public school...private does everything better than public. [LB739]

JEFF LeDENT: Um-hum. [LB739]

SENATOR SCHUMACHER: And now we're saying, oh, we need public funding of these facilities as part of the tourism industry. I mean, if these are good ideas, why don't somebody build a complex with six or ten or however many it takes of these fields and make money? [LB739]

JEFF LeDENT: If I could find that person, I wouldn't be sitting here today. If I had someone that privately would fund this we would certainly strike up that partnership. And I think that's what it takes. I don't think it's just this is just the solution, this doesn't completely fund it. I think one thing that in Senator Lindstrom's testimony, I believe...and Jeff Week (phonetic) is somebody that could give you a better idea of this, but I believe it's only up to 50 percent of the total project. So it can't fund the whole thing. It never could. So it will take a public-private partnership, but we haven't been able to find just that private partnership alone. If we could, I think we would've went down that road. [LB739]

SENATOR SCHUMACHER: If it made money you'd find private partners in a minute, right? [LB739]

JEFF LeDENT: Yes, you probably would. Yeah. [LB739]

SENATOR SCHUMACHER: Okay, thank you. [LB739]

SENATOR FRIESEN: Thank you, Senator Schumacher. So, tell me a little bit more about you manage...is that a public project that you manage those fields? [LB739]

JEFF LeDENT: Absolutely, yeah. [LB739]

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SENATOR FRIESEN: So at... [LB739]

JEFF LeDENT: I mean, we're a nonprofit organization... [LB739]

SENATOR FRIESEN: Okay. [LB739]

JEFF LeDENT: ...and we manage those fields in relationship with the city. So, yes. [LB739]

SENATOR FRIESEN: So, you're nonprofit. Now all these events that you have there, do they have entrance fees and all this... [LB739]

JEFF LeDENT: Absolutely. [LB739]

SENATOR FRIESEN: ...and those are just basically enough to run the facility, or they account for what percent of your funding in maintenance needs down the road? Do they...are you funded totally with fees? [LB739]

JEFF LeDENT: No, it's a combination, you know. We have 10,000 kids in our organization. We're an extremely large organization. We're the largest organization in the state outside of the Y for a multi-sport youth organization. Our fees don't fund it alone. We do have, you know, outside events; 500 teams have participated in events that we host. We had 118 teams that were in a league that we manage for the city. So, it's a collective effort, the way we create revenues. [LB739]

SENATOR FRIESEN: You mentioned several other cities that you looked at: Des Moines, Kansas City. How do they fund their centers like this recreation area? [LB739]

JEFF LeDENT: Most of those that I listed are absolutely a partnership between public and private. A few of them, an example would be Overland Park Complex, that is a public entity. [LB739]

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SENATOR FRIESEN: When you say public-private partnership; city, state, county, all of the above? [LB739]

JEFF LeDENT: Absolutely. [LB739]

SENATOR FRIESEN: Okay. [LB739]

JEFF LeDENT: Yes. [LB739]

SENATOR FRIESEN: Any other...Senator Harr. [LB739]

SENATOR HARR: I'll wait, thank you. [LB739]

SENATOR FRIESEN: Okay. Seeing no other questions, thank you. [LB739]

JEFF LeDENT: Thank you. [LB739]

SENATOR FRIESEN: Any other proponents of LB739? Seeing none, anyone wish to testify in opposition to LB739? Welcome. [LB739]

TIFFANY JOEKEL: (Exhibit 4) Welcome. Senator Friesen, members of the committee, my name is Tiffany Joekel, T-i-f-f-a-n-y J-o-o-k-e-l. And I'm policy director at OpenSky Policy Institute. I certainly appreciate the intent and purpose with which this legislation was brought. Unfortunately, our opposition today is primarily due to fiscal impacts to the General Fund. It can really be summed up with the line in the fiscal note that says "there is a potential for a significant cost regarding state sales tax revenue." As sort of has been referenced, there have been a number of adjustments to the turnback provisions, but beyond that there have been a number of other bills that have been passed over the last decade that have essentially diverted state sales tax revenue away from the General Fund. And what that means is it decreases our state sales tax ability to keep up with growth in the economy as well as the needs of state investments. So the first chart in my testimony shows over time, you can see that relative to income in the economy the sales taxes declined. I have also included with my testimony a chart that has been put

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together by the legislative Fiscal Office showing tax changes enacted since 2006, and we highlighted the additional sales tax transfers that would transfer the state's portion of the sales tax away from the General Fund. So, our testimony today is really just in opposition to the impact on the state's General Fund at a time when our state sales tax is struggling to keep up and we generally have challenges with our revenue system in general. So, I'd be happy to take any questions on one-question Friday. [LB739]

SENATOR FRIESEN: Thank you, Ms. Joekel. [LB739]

TIFFANY JOEKEL: Sure. [LB739]

SENATOR FRIESEN: So, do you think our state is short of revenue? [LB739]

TIFFANY JOEKEL: Did I...yes, I think we're a little short of revenue, so. [LB739]

SENATOR FRIESEN: Are there any questions from the committee? Seeing none... [LB739]

TIFFANY JOEKEL: All right, thank you. [LB739]

SENATOR FRIESEN: ...thank you for your testimony. [LB739]

TIFFANY JOEKEL: Sure. [LB739]

SENATOR FRIESEN: Any other opposition testimony to LB739? Anyone wishing to testify in a neutral capacity? Welcome. [LB739]

AIMEE MELTON: Thank you. Thank you, Senators. My name is Aimee Melton, A-i-m...A-i-m-e-e M-e-l-t-o-n. I am a member of the Omaha City Council. I actually was planning to come down here for another bill, you'll hear from me shortly, and I saw that this bill was being brought in front of the committee today. And I want to thank Senator Lindstrom for all the work he does. Our districts actually overlap, and so Tranquility Park is actually in my district as well. I've actually spent the last five years attempting to improve...make improvements at Tranquility

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because of the need for additional fields, additional places for our kids to play. And plus, it's just a prime location and there's lots of space. And we have been in negotiations with various groups that we're trying to form public-private partnerships with and I think those are key partnerships. So, I'm here...I am supportive of doing a turnback tax as one of the funding mechanisms. However, I don't think that's the only funding mechanism we have. And also with the opponent, I agree with her as well. The city of Omaha is very cognizant of the budget constraints of the state of Nebraska. We appreciate what you have to do in that not every good thing can be funded by the state of Nebraska. So when the city has an issue or has something that they want to do, we don't...I just don't want you to think we're just going to run to the state to try and solve those problems for us. We do want to try and do that on our own. So, I think we have other things in the city of Omaha right now that we're facing, that I will talk about later, that I think are maybe a bigger priority. Right now, the Tranquility Park, it was just in the...we announced it in the paper today, which has been in the works; we are paying for and installing a \$1 million turf soccer field at Tranquility Park right now which will include hundreds of seats. It will hopefully bring in some, if not regional, but national competitions with this turf field. We are going to be widening 128th Street, that's going to be paid for with a federal...that's one of the federal things that we're doing, and in that we will be resurfacing the parking lot. So the city of Omaha is making significant improvements to Tranquility right now and the million-dollar field is being paid for with fees that they've collected from the soccer that's played there. It goes into a fund, we finally raised enough money and now we're able to do a number of improvements. So, I think that this is very important, and I think it's important for all areas of the state that we do build more of these types of fields and complexes. And that it does generate significant revenue. Currently, right now, there really is no place around Tranquility that's been built in the last two years that there would be any significant turnback tax, right now. And there may be land that someone may sell if this were to pass, but there's no guarantees that that would happen. So, I don't know, even if we pass this, I would be afraid coming down, being a proponent, having this bill be pass and then I think the expectations of even my constituents would be that next year we would have a brand-new complex. We are working with private groups in this plan. We hope we would be able to pay for this ourselves and we would come back to the state if I had better figures to put in front of you to show you the actual fiscal impact. And the fiscal note that I looked at I actually think could be less if I could provide the amount of development that this would create. I think it would reduce the fiscal note. And so if I came in front of your committee, I would want to have

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better figures to show you and show how there would be a reduced impact, I think, to the state if we could truly have...if we knew that there would be development around at least Tranquility Park. So, I'm a proponent of this, but it may not be the right time based upon our state's budgetary constraints at this time that we do recognize. And so I'm hoping that this will be something you may see me be a proponent of in the future. [LB739]

SENATOR FRIESEN: Thank you, Ms. Melton. Any questions? Senator Harr. [LB739]

SENATOR HARR: So, thank you for coming down. There's a restaurant tax, we have occupation tax in Nebraska...in Omaha. [LB739]

AIMEE MELTON: Yes. [LB739]

SENATOR HARR: Would the city of Omaha be willing to put the occupation tax into turnback tax from that location? [LB739]

AIMEE MELTON: Well, I can tell you one of the reasons I'm here in a neutral capacity is because we weren't aware of necessarily this bill, so I wasn't even able to present or gather what the majority of the city council, what their opinion would be on this. And I spoke to the mayor, who wasn't aware of this either and who is gone. So we're here in more of a neutral capacity. I wouldn't be able to make any kind of commitments on behalf of the mayor or my other six council members at this point in time... [LB739]

SENATOR HARR: Okay. [LB739]

AIMEE MELTON: But I think you make a good point, we do have some mechanisms that we can...that we should be able to try and raise the bonding. Again, this will bring a lot of...I think, would bring a lot of economic development. But if I'm going to come and be a proponent of something, I would rather have better facts and figures to present to the committee. [LB739]

SENATOR HARR: Okay, thank you. [LB739]

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SENATOR FRIESEN: Thank you, Senator Harr. Any other questions from the committee?
Seeing none, thank you for your testimony. [LB739]

AIMEE MELTON: Thank you, very much. [LB739]

SENATOR FRIESEN: (Exhibit 5) Any other want to testify in a neutral capacity on LB739? We do have one proponent letter; Brandon Kauffman from the City of Lincoln. Senator Lindstrom, would you like to close? [LB739]

SENATOR LINDSTROM: Sure. Thank you, Vice Chairman Friesen, members of the committee. A once man great...(laughing) a great man once said, Senator Harr, you got to spend money to make money, right? (Laughter) I don't want to imply that this is just an Omaha project. And you know, there's actually a study that Lincoln did. Actually, not Lincoln, but UNL did with regards to Lincoln in the Haymarket, the west Haymarket Park. So when we're talking about the fiscal note, as Senator Friesen mentioned, this particular study showed that with 10 fields, not just the 12 that we're talking about, say, in Omaha, and again this project could exist anywhere. This is just to provide a mechanism to do so. The plans to do something at Tranquility, as Councilwoman Melton mentioned, they have that field, obviously it was in the paper yesterday, which I just heard about. But this would be a tool and a mechanism to maybe expand at some later date if they so choose. There's nothing in this bill that forces anybody to do anything. But going back to the UNL study with the Haymarket, it would provide an annual impact of \$20.3 million. And the study was done January, 2014, in that location based on ten fields. So, I just wanted to point that out. You know, we're always looking at economic development in all of our areas and this was, in my opinion, a good mechanism to provide that (inaudible). So, with that, I'll be happy to answer any final questions that you may have. [LB739]

SENATOR FRIESEN: Thank you, Senator Lindstrom. Senator Schumacher. [LB739]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you, again, Senator Lindstrom. Even though the intent might be that it be available everywhere, as a practical matter you got to have population density so when the sports events aren't going on--which is probably most of the year--of these facilities that are built around new customers to show up and spend money on

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things you put sales tax on in order to get the money back into the system to pay off the bonds.
[LB739]

SENATOR LINDSTROM: Right. [LB739]

SENATOR SCHUMACHER: So, there's a practical limitation. You're probably limiting this to the top...I don't know, towns of having 20,000 or more at least because no one is going to go to a strip mall next to these things or, you know, a series of restaurants or whatever when there's nothing going on there for most of the year. So you need... [LB739]

SENATOR LINDSTROM: Sure. [LB739]

SENATOR SCHUMACHER: ...you need basically Omaha, Lincoln, maybe Grand Island levels.
[LB739]

SENATOR LINDSTROM: And I appreciate that. When we introduced this bill a few weeks ago...ten days ago, we did have some other...some folks come out in support, but again, 12 might have been a little high for them. I know Lincoln was maybe looking at ten or eight. And so when we brought this bill, we had 12 in there because it addressed the area that I'm familiar with. So that would be something if the committee chooses to do, we could find a number that would better facilitate it, if we choose to do so. [LB739]

SENATOR SCHUMACHER: But let's just say you took it down to one facility. One in a town under 1,200 population, one would do it. And you put the facility there and you let a bond out for it. And now you got two hamburger shops and a Casey's General Store or something like that that develops next to it. That won't be enough to pay off the bond. [LB739]

SENATOR LINDSTROM: No, I think... [LB739]

SENATOR SCHUMACHER: You've got to have enough population... [LB739]

SENATOR LINDSTROM: Sure... [LB739]

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SENATOR SCHUMACHER: ...to keep the stores that spring up in the 600 yards to float the boat. [LB739]

SENATOR LINDSTROM: Sure, and the purpose of this piece of legislation is for a regional sports complex... [LB739]

SENATOR SCHUMACHER: Okay. [LB739]

SENATOR LINDSTROM: ...something that would draw people in from other states in the region. [LB739]

SENATOR SCHUMACHER: Thank you. [LB739]

SENATOR FRIESEN: Thank you, Senator Schumacher. Senator Harr. [LB739]

SENATOR HARR: And, I think, that's why we formed the Civic and Community Center Financing Fund. So that when we build these facilities...I think I said 80 percent, 70 percent goes to pay off the bond or repay the project, 30 percent goes back and two-thirds of that amount, I believe, goes to the Civic and Community Center Financing. And so we could do something with a smaller amount, right? We could say it's a field of three or four to pay that off. And they apply...so I think we can address some of Senator Schumacher's concerns. Those who came before us kind of created a yin and a yang on this. [LB739]

SENATOR LINDSTROM: Um-hum. [LB739]

SENATOR HARR: My concern is, and I'm sorry I didn't get a chance to talk to you earlier, is when we first...so this is a series of bills that have been passed. When we first did it, it was never special legislation. But hypothetically it funded CenturyLink Center, in Omaha. And then Lincoln wanted a Pinnacle Bank. We, in Omaha, didn't want to compete against Lincoln and we wanted those arena to serve a different...so we didn't have concerts betting against each other. Now, that's happened. But we didn't want that to happen. We also wanted Omaha to be able to be large enough to have NCA Tournament... [LB739]

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SENATOR LINDSTROM: Um-hum. [LB739]

SENATOR HARR: ...and maybe not be in competition with Lincoln for that. And the definition...so we'd put...to do that, we'd put seating limits on. I've sometimes questioned whether we've gone over that in Lincoln. I've read articles that maybe the promoters hyping the event and saying it's larger than it is, but I've read where the event is larger than the maximum they're allowed to have to keep the turnback dollars. I'm sure it's just the promoter. But you in here, and this is unintentional, but, you put in (c) of your definition of an eligible sports arena you eliminate some of those seating requirements. And you just...requirements and/or limitations. And I think we should probably be cognitive of why those limitations were in there. So when you go forward, and hopefully long after I'm gone, and you bring this back we can address that issue and just...so when you're drafting it next year, if you can just take into account why that's there. [LB739]

SENATOR LINDSTROM: Yeah, and we did have, it escapes me now, the direct purpose for that. But there was a reason as to why we did change that for the project completion date versus the occupancy aspect, is that what you're talking about (inaudible)? [LB739]

SENATOR HARR: Well, but what you just say a sport complex is "eligible sports facility includes stadiums, arenas, fields, concessions areas," but you don't limit the size of those. And I think you got to limit the size of the arenas. [LB739]

SENATOR LINDSTROM: Okay. That's good feedback, I appreciate that. [LB739]

SENATOR HARR: And maybe I'm reading this quickly, but I worry about that. [LB739]

SENATOR LINDSTROM: Okay. [LB739]

SENATOR HARR: If we just make that clear, because we are one city now, Lincoln and Omaha. We have to think of ourselves as one, so I like to have legislation that doesn't encourage that tension between. [LB739]

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SENATOR LINDSTROM: Okay. And I understand where you're coming from on that. I remember when these were being developed and then the fight between the concerts and all that, I understand. [LB739]

SENATOR HARR: It's a crazy...this is a little web we've created... [LB739]

SENATOR LINDSTROM: True. [LB739]

SENATOR HARR: ...and it's, by the way, everywhere I've seen it, so far, has been successful. And so, I like the turnback tax because it does pay for...help the state pay for a project that helps grow the state, and tourism is our third-largest... [LB739]

SENATOR LINDSTROM: That's good, because my next bill is about turnback, too. [LB739]

SENATOR HARR: (Laughing) Is it? [LB739]

SENATOR LINDSTROM: But I think there is a baseline there. Again, this is to help compete with the Des Moines, the Kansas City... [LB739]

SENATOR HARR: Yeah. [LB739]

SENATOR LINDSTROM: ...Olathe, wherever it might be, regional. So there is a number of fields and facilities that we need to have to be able to compete with that. If we're talking three, four, one, two, that doesn't really move the needle as far as far as the regional competitiveness of these... [LB739]

SENATOR HARR: Yeah. [LB739]

SENATOR LINDSTROM: ...of these multi-sports complexes. So, there would be a line there. [LB739]

SENATOR HARR: Thanks for bringing this. [LB739]

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SENATOR LINDSTROM: Sure. [LB739]

SENATOR FRIESEN: Thank you, Senator Harr. I...when I look at these projects and 30 percent of it does go into the small community center financing act or whatever it's called. And there will be legislation addressing some of those limits coming up. But again, it does give an opportunity for the smaller communities to use that funds for a lot of other things. But again, it goes back to sometimes, you know, how much of the state should be helping in some of these things and with an unknown fiscal note, that's where my concerns are mostly, so. Other than that I don't have any further questions. And that will close the hearing on LB730...LB107...LB739. Next we'll open the hearing on LB1071. [LB739 LB1071]

SENATOR LINDSTROM: Good afternoon, Vice Chairman Friesen and members of the Revenue Committee. My name is Brett Lindstrom, B-r-e-t-t L-i-n-d-s-t-r-o-m, representing Legislative District 18 in northwest Omaha. And I'm bring LB1071 for your consideration today. Nebraskans recognize the statewide importance of maintaining our infrastructure. As a matter of public policy, the state of Nebraska has invested and continues to make significant investments in our roads and bridges. LB1071 addresses another important facet of our state's infrastructure that is often ignored because we can't visually see it: our sewer and water infrastructure. LB1071 seeks to return a portion of the state's 5.5 percent sales tax collected on water and sewer services to assist all Nebraskans...all Nebraska communities statewide in updating much-needed water and sewer delivery systems. It would help North Platte in addressing their near-end-of-life water infrastructure, Mitchell with nitrates, and Hastings with their multitude of water quality issues, and in my community of Omaha with sewer separation. LB1071 will have statewide implications by making the state a financial partner in helping our local communities address their antiquated sewer and potable water delivery systems. Knowing our state's current fiscal situation, the percentage of turnback tax was left open for us as a committee to evaluate. LB1071 provides the ability for the state to control the fiscal consequences on an annual basis by making necessary adjustments to the turnback percentage. Many of you might ask why the state should become a partner in this endeavor. There are many compelling answers. First, Nebraska current tax policy for water and sewer system hinders economic development by discouraging businesses from locating or expanding in our state. Some states do not tax potable water at all; 40 out of 50 states do not tax residential potable water services according to our own policy research office. You

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will hear a little bit more about the economic impact Nebraska's water tax policy has on businesses after me with the testimony of James Timmerman of Nebraska Beef. Second, Nebraska is regressive in how it taxes water services by employing a double tax, not on sewer, but on potable water. Subsequent testimony will be offered on Nebraska unique water tax policies. Nebraskans are going to find it more and more difficult to afford domestic water and sewer services as their water bills begin to reflect the need to update infrastructure and meet federal standards and replace end-of-life water and sewer mains. My community of Omaha continues to struggle with the unfunded federal mandate of combined sewer overflow, or CSO. An Omaha City Councilwoman, Aimee Melton, is here to fill you in on that. If our citizens can't afford essential water services in their own homes, social services will need to fill the gap. State senators from Omaha and around the state are going to be hearing more and more about this as communities struggle to finance significantly increased water fees. Finally, the state is beginning to realize an annual increase in financial windfall as our Nebraskan's water and sewer rates significantly increase. None of these additional revenues are currently being used to offset the underlying cost of water services, but instead being placed in the state's General Fund. This bill provides direct income relief to the vast majority of our citizens on domestic water systems. Nebraska communities across the state are not unlike Omaha. Many communities are experiencing significantly higher water fees to address water quality issues and much-needed infrastructure replacement needs. Our nation's water infrastructure is reaching or is past its intended service life. This is a national issue, and a Nebraska issue is not immune from these challenges. LB1071 makes the state become part of the solution to the modernizing our water waste and potable water delivery systems. With that, I'll be happy to take any questions you may have. [LB1071]

SENATOR FRIESEN: Thank you, Senator Lindstrom. Any questions from the committee? You know, there's...being involved in a municipality, there's a lot of small communities out there that have had to address this issue. And I'm just curious, do you know what the rates currently are in some of the larger cities for water and sewer? [LB1071]

SENATOR LINDSTROM: There's testimony behind me that could probably fill you in on... [LB1071]

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SENATOR FRIESEN: Okay. [LB1071]

SENATOR LINDSTROM: ...those rates. [LB1071]

SENATOR FRIESEN: Okay, thank you. No further questions. [LB1071]

SENATOR LINDSTROM: Thank you. [LB1071]

SENATOR FRIESEN: Proponents for LB1071. Welcome. [LB1071]

AIMEE MELTON: (Exhibit 1) Thank you. Senators, thank you for having me. My name is Aimee Melton, A-i-m-e-e M-e-l-t-o-n. I'm from the Omaha City Council and we are here as a proponent of this bill, LB1071. Again, I would like to thank Senator Lindstrom for all of his work on this bill and proposing this for the City of Omaha, as this is one of our priorities this year. This is something that both the mayor and all seven council members from the city of Omaha support. And we do believe that this is a priority for us. It's very important to realize that LB1071 has important implications for almost all Nebraskans who receive community-provided water and sewer services. For example, in Omaha we continue to struggle to finance our federally mandated combined sewer overflow project, which is anywhere from \$2 to 3 billion on the backs of the taxpayers of the city of Omaha. As recently as 2007, Omaha residential customers were paying roughly \$12 a month in sewer fees. Today, that average is \$44 per month, in addition to their MUD bill. They are paying over \$500 per year just for the assessment that we are required to collect in order to fulfill this federal mandate. I've handed out a chart that shows the projected water and sewer charges in Omaha moving forward. It's this chart that is actually alarming to me because there are a number of people, and some of them are our most impoverished people in the lowest of income, live in the city of Omaha; \$50 a month is very difficult for many people to pay. And although there is some funding for low-income, it's not nearly enough to cover the increase in the cost. Just this year in 2018 the city council is going to be required to vote on another increased assessment in order to keep up with the cost of this project. We have to do that every four years as a part of the contract that we have. In addition to the turnback though, the city of Omaha is not looking to the state of Nebraska to bail us out of this. We understand that this is our responsibility, but what I'm trying to do is find little ways

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from everybody to where we can get support. This is just one where I think we can do a turnback tax, and right now the state of Nebraska is receiving about \$8 million in taxes because that assessment is then taxed. And so, you know, that's the...that's where we're at. So the state of Nebraska is actually getting a windfall for this mandate of \$8 million, which could be, by 2027, about \$14 million. I understand, again, like I had said before, I understand the fiscal constraints and the budgetary constraints right now for the state of Nebraska and I am not looking to strain the state any more. And what's really not in this bill but what I would actually contemplate would be maybe, potentially, a cap. Allow the state to continue to receive the tax money they are so that you don't have to necessarily have to reduce the budget or account for that in some other manner, but maybe allow the city of Omaha to recoup anything over that and have that go back into our project for our sewers and our water, not back in to our general fund as our restaurant tax does, Senator Harr. But we do need some relief. Some of the other things that we're doing is with technology; we are seeing that some of our projects we can reduce the cost, maybe they're not as expansive as they are as technology starts to catch up with what we're doing. So, there are a number of different things that we're doing in the city of Omaha to try and reduce the cost on the backs of our taxpayers. This would be one component that we're asking the state to help with a little relief so that, perhaps, in the future we won't have to increase the assessment as much. I'm looking to reduce the increase, if that makes any sense. But I do fear in the future if we don't start doing something now that there are going to be so many people that are going to find themselves not being able to pay their MUD bill. And this is their gas bill and their water bill; these are necessities for everybody in our city. And that's why this is something that if we're going to do a turnback tax, I think this should be the one that we do and this is a priority for us right now. [LB1071]

SENATOR FRIESEN: Thank you, Councilwoman Melton. Any questions from the committee? So you mentioned your rates that you currently charge, what was that again? [LB1071]

AIMEE MELTON: Currently we're up to \$44. [LB1071]

SENATOR FRIESEN: For? [LB1071]

AIMEE MELTON: For individual residential payer. [LB1071]

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SENATOR FRIESEN: Water and sewer? [LB1071]

AIMEE MELTON: Well, they pay their...so what they do is they get a bill from MUD that has their water and their sewer bill. Then you have your...and then your assessment of \$44 is in addition to that, and then you're taxed...then the taxes come after that. [LB1071]

SENATOR FRIESEN: Okay, and so the extra assessment is taxed also, along with the water and sewer? [LB1071]

AIMEE MELTON: That's correct. [LB1071]

SENATOR FRIESEN: So, do you know what your water and sewer rates are currently, MUD? [LB1071]

AIMEE MELTON: What our... [LB1071]

SENATOR FRIESEN: What would a resident's, typically, water and sewer bill be? [LB1071]

AIMEE MELTON: It would probably be...I could probably defer that, we have somebody here from MUD. On an average home, somewhere around \$100, \$120. And I...I'll stand corrected if Mr. Kubat could answer that better. [LB1071]

SENATOR FRIESEN: Seeing no further questions, thank you for your testimony. [LB1071]

AIMEE MELTON: Thank you. [LB1071]

SENATOR FRIESEN: Other proponents for LB1071. [LB1071]

JIM THEILER: (Exhibit 2) Good afternoon. Jim Theiler, last name is spelled T-h-e-i-l-e-r. And I'm here on...to testify for this on behalf of the city of Omaha. I'm the deputy director of Public Works for the city of Omaha for environmental services. I'm going to read some testimony. I'll also go ahead and hand these out for the members. Again, my name is Jim Theiler. And the city

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of Omaha supports LB1071. This bill, if enacted, will provide for a mechanism to those communities across Nebraska who are faced with the increased costs of collecting and treating wastewater, and providing safe drinking water. These costs are associated with the upkeep and replacement of aging infrastructure, along with the increased costs associated with stricter regulations that require communities to construct these necessary and costly upgrades. The city of Omaha owns and operates a wastewater collection and treatment system that serves a population of over 600,000 in a 300 square-mile area in Douglas and Sarpy County. The wastewater collection system includes over 2,000 miles of sewers, some of which have been in service over 100 years. In 2009, the city began the implementation of its Combined Sewer Overflow Program, with a cost of over \$2 billion required to reduce overflows of combined sewage to the Papillion Creek and Missouri River. Paying for this program, along with the other costs necessary to provide for wastewater collection and treatment has resulted in the average residential household sewer bill going from under \$10 a month before 2006 to what will be over \$50 a month starting this year. So, it's a little bit more than what Aimee said for the average residential sewer customer, and Mr. Kubat could probably help with the MUD portion of those bills. Recent projections indicate over \$3 billion dollars, going forward, of construction required over the next 20 years to maintain and upgrade the city's wastewater infrastructure, with over half of those funds being improvements outside of the CSO Program. And in what you'll see what I handed out, I have some tabulated information on page 2. The tabulated information shows the increased revenues, associated taxes, and typical residential sewer bills associated with the costs required to upgrade and maintain Omaha's wastewater collection and treatment system. And I will refer to you to the tabulated information on page 2. You know, the rate increases shown in red, those are not set in stone. The city has rates in effect through this year. We will be passing a new rate ordinance to have rates in effect after 2019. The numbers shown show the potential of over \$14 million annually to be collected by the state in sales tax by the year 2027. Over the past ten-year period, ending in 2017, the state has collected \$47.8 million in taxes associated with city of Omaha sewer revenues. I will be happy to answer any questions that you may have. [LB1071]

SENATOR FRIESEN: Thank you, Mr. Theiler. Any questions from the committee? Seeing none, thank you for your testimony. Welcome. [LB1071]

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RICK KUBAT: Good afternoon, Vice Chairman Friesen and members of the Revenue Committee. My name is Rick Kubat, R-i-c-k K-u-b-a-t, here on behalf of the Metropolitan Utilities District of Omaha. I'll finish up by attempting to answer some of those questions, but first I'd like to thank Senator Lindstrom for introducing LB1071. MUD of Omaha provides water services to over roughly 600,000 of our state's residents, or close to one-third of our state's population in the Omaha metropolitan area. Those areas include Bellevue, Bennington, La Vista, Ralston, Waterloo, Fort Calhoun, and Offutt Air Force Base. What we essentially do is we bill for sewer and potable water services, and then we remit the sewer fees back to those communities that provide sewer services. Real quick, I want to discuss to you how Nebraska taxes water services that makes us somewhat unique. As you may very well know, less than 4 percent of our state's overall water use is used for domestic purposes; that's all household use, all industry, businesses, and commercial use. The way Nebraska does it is on the sewer side, on your wastewater side, your inputs and materials gets what's known as a municipal tax exemption. So when they go out and buy pipes, materials, and mains, no city and state sales tax on the waste water side. But what is subject to state and city sales tax is the sewer bill itself. In the Omaha area, that's around \$45 to \$50 for your average customer, city and state sales tax. We're going to move the sewer aside now and we're talk about the potable water side. Those that deliver water through the tap, when we go out and procure main, cement, and other materials subject to very limited exemptions for refining, processing, manufacturing. We're paying city and state sales tax on those items. That is reflected in your water bill. And then this is what makes the state of Nebraska kind of goofy; we go ahead and tack on city and state sales tax again a second time, again, just on the potable water side. Now, comparison state-by-state are very difficult because it's hard to do apples to apples because every state has unique exemptions and unique codes. That being said, I think it's generally true that Nebraska is certainly on the excessive end of the spectrum on how we tax potable water. Most states have a general outright exemption for residential potable water. We, at one point in time, a couple years ago, were hopeful that the American Water Works Association, or AWWA, and the Association of Metropolitan Water Agencies would have done some sort of study on how the various states tax water. Unfortunately, they didn't. The Association of Metropolitan Water Agencies was kind enough to send out a questionnaire at our request. Random 15 states came back and the questions were essential twofold; do you tax inputs and materials, and do you tax the back end of the water bill. Of the 15 random states that responded, only one was like Nebraska, and that was the state of Arizona. But

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what Arizona does is they at least use a portion of those revenue streams for water-related purposes. And in Arizona's case, some of that funding mechanism goes to water quality projects. Of the remaining 14 states, 6 of them did not impose any tax and 8 of them would tax either inputs and materials or the back end of the bill. I think that's largely reflective that Nebraska is certainly a high-tax state when it comes to water services. In summary, Nebraska communities statewide, I think, are struggling with enhanced sewer and water fees. Our communities, our businesses, and industries could directly benefit if Nebraska would use at least a small portion of what's likely to be enhanced revenue stream to help offset some of these increasing water costs. As far as you had some questions, and I hope I get to them here. I think your average residential sewer and water bill in the Omaha metro area for residential customer is right around \$88 to \$90; \$45 to \$50 of that dollars is going to be directly attributed to the sewer. And then anecdotally, statewide, I think you've got a pretty extreme variance of how much folks pay for water and sewer services. In some places, I believe it's as low as \$30. In the Omaha metro area it's probably around the high end at around \$90. And I think your average for most Nebraska communities is going to be right around \$50. [LB1071]

SENATOR FRIESEN: Thank you, Mr. Kubat. Questions? Senator Schumacher. [LB1071]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you for your testimony today. Did I understand you correctly that when you build a sewer system, you buy a big chunk of sewer pipe to throw in the ground; that's not charged sales tax to the city on the purchase of that pipe. Is that correct? [LB1071]

RICK KUBAT: That's correct. [LB1071]

SENATOR SCHUMACHER: But you buy a big chunk of water pipe, throw it into the ground to bring the water into the other side of the equation and we tax you on that input? [LB1071]

RICK KUBAT: That's exactly right. That's what I think makes Nebraska kind of a goofy state. [LB1071]

SENATOR SCHUMACHER: Is that all? (Laughter) [LB1071]

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RICK KUBAT: That is correct, Senator. [LB1071]

SENATOR SCHUMACHER: The...so we have a general kind of policy that over the years--or the years that I've been here--developed that we don't tax ag input...sales tax on ag input, don't tax inputs on manufacturing; we don't tax inputs because we tax the products. And you're saying that doesn't happen on water inputs? [LB1071]

RICK KUBAT: Yeah, and to further clarify; so the main, cement, sand, and what have you for the water delivery system, those inputs are subject to state and city sales tax. There are limited exemptions of, you know, to the degree we use chlorine for purposes of cleaning water, now that's going to get a sales tax exemption under that refining, processing, manufacturing. But I would say that those that get exempted are narrow and limited compared to the vast majority of things that we use for the build-out that are all subject to city and state sales tax. [LB1071]

SENATOR SCHUMACHER: Say you build a big building that you have your water pumps in. Do we tax you on the building's supplies and the contractor work on building the big building that you do your water stuff in? [LB1071]

RICK KUBAT: I can stand to be corrected, but I'm pretty certain that we do. And if that's incorrect, I'll get back to you, but my understanding is we do pay city and state sales tax on those materials as well. [LB1071]

SENATOR SCHUMACHER: But if you build a big building for your sewer plant that you do whatever you do with sewer, is that the opposite? We don't tax you on that? [LB1071]

RICK KUBAT: As far as buildings, I'm probably getting outside of my scope here. My guess would be yes, that that would be exempt. But again, on those items I could be corrected. But, you know, cities get the municipal pacts exemption on sewer and waste. And so if you're a city that operates both, hypothetically speaking you're supposed to say, hey, put that main over there, that's the wastewater side, tax exempt. But those mains over there, that's for the potable water delivery side, we're supposed to pay city and state sales tax on those items. [LB1071]

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SENATOR SCHUMACHER: Okay. Thank you. [LB1071]

SENATOR FRIESEN: Thank you, Senator Schumacher. Senator Harr. [LB1071]

SENATOR HARR: Thank you. Thanks for coming, Mr. Kubat. I think I have a better understanding now. But I do have a question; what percentage of the total water used in Nebraska is potable water? [LB1071]

RICK KUBAT: There's a...the Department of Natural Resources, it's outdated information, but I think it probably holds true today, about 3.5 percent is considered to be domestic. And again, that's industry, that's commercial, residential, everything that is pushed out by a public water supplier statewide. [LB1071]

SENATOR HARR: And what percentage of the taxes that we collect from water are from potable water? [LB1071]

RICK KUBAT: If you include waste, it's my understanding, and I could be corrected by your legal counsel, but the only water we tax in Nebraska is that is what is delivered through the tap. [LB1071]

SENATOR HARR: At least all the water that we tax now. (Laughter) Thank you, Mr. Kubat. [LB1071]

SENATOR FRIESEN: Thank you, Senator Harr. I got a few questions, I guess. So, you're...are you saying if a city operates their water and sewer system, the city has to pay state and city sales tax on their purchases? [LB1071]

RICK KUBAT: On the sewer wastewater side. [LB1071]

SENATOR FRIESEN: So, a sewer pipe...if they're...a city is operating both systems, so on a sewer side if they buy sewer pipe they have to pay sales tax? [LB1071]

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RICK KUBAT: I'm sorry, the wastewater... [LB1071]

SENATOR FRIESEN: Wastewater. [LB1071]

RICK KUBAT: ...the wastewater side gets...for the inputs and materials gets the exemption.
[LB1071]

SENATOR FRIESEN: Okay. [LB1071]

RICK KUBAT: But over here on the potable water side, inputs and materials do pay city and state sales tax. [LB1071]

SENATOR FRIESEN: Why would a city pay city sales tax to itself? Or are you operating under a different... [LB1071]

RICK KUBAT: We're a little bit different in the sense...the way that MUD is set up, you know, just on the potable water side, it's easy for us because all of our inputs and materials are...we're paying city and state sales tax... [LB1071]

SENATOR FRIESEN: So you're not operating under the city authority or... [LB1071]

RICK KUBAT: That's correct. [LB1071]

SENATOR FRIESEN: ...purview. [LB1071]

RICK KUBAT: That's correct, but in...you know, I would probably defer to your legal counsel as far as when cities go out and buy their mains a materials how that works. [LB1071]

SENATOR FRIESEN: I mean, I was under the thought process that cities, if they operate the sewer and water, were exempt from sales tax. So I guess you're operating under a different system than most smaller communities that are out there. [LB1071]

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RICK KUBAT: That's correct, but we should all be treated the same in the sense that, you know, the wastewater inputs and materials are exempt, potable water side you're supposed to pay them. And I'm not certain how that works when a city...you know, they...on the potable water side they should certainly be paying state sales tax dollars for those inputs and materials. [LB1071]

SENATOR FRIESEN: Do you operate as a for-profit group, or is it... [LB1071]

RICK KUBAT: No, we're a political subdivision. [LB1071]

SENATOR FRIESEN: Political subdivision. [LB1071]

RICK KUBAT: We're creatures of you guys, our great state Legislature. [LB1071]

SENATOR FRIESEN: I see, just a little different than most. So, I guess...you know, I...you say you're paying sales tax on the water and the sewer systems, but, you know, water...no one really pays for water. Is that right? You're paying for the delivery of that water and the...all the equipment that it takes to deliver it, you don't buy water from anybody? [LB1071]

RICK KUBAT: Yes and no. You know, we...as far as MUD is concerned, we're the ones pulling it up right from our well fields and delivering it and there's different components of the charge. And part of that's going to be based on overall use, if that makes sense. [LB1071]

SENATOR FRIESEN: But your costs associated with it are your costs to deliver the water. [LB1071]

RICK KUBAT: Primarily, I would say yes. That would be the biggest component is the pipes and, you know, not only the plant to produce it but the distribution system in the ground. [LB1071]

SENATOR FRIESEN: Yeah. [LB1071]

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RICK KUBAT: You know, relatively speaking, the cost of the water itself, I think, is relatively cheap. [LB1071]

SENATOR FRIESEN: Thank you, Mr. Kubat. Senator Harr. [LB1071]

SENATOR HARR: Thank you. But you do put chemicals in my water, don't you? [LB1071]

RICK KUBAT: We do to make your water safer. [LB1071]

SENATOR HARR: Yeah. Fluoride, right? [LB1071]

RICK KUBAT: Fluoroamines, I believe. [LB1071]

SENATOR HARR: Okay. And so that's some of what I'm paying for, too. Or do you provide that for free? [LB1071]

RICK KUBAT: Yes, but that one would be...that one we would not pay city and state sales tax on. [LB1071]

SENATOR HARR: Okay. But you charge us...I mean, there's a cost associated with that, right? And that goes into what you charge... [LB1071]

RICK KUBAT: That would be correct. [LB1071]

SENATOR HARR: ...us, recipients of MUD bills? [LB1071]

RICK KUBAT: Yes. [LB1071]

SENATOR HARR: Okay, thank you. [LB1071]

SENATOR FRIESEN: Thank you, Senator Harr. Seeing no further questions, thank you for your testimony. [LB1071]

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RICK KUBAT: Thank you. [LB1071]

SENATOR FRIESEN: Welcome. [LB1071]

JAMES TIMMERMAN: Thank you. Good afternoon, Vice Chairman Friesen and members of the Revenue Committee. My name is James Timmerman, J-a-m-e-s T-i-m-m-e-r-m-a-n. I am the CFO of Nebraska Beef, located in south Omaha. Nebraska Beef is a meat processing facility that employs approximately 1,000 people. Nebraska Beef processes approximately 2,000 head of cattle per day. We sell our products throughout the United States as well as internationally. Most of the cattle we purchase are from a 250-mile radius of Omaha and we typically spend approximately \$700 million in livestock purchases in the area. This helps the state economy for farmers, ranchers, and cattle feeders. I am here today in support of LB1071 on behalf of Nebraska Beef and the Omaha Business and Industry Coalition. Our group of industry and manufacturing organizations in the Omaha metro area was formed specifically to discuss the impact of high utility rate increases and the effects on local businesses. I testified in this committee a few years back to discuss some of the same issues. Our coalition believes that industries and businesses who use a substantial amount of water and sewer services should be paying a fair share in taxes and fees to help pay for the rising cost and demands of infrastructure needs and replacement. However, we believe that when a community is faced with a \$3 billion unfunded mandate that the problem should be solved by looking at all-inclusive solutions. That is, local and state government should work together to address the challenge. LB1071 is an opportunity for the state to become a partner with local communities as we see enhanced water infrastructure needs across our state. Nebraska's tax policy along with the need for enhanced infrastructure financing is making Nebraska uncompetitive in terms of industrial expansion and relocations. We have seen some examples within our own coalition and throughout the city of Omaha of companies who have chose to expand or relocate their manufacturing production to other cities. One of the deciding factors was a high cost of utility rates in Omaha. I know in our industry, one of the highest expenses we have is utilities. When looking at the expansion and growth of our business, the cost of utilities is extremely important. Having more competitive utility rates will keep and add more manufacturing jobs in the state of Nebraska. As a resident, I am also concerned that ratepayers residing in low-income areas are facing extreme monthly rate increases, and more and more folks that will not be able to afford to pay their water bills. We

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have closely followed discussions surrounding a study from the University of Cincinnati that raises this as a major concern for our community. Thank you for your time and consideration. And I'll be happy to answer any questions. [LB1071]

SENATOR FRIESEN: Thank you, Mr. Timmerman. Any questions from the committee? Senator Harr. [LB1071]

SENATOR HARR: Thank you. And thanks for coming down, Mr. Timmerman. Would you say your property taxes or your MUD bill are a bigger problem? [LB1071]

JAMES TIMMERMAN: MUD bill. [LB1071]

SENATOR HARR: Okay, thank you. [LB1071]

SENATOR FRIESEN: Thank you, Senator Harr. Seeing no other questions, thank you, Mr. Timmerman. [LB1071]

JAMES TIMMERMAN: Thank you. [LB1071]

SENATOR FRIESEN: Welcome. [LB1071]

DONNA GARDEN: (Exhibit 3) Good afternoon. Good afternoon, all of the members of the Revenue Committee. I think this is my first time appearing in front of you. My name is Donna Garden, it's D-o-n-n-a G-a-r-d-e-n, and I am the assistant director of Public Works and Utilities for, not the city of Omaha, but the city of Lincoln. And unlike Omaha, we do run both of our water and wastewater facilities and systems. I am here today to testify in support of LB1071 and the creation of a fund for water and wastewater infrastructure improvement and replacement. And I want to thank you for this opportunity to discuss how it'll effect the City of Lincoln. Infrastructure improvement and replacement in our water and wastewater systems is crucial to maintaining the health and safety of our citizens. This is a high priority recognized across federal, state, and local levels. The importance of improvement projects in delivering a well-operating, clean water system are immeasurable. So are the consequences of inaction. And, of

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course, the question always comes down to funding. Without adequate funding all systems will ultimately fail, taking away the quality of life that we take for granted. Clean water and sanitation: it's essential. The city of Lincoln works hard to maintain a robust repair and replacement program for its water and wastewater infrastructure. Like regular maintenance on your car, a water or wastewater system loses its efficiency and performance and breaks down without upkeep. In Lincoln, we've done a lot of studies and studied the performance of our water distribution system and know that if we don't replace at least seven miles of pipe every year, that we'll lose the battle with main breaks. Water main breaks can cause significant damage to public and private property, disrupt water service to business, industry and residential customers. In order to maintain this system, Lincoln is spending over \$6 million a year with hopes of increased funding for this program. Lincoln is fortunate enough to be a growing city also. And with that growth we must invest considerable funding for water supply wells, pump stations, reservoirs, and new mains. Lincoln Wastewater spends at least \$2 million a year on rehab for our sewer system and is making progress on funding for future treatment plant expansions and trunk sewer expansions costing tens of millions of dollars. The consequences of wastewater system degradation or failure is something none of us want to experience. It includes property damage that none of us would want due to sewer back-ups and irreparable harm to our state's beautiful rivers and streams. All Lincoln water and wastewater projects are funded entirely by the ratepayers of the city of Lincoln. These same ratepayers pay sales tax on their water and wastewater services. This bill allows for some of their hard-earned dollars to fund the service that they count on for their families and businesses. With federal funding availability trending downward over the past 15 years, we've found ways to stretch every dollar in our budget. Receiving additional support from the state would help ensure the longevity of our water and sewer systems across Nebraska. We all acknowledge that infrastructure repair and replacement is necessary for safe and healthy families and growing businesses. We strongly encourage you to consider this act. Please help all Nebraska communities construct, upgrade, redevelop, rehab, and replace sewer and water infrastructure facilities with a percentage of the sales tax paid on these important services. And that's all I have today. And I thank you, and I'd be happy to answer any question you might have. [LB1071]

SENATOR FRIESEN: Thank you, Ms. Garden. Senator Schumacher. [LB1071]

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SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you for your testimony. Were you here when Omaha MUD testified as to what it gets charged sales pipe...sales tax on per pipe? [LB1071]

DONNA GARDEN: Yes, I was. [LB1071]

SENATOR SCHUMACHER: Okay, so if I understood them right; if you buy a piece of sewer pipe you don't pay sales tax, buy a piece of water pipe, you pay sales tax. Do you operate under the same rules? [LB1071]

DONNA GARDEN: We do. [LB1071]

SENATOR SCHUMACHER: And then you raised in your testimony a decrease in federal funding over the last few years. Many, maybe almost all, of the rural communities that you go past with the big fancy water tower and maybe a new sewer lagoon with the new fancy fence around it paid for by the USDA and under Department of Agriculture's plan to supposedly populate the plains. Do you get that money, too? [LB1071]

DONNA GARDEN: We do not. Usually a population size of ours, as Lincoln has, would not be eligible for those types of funds. [LB1071]

SENATOR SCHUMACHER: So what kind of funds do you guys...are you eligible for? How much of a cut have you taken? [LB1071]

DONNA GARDEN: We actually, since I have been with the city of Lincoln... which really hasn't been that long, I was with DEQ before that. I don't know if Lincoln's received federal funds since way back when the original act was put together to fund wastewater plans back in the early '70s. What we do receive are loans; you can get a loan through the state Revolving Fund. You can also, obviously, issue bonds and debt service to fund your revenues. And we have our ratepayers. That's all that the monies we can get at this time. [LB1071]

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SENATOR SCHUMACHER: Now, President Trump the other night, without much for specifics, alluded to a trillion and a half infrastructure fund that would be on some match basis. Is there a way that we can structure any change this year...and it would be nice to know what he's thinking. But maybe we can't. But structure...but we might by the end of the session. Structure any adaptation so that it would enable you to get...use what you're going to spend anyways or use what you might get out of our discussions here today to...as a match for some of those federal funds. [LB1071]

DONNA GARDEN: I'm certainly...I'm sure most municipalities would love to hope that my using the word "match" he means some type of grant program instead of a loan program. And that would be, I would think, hopefully, that would be an idea that we could plant in some of our senator's heads to say that yes, we're already putting so much into our infrastructure and our capital improvement programs so that would be an excellent match for any grant funds from federal government. [LB1071]

SENATOR SCHUMACHER: Is there anything we can do within the context...maybe you haven't thought of this, but we all got to think of every angle. In the context of this bill to use...that would make it...not appear, but make it really be a match in order to enable some of that federal funds. Which are probably a like the Obama stimulus, thrown out rather liberally before the next election. [LB1071]

DONNA GARDEN: I don't know if I can answer that, but I'd love for you all to consider it. I would go back and consider it myself. [LB1071]

SENATOR SCHUMACHER: Yeah, because, I mean, if all of a sudden somebody decides at the federal level that they're going to throw a trillion and a half dollars...or start throwing a trillion and a half dollars toward infrastructure, water will likely be one of the things that it's thrown at. And if you're there with a baseball glove on and the ball comes around, you know, it'd be a good thing to catch and design our baseball glove now. [LB1071]

DONNA GARDEN: I do know on the previous ones that have come out that they had to be shovel ready, and I think that was something that was mentioned about this infrastructure grant

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program, or whatever program it is, too. And we are certainly ready to do that. City of Lincoln has a capital improvement program through their...that we put together through our master plan, so that's ready to go. We know what we need, we know what we need every year from here until the next...until 2040, so. [LB1071]

SENATOR SCHUMACHER: Okay, well. If as things develop here, if one of these bills can be used as a vehicle to properly classify our present expenditures as new investment, then we certainly don't want to mess it up. [LB1071]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions? Do you know about what your sewer and water combined rates are per month in the city average? [LB1071]

DONNA GARDEN: They run between \$45 and \$50, that's combined. [LB1071]

SENATOR FRIESEN: Forty-five and fifty? [LB1071]

DONNA GARDEN: Um-hum. [LB1071]

SENATOR FRIESEN: Okay. So really...I guess what I'm getting at is every community has the same issue. [LB1071]

DONNA GARDEN: That's correct. [LB1071]

SENATOR FRIESEN: Some cities it's a bigger issue than others, and I've been involved with a city and what happens sometimes is city councils defer maintenance. And they look the other way when their pipes are...they know they're 100-years-old and they forget to raise their rates every now and then because they see they need to do maintenance down the road and I've been there. And so, in our community, at least our rates went from really cheap and I think now they're around \$70 to \$80 a month. And so they had to do upgrades to their water and sewer system. And so every community is kind of addressing the same things, whether they're large or small. And, you know, we could either just forget the sales tax, but then a lot of the communities depend on that city sales tax for revenue also. It's a, basically, another way of financing your city

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operations. But I would kind of consider that you shouldn't pay an input cost, but when you look at the piping and stuff itself, it wouldn't, probably, be considered an input cost. It's more of a capital expenditure. So, it could go either way on that. So, in the end if we would just exempt things from sales tax, is that an option too instead of just doing a turnback? [LB1071]

DONNA GARDEN: I think it could be considered an option. I think, though, and again you do have cities that do receive some of that money back into other coffers that they use for other things that they would need to weigh in that. I mean, it is certainly, from the water department's perspective, something. But as a city as a whole, we'd have to look at that a little more carefully before I could answer that question. [LB1071]

SENATOR FRIESEN: Okay. Do you feel...are there other communities that have done the same thing? I mean, they sometimes don't look forward in their operating expenses and, you know. I know our water rates were really cheap just ten years ago... [LB1071]

DONNA GARDEN: Um-hum. [LB1071]

SENATOR FRIESEN: ...and now they've really gone up. And so is that...you think it's across the state? Would that be a fair statement? [LB1071]

DONNA GARDEN: I think it is. I think there are things that are facing all of us that may be coming down from not only just a water quality standpoint that we are going to have to deal with. And we try to look at all of those types of things "regulatorily" or what's on the horizon. That's why we plan out pretty far ahead to make sure we've got that included in our rate structure so that we know what we actually need to charge our customers to address those. [LB1071]

SENATOR FRIESEN: Thank you, Ms. Garden. [LB1071]

DONNA GARDEN: Thank you... [LB1071]

SENATOR FRIESEN: Senator Schumacher. [LB1071]

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DONNA GARDEN: I'm sorry. [LB1071]

SENATOR SCHUMACHER: Thank you. One follow-up question... [LB1071]

DONNA GARDEN: Sure. [LB1071]

SENATOR SCHUMACHER: In a, say, a completely new subdivision you put in water and sewer pipes. How long, you know, the good...the best quality of water and sewer pipes, how long can they be anticipated to last? [LB1071]

DONNA GARDEN: Right now we're using usually a PVC-type piping for water and sewer. They can last about 100 years. But we...over the last...the history of that both systems have used other materials that won't last nearly as long. In fact, we've seen failure rates in some areas on, say, types of steel pipe and things like that in our corrosive soils that may be only 30 years. So, they do have a...they do have a life, and we're hoping that that plastic pipe that we're putting in is actually going to last 100 years into the future. [LB1071]

SENATOR SCHUMACHER: And if it doesn't, we won't be there (laughing). [LB1071]

DONNA GARDEN: We'll be replacing more main. [LB1071]

SENATOR SCHUMACHER: Thank you. [LB1071]

DONNA GARDEN: Thank you. [LB1071]

SENATOR FRIESEN: Thank you, Senator Schumacher. Thank you for your testimony. [LB1071]

DONNA GARDEN: Thank you. [LB1071]

SENATOR FRIESEN: Welcome. [LB1071]

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LYNN REX: Senator Friesen, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. First of all, I'd like to thank Senator Lindstrom for introducing this bill. We think it is important. We think that this is an issue that clearly cuts across all classes of municipalities, and there are five classes of municipalities and five forms of government, as you already know. So, this is an important bill. And we do have other cities that are also facing federal mandates. And they also are facing these types of same concerns. And I think the issue when you get to the state throwback sales tax issue comes down fundamentally as to whether or not the state of Nebraska itself, quite frankly, is getting a windfall off of a federal mandate because, certainly, when you're dealing with the CSO project that's certainly clear. And Plattsmouth is facing this, part of Bellevue is facing this. But in terms of just all of the other communities across the state, as you all know--he's a former mayor of Henderson--these are critical issues. And in answer, Senator Schumacher, I think you raised the issue of the percentages, I think it was you and not Senator Harr. But on the percentages it is roughly 3.5 to 4 percent of all water used in the state of Nebraska is for residential, commercial, industrial, 93 percent is center pivot, and the rest is ag non-center pivot. I'm happy to answer any questions you have. We do hope that you take this bill seriously and advance it from committee. We do think it's extremely important for cities and villages across the state. I would like to just close by stating that we used to have a municipal infrastructure redevelopment fund, which we affectionately called MIRF. MIRF bit the dust many years ago; it was cut and cut and cut when the state was facing fiscal problems. The \$4.5 million annually over a period of 20 years was reduced down to nothing. So, that was a program that was put in place to assist municipalities across the state of all sizes, dealing with infrastructure issues. So, essentially, a funding source is certainly needed and we would certainly appreciate your thoughtful consideration to this bill. [LB1071]

SENATOR FRIESEN: Thank you, Ms. Rex. Any questions from the committee? In your working with the many municipalities out there, I mean, you realize, too, the sometimes lack of maintenance from different communities depending on city councils and, you know, everybody wants to push the can down the road. So this is an issue for all communities probably, but some have done better than others, would you say? [LB1071]

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LYNN REX: Well, I think that's true, but I want to reflect back on what happened in 1996 in this committee. When Senator Warner was chair of the committee, the Legislature put in place levy limits. And second-class cities and villages went from \$1.05 per \$100 of valuation to a maximum of 45 plus 5 (cents). They were given from 1996 to 1998 to do so. And every, every second-class city and village in the state of Nebraska was \$1.05 or higher...higher because of voter-approved bonds for a firetruck, whatever it might have been. So, to cut to the chase, I mean, our smaller communities were cut...the levy itself was cut dramatically. Half of our municipalities, there are 529 cities and villages in this state, half of them are already at the maximum levy limit. Half of those cannot even raise the money, Senator, to have the 2.5 percent plus 1 on a supermajority vote of restricted funds over the prior year. So, that represents the second-class cities and villages. First-class cities, Omaha and Lincoln, also are facing serious issues because of federal mandates because of all the other kinds of things that they have to address as well. So, I think across the board this is the case. And your maintenance issue is a very good one; many times I don't think it is a conscious decision to say, we just don't want to fund it. It's a function of we can't fund it. And that becomes fundamentally the issue; the revenue isn't there to support it. And so... and as you know, when you delay those types of maintenance costs, it just costs you more down the road. [LB1071]

SENATOR FRIESEN: Well, and I...from what I...from my perspective, I mean, there was a lot of lack of will, at least in some communities, to raise those rates in anticipation of maintenance. And so, sometimes there were large increases and city councils are a lot of times unwilling to do some things in anticipation of problems. And it is a problem... [LB1071]

LYNN REX: And in two...oh...I'm sorry. [LB1071]

SENATOR FRIESEN: And that's just...I kind of want to point that out, but it is an issue. And I, you know, I look back at the rates that a lot of municipalities were charging back then. And if they would have anticipated some of the expenses, and some of it they should have anticipated, they would have been building up a good savings account for when they had to replace those mains. And we run into that as we resurface streets and those types of things and those, you know, a more of an effort should be made, I guess, to anticipate some of those costs and build up

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a savings account. And now we have, you know, in my case, when we saw what was happening, we should have anticipated better. [LB1071]

LYNN REX: I think that it is true, especially in the smaller communities, that it was very difficult for them to project ahead what needed to happen. In many of our communities, it wasn't until, maybe, 20 years ago that they actually had mapping of where anything was. Obviously, the largest cities had capacity to do that, the smaller cities didn't. But I do think it is, sometimes, it has been an issue of trying to respond to taxpayers and ratepayers who are saying we don't want those increases. And we've had city councils and village boards over the years, not all of them fortunately, but we've had some who have been recalled. We've had city, village boards and others that have been subjected to recall because they put fluoride in the water. [LB1071]

SENATOR FRIESEN: Under the lid, I mean, a water main replacement, would that be a capital expenditure outside the lid? [LB1071]

LYNN REX: Depending upon how they do it. Capital expenditures...basically it's a bonded indebtedness would be outside the lid and the levy limit. So if you're doing something that's major, Senator, it would fall in that category. And then when you're dealing with capital improvements that have a life of five years or longer. [LB1071]

SENATOR FRIESEN: Do you know how many municipalities are up against the lid, currently? [LB1071]

LYNN REX: I will...are you talking about the levy limit, sir, or the lid? [LB1071]

SENATOR FRIESEN: Levy limit. [LB1071]

LYNN REX: The levy limit; of the 529 cities and villages in the state of Nebraska, the last count we had was over half of them are up against the levy limit. And of those, again, half of those can't even raise the revenue to get the 2.5 percent of the lid on restricted funds over the prior year. [LB1071]

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SENATOR FRIESEN: Okay. Thank you, Ms. Rex. [LB1071]

LYNN REX: Thank you, very much. Thank you for your consideration and thanks to Senator Lindstrom. [LB1071]

SENATOR FRIESEN: Welcome. [LB1071]

DON KELLY: (Exhibit 4) Good afternoon, Vice Chairman Friesen and members of the Revenue Committee. I'm Don Kelly, D-o-n K-e-l-l-y. I'm a Sarpy County Commissioner from the 1st District and currently the chairman of the board. Our board supports the idea behind LB1071 and we thank Senator Lindstrom for introducing this important infrastructure bill for the communities across the state. We are honored to represent the fastest growing county in Nebraska. Future economic development not only impacts the greater metro area but the entire state by bringing additional sales and income tax dollars and creating good paying jobs for Nebraska citizens. You may be well aware of the growth along our Highway 50 corridor-- Traveler's Insurance, Oxbow Animal Health, Omaha Veterans Cemetery, and Facebook to name a few—which has brought hundreds of millions of dollars investments into our region and the state and over 300 jobs to the area. This area is prime for much more major projects in the future. However, due to continued growth in the metro area, the availability of developable land is becoming extremely limited. There are areas in Sarpy County that are wide open for development save one topographical feature; there's a ridgeline that bisects our county and it makes it impossible. This ridgeline makes any growth in Sarpy County and the Omaha metro area as a whole very limited without development of a new sanitary system. In short, it creates an artificial barrier to development. Of the 760 or so acres in south Sarpy that can be pumped over the ridgeline, approximately 530 acres, or 70 percent, have already been purchased or in the process of being purchased. Any future growth will depend on solving the issue of a sewer infrastructure south of the ridgeline. If we do not solve this issue, any development that does occur will be massive, low-density sprawl that will further strain both local and state financial resources for things such as roadway improvements and public safety services and it's not the type of organized growth that we'd like to see for the region and or the state. This is why last year your Legislature and this committee overwhelmingly supported LB235, a bill that allowed Sarpy County and its five cities to create a public agency to oversee the development of a new

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sewer system to support economic growth in the metro area. This sewer project is a major undertaking with a cost estimate of approximately \$220 million. It will take years, if not decades, to complete and will require a multifaceted approach. That's a big price tag, but in Sarpy County, and in the agency as a whole, we know we can get the project done because we've done it before. In the early 1990s, much like today, we recognize that many of the prime development areas in the county were outside the reach of our ability of any of our municipalities to provide such a service. And so, in 1994, former Senator Paul Hartnett from Bellevue introduced and successfully passed LB1139 to create the County Industrial Sewer Construction Act. In 1996, Sarpy County constructed the first portion of our current system. And this includes major economic developments you see today as you drive down I-80 toward Omaha: the Embassy Suites, Cabela's, Costco, and millions of dollars in the Southport development. We support LB1071 because its targeted approach in assisting political subdivisions with sewer infrastructure needs. We ask that Senator Lindstrom and the members of the Revenue Committee consider clarifying language to ensure the sewer agency is a type of entity that can utilize this type of process and that eligible facilities include construction of the new facilities that we need in Sarpy County. With these changes, LB1071 could play an important part for the Sarpy sewer project. According to our fiscal administrator, there is a lot of money on the table if this is approved. Depending on how turnback tax is structured and how quickly the number of sewer users grow in southern Sarpy County, this funding stream could produce hundreds of thousands of turnback dollars to help us build out our infrastructure. We understand that turnback tax by its nature means that the state will forgo revenue; however, this revenue will be made up in spades with new development in southern Sarpy County which will eventually generate tens of thousands of jobs, \$45 million per years in sales tax revenue for the State of Nebraska and \$76 million in property tax revenues for local school districts alone. So, as you can see, a multijurisdictional sewage treatment system is needed to allow the Omaha metro area to continue to compete for new industrial jobs. It's an expensive system and studies have determined that such a system will require funding beyond the typical revenues derived from connection fees. The added burden of state sales tax on the development of such as system will only exacerbate the problem, and this is why a turnback such as this one in LB1071 can help ignite and accelerate. And bottom line, there is no single silver bullet here. We think this is a good bill, and with some tweaks it could also really be a great assist to Sarpy County and our sewer agency. Thank you, and I'll entertain any questions. [LB1071]

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SENATOR FRIESEN: Thank you, Mr. Kelly. Any questions from the committee? [LB1071]

DON KELLY: Thank you. [LB1071]

SENATOR FRIESEN: Seeing none, thank you for your testimony. Any other proponents of LB1071? Seeing none, anyone wishing to testify in opposition to LB1071? Seeing none, anyone wish to testify in a neutral capacity? [LB1071]

TIFFANY JOEKEL: Senator Friesen, members of the Committee, my name is Tiffany Joekel, T-i-f-f-a-n-y J-o-e-k-e-l, policy director at OpenSky Policy Institute. I would say we are same song, second verse on the concern about a new draw on state General Fund revenue that is represented in this turnback. That being said, we're in a neutral capacity today because we do recognize some of the issues that have been raised by the proponents of the bill. Taxes on utilities are regressive, and that was noted in the 2013 Tax Modernization Committee Report. The recommendation in the tax mod committee was actually to create a refundable income tax credit to offset the regressivity of sales tax on utilities. So, I think that might be a suggestion that is not as broad as a turnback, but may help address the impact on low-income and moderate-income taxpayers that have been raised. We certainly also recognize the issue of double taxation, particularly on the potable water side. And so potentially an exemption that would limit exposure, limit the tax on those business inputs would help to alleviate that piece. Really, our primary concern is General Fund impact. And I think Senator Lindstrom was thoughtful about providing Xs in the bill, so to leave it up to the committee to determine what is an appropriate amount and what the state can afford. Councilwoman Melton mentioned a cap, I think that would be a way to limit the state's exposure under this sort of a provision. Or Lynn Rex had mentioned that there previously was a general-funded fund for these sorts of projects. I think, generally, OpenSky would support general funds as opposed to tax expenditures because they tend to be reviewed more often and don't necessarily go on autopilot in the extent that tax expenditures do. So we absolutely recognize this is an issue, we recognize that the sales tax on utilities makes us more expensive, and as infrastructure projects are required that only increases that impact on low- and moderate-income families. But again, our overall concern is General Fund impact to the state and the more we divert sales tax revenue from the state the more difficult time the state has in meeting its priorities. We're happy to discuss revenue streams, we'll be in front of this committee a lot this

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session talking about revenue measures that may help to address some of these issues. But with this bill specifically, we're concerned about the turnback, so. [LB1071]

SENATOR FRIESEN: Thank you, Ms. Joekel. Any other questions from the committee? [LB1071]

TIFFANY JOEKEL: Thank you. [LB1071]

SENATOR FRIESEN: Thank you for your testimony. Any others wish to testify in a neutral capacity? Seeing none, Senator Lindstrom, you wish to close? [LB1071]

SENATOR LINDSTROM: Thank you, Vice Chairman Friesen and members of the committee. I know that we have three more bills to get to, so I'll be quick. I want to thank Councilwoman Melton, Mr. Timmerman, and the other folks that testified today. Obviously, when we first discussed this bill, I think there were maybe two of us that were going to testify in support of the bill. As it turns out, there's a lot more. So, obviously this is a far-reaching issue that effects all communities across the state. And so I appreciate the suggestions from not only Senator Schumacher, but some of the other testifiers, and I would be open to working with those folks as well. And with that, how we've drafted the bill with the Xs in there to determine what that looks like; obviously, in this year and in the budget shortfall we have to be cognizant of that. But I think this is a problem, and I know it's a problem as you see in the charts, that is not going away anytime soon, it's going to get worse for folks in even lower-income households with the regressive nature of those taxes. So, with that, I'll be happy to answer any questions that the folks behind me weren't able to, but I appreciate your time. [LB1071]

SENATOR FRIESEN: Thank you, Senator Lindstrom. Any questions from the committee? One comment I might have; when you're looking at doing this, I think also that cities and municipalities should be required to have at least a minimum amount of water and sewer fees charged because I know there's communities out there that are charging \$70 to \$80 a month. And if you have some that are charging \$30 and \$40, obviously there's a big discrepancy on what the citizens are currently paying. But, just a suggestion. [LB1071]

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SENATOR LINDSTROM: Sure, appreciate it. [LB1071]

SENATOR FRIESEN: (Exhibits 5-7) Thank you, Senator Lindstrom. That will close the hearing on LB1071. We do have a couple letters to enter into the record on LB1071. We have proponents David Brown of Greater Omaha Chamber; Christy Abraham, League of (Nebraska) Municipalities; Aimee Melton, Omaha City Council. Senator Harr. [LB1071]

SENATOR HARR: Does that officially end Brett Lindstrom day? [LB824]

SENATOR FRIESEN: It was officially Senator Lindstrom day. [LB824]

SENATOR HARR: Oh, okay. (Laughter) [LB824]

SENATOR MORFELD: I'm kind of sad now. Okay... [LB824]

SENATOR FRIESEN: With that, we'll open the hearing on LB824. Welcome, Senator Morfeld. [LB824]

SENATOR MORFELD: Thank you, Senator Friesen, members of the Revenue Committee. My name is Adam Morfeld, for the record spelled A-d-a-m M-o-r-f-e-l-d, representing the "Fighting 46th" Legislative District, here today to introduce LB824, a bill to eliminate taxation of benefits received under the Federal Social Security Act. I come before you today with a simple message; I do not think that we should be taxing the fixed Social Security income of Nebraskans in living out their golden years. These Nebraskans who have contributed to the growth and prosperity of Nebraska during their lifetime through their work they provided as well as the taxes they've paid to secure a standard of living and a comfortable retirement. However, it does not make much sense to me that these individuals who have already paid into Social Security should now be taxed on their safety net a second time. Thirty-seven states...other states, including our neighbors Iowa and South Dakota, have eliminated tax on Social Security benefits. I bring this legislation forward for a few main concerns that have been brought to me...to my attention by many of my constituents. The first of which I've already expressed, the simple idea that we should not be taxing fixed income, particularly Social Security, and one that has been mandated already to pay

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into. Furthermore, Nebraska retirees disproportionately rely on their income from their Social Security when compared to other states. A recent study conducted by SmartAsset outlined which cities and its citizens are most dependent on their income from Social Security. Of the top ten most reliant cities, two are in Nebraska. Lincoln, number six on the list, saw an average senior household take in over \$21,000 in income from Social Security benefits. The average senior household in Omaha, number nine, took in roughly \$20,000. These are clear signs that Nebraska has a vibrant retiree community that we, as representatives, must make sure that they can live their next chapter of their life in a comfortable manner. For the average 70-year-old Lincolnite, they will pay just under \$1,000 in taxes on their gross income from Social Security and other retirement accounts. In comparison, our neighbor to the east does not tax from Social Security. The average 70-year-old Iowan of the same income will pay around roughly \$400 in taxes. While the difference may not seem much, it is difficult as their elected representative to tell a constituent in O'Neill or Lincoln that a couple extra hundred dollars in their pocket is meaningless, particularly since they're on a fixed income. I ask for your support in allowing this bill to proceed, and joining the other 37 states that have eliminated the tax on Social Security. I'd be happy to answer any questions. [LB824]

SENATOR FRIESEN: Thank you, Senator Morfeld. Any questions from the committee? Seeing none, thank you. [LB824]

SENATOR MORFELD: It's not like that in Judiciary. (Laughter) [LB824]

SENATOR FRIESEN: You're not done yet. Proponents for LB824. Welcome. [LB824]

DE TONACK: (Exhibit 1) Good afternoon, Senator Friesen and Revenue Committee. I...my name is De Tonack, D-e, last name is T-o-n-a-c-k. I'm the current president of the NSEA-Retired association, and a retired Lincoln Public Schools math and physics teacher. I have enclosed in the handout a one-page--well, actually two pages--summary of various facts and figures. Some that Senator Morfeld, I know, was already giving to you. They're from various online sources concerning state taxation of retirement benefits, including taxation of Social Security benefits. The stories are varied and they seem to be constantly changing; many things are in the works in state legislatures across the nation. I do direct your attention, however, to the third paragraph on

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the first page: Nebraska is grouped with nine other states judged "most unfair in Social Security taxation." On the second page, the last paragraph on the back ranks Nebraska among the four "unfriendly states for retirees." So, perhaps another goofy thing of Nebraska taxation. And, as Senator Morfeld commented, information presented in last Saturday's Lincoln Journal Star was headlined "Lincoln retirees rely (heavily) on Social Security." Lincoln ranking number six, and Omaha number nine. And I have included the Web site there, SmartAsset. I have to be careful when I say that website (laughter), but you can go and check out quite a bit of data. An important phrase in this newspaper article is "rely on." What we rely on is greatly affected by taxation. Last week, you heard a bill presented by Senator Lindstrom--thank you Senator Lindstrom--whereby the cutoff levels for Social Security state taxation would evolve with inflation. Now, that makes a lot of sense to me. Social Security evolves with tax...with inflation, so shouldn't the taxation levels change with inflation? In my mathematical mind that seems very congruent, very parallel to me. I know we are struggling with budget issues. I fully support funding education and the many new challenges education is facing. But I do thank you--and thank you Senator Morfeld--for keeping this issue, taxation of Social Security benefits, before us. And just a closing thought. This morning I talked to two people; somebody who had taught with me at Goodrich Middle School, long time ago, and she lives in Arizona six months and one day and then comes back to Nebraska. And then my doctor was telling me this morning that his parents live in Las Vegas for six months and one day because the taxation is not the same there on retired benefits. And my colleague, Roger Rea, may speak more to that issue. But, thank you for your time. And thank you for keeping this issue in front of us. [LB824]

SENATOR FRIESEN: Thank you, Ms. Tonack. Any questions from the committee? Seeing none... [LB824]

DE TONACK: Thanks. [LB824]

SENATOR FRIESEN: ...thank you for your testimony. Welcome. [LB824]

ROGER REA: (Exhibits 2-3) Thank you. Senator Friesen and members of the committee, for the record I am Roger Rea, R-o-g-e-r R-e-a. I live in Omaha and I'm the vice president of NSEA-Retired, an organization of approximately 5,000 retired school employees. NSEA-Retired is an

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affiliate of the Nebraska State Education Association. LB824 would eliminate the state income tax on all Social Security benefits. It would accomplish much to make Nebraska more retiree-friendly. Retaining retirees and attracting retirees to Nebraska provides economic benefits for the state. Retirees provide a dependable source of income that will be spent in the cities and towns where they move. Retirees can be attracted without additional expensive infrastructure to build. In short, their retirement incomes are often viewed as "new money" to the state that the state would not have if the retiree lived elsewhere. If a worker moves outside the state, his or her job stays in the state and will be filled by a new worker. The wages that were paid to the worker who moved out will now be paid to a worker who lives in Nebraska, so the wages that are paid stay in the state when the worker leaves. But when a retiree leaves...moves out of the state, they take their entire retirement income--including Social Security, Medicare benefits, and pension dollars--with them. That money is not replaced because no retiree moves in to fill the void. If LB824 were in place, fewer people would decide to move to other states when they retire. I am sure that you have seen the U.S. Census data that show how the outmigration of retirees impacts the state. According to the AARP report that I've just handed out; in 2012, more than 235,000 Nebraskans received Social Security benefits and the average payout was about \$14,800 per year. Even though the monthly benefit is relatively small, when multiplied by the large number of recipients it produces more than \$4.3 billion--\$4.3 billion--in payments to Nebraska each year. Social Security helps to keep those Nebraskans out of poverty and off the welfare rolls. Any reduction in Social Security benefits, such as a state income tax imposes, just pushes recipients closer to poverty and for the need for public assistance. Several groups who represent retirees in Nebraska have been working for years on removing the state income tax on Social Security benefits. We have been successful in raising the threshold income below which Social Security benefits are not taxed. LB824 would accomplish the ultimate goal of removing the Nebraska state income tax on Social Security incomes. At some point, that needs to happen. Given the shortfall in revenues that are anticipated this year, LB824 may be too costly to implement right now. Social Security pensions are intended to keep our elderly and disabled citizens out of poverty. They were never intended to be a source of revenue for the states. I ask you support the concepts in LB824. Let's work together, in the future at least, to make Nebraska more retiree-friendly. I'd be glad to take any questions. [LB824]

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SENATOR FRIESEN: Thank you, Mr. Rea. Any questions from the committee? Seeing none, I do have one comment. [LB824]

ROGER REA: Sure. [LB824]

SENATOR FRIESEN: I'm getting really close to that age (laughter), so we could fix this in about three or four years, is that soon enough? [LB824]

ROGER REA: It's not going to be soon enough for those who are already have retired, but it certainly will be able to attract people like you to stay in the state. So, I'm glad to see that you are willing to look at it at, at least at some point. [LB824]

SENATOR FRIESEN: And you see, the problem is I'm a farmer and I can't pick my land up and move (laughter). I have to stay, and that property tax issue is still pretty big (laughter), so. Thank you for your testimony. [LB824]

ROGER REA: You're welcome. Thank you. [LB824]

SENATOR FRIESEN: Any other proponents? Seeing none, anyone wish to testify in opposition? Welcome. [LB824]

TIFFANY JOEKEL: (Exhibit 4) Me, again. Members of the committee, my name is Tiffany Joekel, T-i-f-f-a-n-y J-o-e-k-e-l, policy director at OpenSky Policy Institute. I am sorry you are seeing so much of me today. You have heard OpenSky's position on bills like this in the past, so I won't belabor the point. It's well represented in our written testimony. I mean, it has a very large fiscal impact. The...a great...to a great extent, most Social Security benefits are already excluded from taxable income in Nebraska. Because of legislation passed in 2014, anybody with AGI less than \$58,000 that's married filing jointly, or \$43,000 on single returns, already are allowed to exclude any amount of Social Security that is included in their state taxable income. According to data from the Department of Revenue, income tax was paid on only 27 percent of Social Security benefits provided to Nebraskans with incomes less than \$75,000. The Tax Modernization Committee report found that states that have implemented full exemptions or

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extensive exemptions for Social Security and retirement income are finding those increasingly costly as the population ages. We know that ages...the population age 65 and older are projected to increase by 90 percent by 2050, while the age group in Nebraska of 18 to 64 will only grow by 12 percent. So, if this were implemented, it will become increasingly costly. And the question then becomes, you know, how do we continue to support this...this extension of the exemption when it appears to have at least covered most moderate- and low-income folks at this point, or at least those below the median income. So, with that, I'm happy to answer any questions. Certainly recognize the intent, it's a laudable one, but I have to be the bad guy about the fiscal note (laughing). [LB824]

SENATOR FRIESEN: Thank you, Ms. Joekel. [LB824]

TIFFANY JOEKEL: Thank you. [LB824]

SENATOR FRIESEN: Any questions from the committee? Seeing none... [LB824]

TIFFANY JOEKEL: Thank you. [LB824]

SENATOR FRIESEN: ...thank you for your testimony. Any others wish to testify in opposition? Anyone wish to testify in a neutral capacity? Seeing none, Senator Morfeld, you wish to close? [LB824]

SENATOR MORFELD: I'll waive closing. [LB824]

SENATOR FRIESEN: (Exhibits 5-6) We have a letter of support; Jenni Benson, NSEA. A neutral; Connie Benjamin, AARP. That will close the hearing, and that will be LB824. Okay, Senator Vargas is here and now we will open the hearing on LB1074. Welcome, Senator Vargas. [LB824]

SENATOR VARGAS: Thank you, very much, Chairman Friesen. Let's see...okay. Good afternoon, members of the committee. My name is Tony Vargas, T-o-n-y V-a-r-g-a-s, and I represent District 7; the communities of downtown south Omaha. LB1074 is a bill that makes

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adjustments to state income tax brackets. LB1074 lowers taxes on low- and middle-income earners by adding new tax brackets for higher income earners. Change in the current tax brackets are as follows. LB1074 expands the current third bracket, applying a lower tax rate to more income. It starts the fourth bracket at a higher income level. It adds a new fifth bracket at 7.84 percent for taxpayers who are married, filing jointly, starting at \$200,000; \$150,000 for head of household filers; and \$100,000 for all other filers. It adds an additional 1 percent tax to income in excess of \$1 million and it adds a 2 percent tax on income in excess of \$2 million. LB1074 also increases the state portion of the earned income tax credit from 10 to 12 percent of the federal credit. I felt this was an important provision to include because the intent of LB1074 is to provide some financial relief for low-income earners. Now, as you know, the earned income tax credit is a targeted credit specifically for families who are working, often in low-wage job or who are underemployed. Boosting the state portion of the earned income tax credit is the best way to meet the goal providing targeted relief to low-income families. Now, as you have likely seen, the fiscal note for LB1074 shows that revenue generated from adding a small tax on the highest earners in our state more than pays for the tax relief that the bill provides to low- and middle-income Nebraskans. The Department of Revenue estimates that LB1074 will generate \$106 million dollars in the fiscal year...in this fiscal year, and between \$77 to 87 million in the following fiscal years. I am in a unique position as a senator for District 7 because I represent some of the lowest earners and the highest earners in the state. Now, I understand the real impact that this will have for people with incomes all across the spectrum. In addition, as a member of the Appropriations Committee in the biennium where we have experienced serious revenue shortfalls, it would be remiss...I would be remiss if I did not also touch on the need for the Legislature to work together to find a way to raise some revenue. Now, in the Appropriations Committee, we are faced with making a third round of cuts to our budget in just over an actual year. Without raising revenue, children and seniors will face cuts to services they rely on. Life-saving health services will be cut, again. Programs that protect the safety of our water and our roads will be cut, again. The university and the state college budgets will be cut, again, to the detriment of students who are already struggling to find a way to pay for school. Now all the revenue that would be generated from LB1074 would not completely fill the budget gaps. It is an important first step for us to take together. Now this certainly is not the time to make drastic changes to state taxes that would cause further revenue shortfalls. And even more...and an even more dire budget situation as a result. Now, I'm here today to work with you on addressing the

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biggest issue that our state is facing in a way that I believe is the most fair and equitable to Nebraskans. I look forward to the conversation and to working with you on this bill. Thank you, very much. [LB1074]

SENATOR FRIESEN: Thank you, Senator Vargas. Any questions from the committee? I was just looking through, kind of, is there a property tax component to this anywhere? [LB1074]

SENATOR VARGAS: Knew you were going to ask that, Senator Friesen, I knew you were going to ask. [LB1074]

SENATOR FRIESEN: I was just checking. [LB1074]

SENATOR VARGAS: But it does...you're bringing up a good conversation. We often talk about the three-legged stool. And I do believe that if we are able to target some income tax relief by creating some revenue, there's a question about what we do with that revenue. More importantly, I think that looking at income taxes, which is the least regressive of all the taxes, is the most responsible way forward to providing relief to individuals in income tax relief and then also making sure that we are supporting low-income workers and families. [LB1074]

SENATOR FRIESEN: I probably can't disagree with you. Senator Schumacher. [LB1074]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you, Senator Vargas. In looking at your formula here, you jack up the income tax rate by 2 percent on an income that exceeds \$2 million. [LB1074]

SENATOR VARGAS: Um-hum. [LB1074]

SENATOR SCHUMACHER: And we just heard testimony how we don't want to tax retiring people. Well, it's a fairly rare bird in Nebraska where you have \$2 million in income year after year. But, reasonably common that someone will have invested their life and their life's equity in a business or a farm, and then liquidate it in one year and have \$2 million worth of income in that year. Is your intention to tax that retirement income? [LB1074]

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SENATOR VARGAS: I mean, the intention of this would create a new tax bracket, and so if someone in a year makes above \$2 million, the \$2 million would be taxed at an additional percentage, yeah...so yes. But that's is not saying that I wouldn't be willing to work with you to find a solution to that scenario that you passed. [LB1074]

SENATOR SCHUMACHER: It may have taken 40 years to build up that well. And so, really, that's what a lot of trouble I have with just looking at one year of income and saying, oh, you're filthy rich, because, you know, that's a one-time pop. And if you take a 2 percent of that, that's a big chunk that's probably unfairly taken. [LB1074]

SENATOR VARGAS: Um-hum. You bring up a good point. The other side of this coin is the majority...I would say the majority of millionaires wouldn't necessarily fall always into that example. But like I said, this would apply to individuals that have over \$2 million of income earned. It would be an additional percentage on what they make over \$2 million, and it would apply to every income tax year. And...but, like I said, more than happy to work on a solution that still provides revenue and targets low- and middle-income families. [LB1074]

SENATOR SCHUMACHER: And just a little bit of a follow-up: you jack up the income tax rate by a percent on people making a joint...two people making \$200,000. [LB1074]

SENATOR VARGAS: Um-hum. [LB1074]

SENATOR SCHUMACHER: That's a...for two people that we've tried to encourage to stay in the state. Each one making \$100,000, which is fairly low compared to what they can make in competitive coast states. That rate of taxation is...you know, breaks through the ceiling and puts us into truly high income tax. And that figure is really low for two productive young people who are trying to buy a house and raise some kids. So what would be a better rate, or a breaking point? Half a million, \$750,000? [LB1074]

SENATOR VARGAS: That's a good question. I would say that it makes the assumption that the only reason people make for moving, even if they have a family, if they make \$100,000 single or \$200,000 would be income tax rates. We know that there are obviously some states around us

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that have no income tax rates and some that have flat tax rates and some that have sort of variable. What the research shows is that this is still not a significant factor in whether or not somebody at those income levels is making a choice on whether or not to move to a lower income tax state versus a higher income tax state, at these levels. So, that's where the rationale came from for targeting these specific levels. [LB1074]

SENATOR SCHUMACHER: You didn't have a particular analysis that said there was something magic about \$100,000 a person, \$200,000 a couple? [LB1074]

SENATOR VARGAS: Not that specific number, but generally for higher rates of income that, when we're looking across the country, that that's not a factor that people take into account when they're moving, or leaving, or migrating out or into a state. [LB1074]

SENATOR SCHUMACHER: But \$200,000 for college-educated people who have gone through the trouble of maybe getting a bachelor's degree or master's degree, the kind of folks that we want to attract to our...that's a really very low number. [LB1074]

SENATOR VARGAS: Yeah, like I said, I think we still have states that, I think, we see--I don't want to say they're an anomaly--but they're good examples where they might be higher-tax states and young individuals choose to be in those states for a variety of different reasons. The research still continues to show us that this is not a significant factor on whether or not somebody is choosing to be in the state or not. And so that's the reason we are most specifically looking at income tax change... [LB1074]

SENATOR SCHUMACHER: I'm not necessarily addressing somebody getting up and moving to another state. [LB1074]

SENATOR VARGAS: Yeah. [LB1074]

SENATOR SCHUMACHER: We want to build and grow an economy. You want the growth to incur and you want to reward the effort it takes to get in a position where a husband and wife make somewhat more than \$200,000. That's when your economy is really picking up steam,

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that's when you're moved away from rudimentary manufacturing and raising chickens. I mean, so it's not a matter of somebody up and moving. They may or may not up and move over that, they probably won't even look at the tax number. But does it matter what type of economy you want to culture. And... [LB1074]

SENATOR VARGAS: Yeah. [LB1074]

SENATOR SCHUMACHER: ...you know, that's...I just think you're a little low on those numbers. [LB1074]

SENATOR VARGAS: Again, the research that we show that in states where they still have an income tax...when they're looking at all the different taxes that can be had, when you're looking at income tax and when you are increasing income taxes on those that are higher-wage earners. That those states that have implemented those have a very healthy economy and a low unemployment rate. So that's what we're basing it off of. There's obviously, to your point, no...I don't think there's a magic number. Otherwise it would be applied across the entire country. But I think what we're seeing here is we need to do something. We need to create revenues in some way, shape, or form to then be able to support and sustain government and support all those individuals that are relying on services that we provide as the government. And in these years, looking at a...we can say like a fair way of making sure that we can still sustain revenue and then making sure we can target relief. I think that's what is the underlying reason why we would look at this specific type of tax change. [LB1074]

SENATOR SCHUMACHER: Why don't we just short bitcoin? (Laughter) [LB1074]

SENATOR VARGAS: (Laughing) Why don't we just short bitcoin? [LB1074]

SENATOR SCHUMACHER: Thank you. [LB1074]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions from the committee? I will make one comment; you know, I don't think you'll impact most ag producers with your rates, so. No problem there (laughter). [LB1074]

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SENATOR VARGAS: (Laughing) Thank you, Senator Friesen. [LB1074]

SENATOR FRIESEN: Thank you, Senator Vargas. Any other wish to testify in support of LB1074? [LB1074]

TIFFANY JOEKEL: Okay... [LB1074]

SENATOR FRIESEN: Welcome. [LB1074]

TIFFANY JOEKEL: (Exhibit 1)...Members of the Revenue Committee, my name is Tiffany Joekel, T-i-f-f-a-n-y J-o-e-k-e-l, policy director at OpenSky Policy Institute. We are here to testify today in support of LB1074. We really appreciate Senator Vargas bringing this conversation to the Revenue Committee. We appreciate this effort because it is a measure to reduce income taxes for low- and moderate-income taxpayers in Nebraska and it is paid for. And that is the big piece, there; it is paid for. I think the...from our perspective, some of the provisions are not necessarily set in stone. The revenue raisers, I think that's up for debate for this committee and for Senator Vargas. But really, from our perspective the important thing is that it raises revenue on the top, puts that revenue into tax cuts for low- and moderate-income folks. What I've done in my handouts, I want to spend some time going over to explain. But first, I'd like to address your questions, Senator Schumacher, if I may. You know, \$200,000 for a married couple, I appreciate that you feel like that's low. That makes me feel like an underachiever. So, I would just note that that is four times the median household income in Nebraska. The median household income in Nebraska is about \$54,000, so at \$200,000 you're...double...you know, you're more than double that, you're quadruple that. Also, Iowa, their highest tax rate is 8.89 percent, and that kicks in at around \$71,000. So, as far as a direct comparison across to Council Bluffs, they have a higher rate than this 7.84 percent would put in and it starts at much lower than what Senator Vargas is starting for a married couple. Similarly, Minnesota has a higher...their top bracket is in the 9 percent range, and I believe that starts, I think, around \$150,000 for an individual, \$250,000 for married. So not entirely out of the ballpark of where LB1074 is. What I have provided to you, the second page of my handout is a comparison of brackets. So, the top one is 2018 brackets under existing law as they would be in 2018; the second bracket there is LB1074. This includes the five brackets, it does not include the additional

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1 percent and 2 percent, but what I want to point out is LB1074 expands the income in that third bracket. So that means people with income in that third bracket would...where they normally would have fallen into the 6.84 percent, the fourth bracket, it will keep more of their income in that third bracket. So, really targeting tax reductions to low- and moderate-income folks there. It would start the existing higher, the 6.84 percent, slightly higher, and then creates a fifth bracket. I also think it's important to note that the second two table that I provided are the tax brackets with the standard deduction. So when we look at brackets alone, we see that currently that top rate starts at, you know, around \$60,000 for a married couple. The reality is you have to apply at least the standard deduction to that amount to get to the amount of income they need before they fall into that bracket. So those bottom two are the brackets in 2018 law, and then the brackets under LB1074 but with the standard deduction amounts included therein. I just think that's important as you think about these pieces of legislation. The third handout that I gave you is the distributional impact. So this is the average net impact as a percentage of income from the full LB1074. So you can see there is a slight increase in income for the, you know, bottom half of the...majority of taxpayers there and there would be slight increases for the top 5 percent as a result of the full impact of this bill. You know, ultimately, I think, as I said, some of these provisions are, from our perspective, could be adjusted. There's a lot of revenue there, Senator Friesen. You referenced property tax reduction, I think there is...it raises a fair amount of money. So, of course it's up for negotiation to this committee how you'd like to use that, this committee and the body. But I really appreciate that Senator Vargas was willing to put this forward in a way that provides low- and moderate-income tax relief but also pays for it. And so, with that, I'd be happy to answer any questions. [LB1074]

SENATOR FRIESEN: Thank you, Ms. Joekel. Any questions? Senator Schumacher. [LB1074]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Here, I'm trying to give you an argument to take back to your board saying you're terribly underpaid. [LB1074]

TIFFANY JOEKEL: (Laughing) Well, I appreciate that. I hope they are watching, Senator, I hope they are watching. [LB1074]

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SENATOR SCHUMACHER: Now, I do have a serious angle here. We do have to run...figure out how to get some revenue. [LB1074]

TIFFANY JOEKEL: Sure. [LB1074]

SENATOR SCHUMACHER: It's pretty clear across the board, we're just...we're sucking air. And there has been what appears to be a substantial windfall in the federal tax act... [LB1074]

TIFFANY JOEKEL: Right. [LB1074]

SENATOR SCHUMACHER: ...with the...basically writing off 20 percent of that income for Subchapter S, and LLC, Schedule S, Schedule E, and Schedule C income. And while that write-off is probably is very (inaudible) for folks not making a killing in those categories, but it's a real, real windfall for folks that are hauling it in, in terms of hundreds of thousands or more, in income. By having to...being able to forget about 20 percent of that income. [LB1074]

TIFFANY JOEKEL: Right. [LB1074]

SENATOR SCHUMACHER: Have you taken any look at that, whether or not there's some mechanism we could take a bill like this and begin to massage it, and say okay, we're going to put a windfall tax on the tax benefit of the federal act. And therefore we don't really change our present rates, and we can tailor that to somebody who truly is getting a windfall from having to basically...forget about 20 percent of your income. [LB1074]

TIFFANY JOEKEL: Right. We haven't looked into that specifically, Senator. And I think there's real uncertainty about the impact of that pass-through deduction at the federal level. I think it's unclear what sort of taxpayer behavior will...behavioral changes will occur. That deduction is subject to a number of limitations that are somewhat complicated. So I think it would be difficult for me, right now, to sit here and say I've got a plan for that. But I think you're right; this bill is not happening in a vacuum, it is happening in the context of significant corporate and personal income tax rates at the federal level. And so I think it's important to keep that in mind on that. But I think you're right, some scheme could be developed to try to address to the extent that taxes

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are being significantly lowered at the federal level, is there a way those could sort of be recouped. [LB1074]

SENATOR SCHUMACHER: And you know, obviously it's hard to say what, if anything, comes out of this committee. But we're going to have to get real creative because there's been no magic bullet shown to the committee so far. [LB1074]

TIFFANY JOEKEL: Right. [LB1074]

SENATOR SCHUMACHER: And so in some of your future testimony that you've promised us you'll be delivering, if maybe you could take a look at that issue as to exactly what...how big of savings taxpayers might have at the federal level and at what point it truly becomes a windfall if they don't have to pay on 20 percent of their pass-through income. [LB1074]

TIFFANY JOEKEL: Yeah, we'll be happy to think about that, Senator. I will say, though, that I don't think it's just me that is uncertain about the corporate side of the business changes, in general. I think the Depart of Revenue has expressed some uncertainty, too, in that regard. But I will be happy to put some thought into that. [LB1074]

SENATOR SCHUMACHER: The accountants seem to be sending out letters that say rah, rah, rah... [LB1074]

TIFFANY JOEKEL: Yeah, I don't disagree that. [LB1074]

SENATOR SCHUMACHER: ...pretty much all the way. [LB1074]

TIFFANY JOEKEL: Yeah, I don't disagree that. I think there's optimism about it, but I think there is uncertainty in the aggregate about what the impact would be. But... [LB1074]

SENATOR SCHUMACHER: Thank you. [LB1074]

TIFFANY JOEKEL: ...happy to commit to... [LB1074]

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SENATOR SCHUMACHER: Thank you. [LB1074]

TIFFANY JOEKEL: ...thinking about that. [LB1074]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions? Senator Groene. [LB1074]

SENATOR GROENE: Make sure people knew I was here today. What's your position on that \$200 million increase that the Trump tax cuts that's going to affect middle class? [LB1074]

TIFFANY JOEKEL: Right. Right, so... [LB1074]

SENATOR GROENE: You think we ought to make those folks pay more taxes? I mean, we're talking 50 to... [LB1074]

TIFFANY JOEKEL: Yeah, I'm happy to speak to that, Senator. So there are two bills that are trying to address that: LB1090, introduced by Senator Smith, and LB1048, introduced by Senator Harr. And we will be here on both of those bills, you'll hear us talk about both of those bill in-depth. I would say, in particular, the biggest piece of that is the elimination of the personal exemption. That's about the \$200 million of the \$220 million, I think, roughly. You're exactly right that that falls squarely on low- and moderate-income taxpayers. And the elimination of that would be...would significantly increase the liability of low- and moderate-income folks. So we do not support the elimination of that personal exemption. We support Senator Harr's effort to keep that on the books. What we prefer about Senator Harr's provision is that it is limited to that and it caps that personal exemption, so it is really targeted. It will likely allow the state to still generate some new revenue because it is capped. That new... [LB1074]

SENATOR GROENE: That's fine, I'll wait for your hearing. [LB1074]

TIFFANY JOEKEL: Okay, but new revenue will help afford... [LB1074]

SENATOR GROENE: I just wondered (inaudible)... [LB1074]

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TIFFANY JOEKEL: Yeah, we will be in on that and I save...will leave you hanging and save some... [LB1074]

SENATOR GROENE: Just wanted to know how bad you wanted new revenue. [LB1074]

TIFFANY JOEKEL: ...save some suspense. Well, we'd like a little, so we'll be there on those. [LB1074]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you for your testimony. [LB1074]

TIFFANY JOEKEL: Thank you. [LB1074]

SENATOR FRIESEN: Welcome. [LB1074]

AUBREY MANCUSO: (Exhibit 2) Good afternoon, Senator Friesen, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm the executive director of Voices for Children in Nebraska. We're here today in support of LB1074, and in particular the provisions that increase the state earned income tax credit. Growing up in an economically struggling family is particularly challenging for kids and can have consequences related to health, education and other opportunities. We support LB1074 because it targets tax cuts to hardworking low-income Nebraskans while preserving our state's ability to invest in other critical infrastructure and communities that is also important for kids. In particular, the EITC is widely recognized as one of the most effective antipoverty programs in the nation, and it keeps an estimated 19,000 Nebraska children out of poverty currently. The credit also incentivizes work and helps low-income families make ends meet. And research has shown that the boost to family income as a result of the EITC has been linked to positive health outcomes, improved student achievement, and even increased future earnings. Moreover, the EITC has been shown to promote community revitalization because families often use these credits to pay off debt, invest in education, and secure housing. In 2016, over 130,000 Nebraska families claimed the state EITC and it returned over \$30 million to Nebraska's working families. It's currently set at 10 percent of the federal credit and has not been increased in a decade, since 2007. And the increase

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is also particularly timely because the federal tax reform passed in 2017 is expected to erode the actual value of the EITC over time. In conclusion, we are supportive of the balanced approach that LB1074 takes in ensuring that Nebraska will continue to be able to invest in programs that support vulnerable children while providing tax relief to their families, and thank the committee for their time. [LB1074]

SENATOR FRIESEN: Thank you, Ms. Mancuso. Any questions from the committee? Seeing none, thank you for your testimony. [LB1074]

AUBREY MANCUSO: Thank you. [LB1074]

SENATOR FRIESEN: Welcome. [LB1074]

SARAH ANN KOTCHIAN: (Exhibit 3) Thank you. Good afternoon, Vice Chairman Friesen and members of the Revenue Committee. My name is Sarah Ann Kotchian, S-a-r-a-h A-n-n K-o-t-c-h-i-a-n, and I appear today in support of LB1074 on behalf of the Holland Children's Movement, a nonpartisan, not-for profit organization founded by Richard Holland that strives to fulfill his vision for Nebraska to become the national beacon in economic security and opportunity for all children and families. We would like to express our thanks to Senator Vargas for the introduction of LB1074 and to share that we think this is a forward-thinking proposal that provides a direct and positive response to the voices of Nebraskans. According to recent public opinion research from our sister organization, the Holland Children's Institute, 56 percent of Nebraskans say state government is focused very little or just somewhat on their own families. Across the partisan spectrum, by an overwhelming majority, Nebraskans believe state government has been focused on tax cuts and helping big corporations, 63 percent, and the wealthy, 64 percent. At the same time, a near majority report that they do not have enough savings to cover their bills for at least six months in the case of an emergency. There is a clear disconnect between the economic realities of Nebraska families and where they feel their government is focused, and to this end we would urge you to advance LB1074 to General File. And I would thank you for your time and service to our great state. [LB1074]

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SENATOR FRIESEN: Thank you, Ms. Kotchian. Any questions from the committee? Seeing none, thank you for your testimony. Any others wish to testify in support? Seeing none, anyone wish to testify in opposition to LB1074? Welcome. [LB1074]

NICOLE FOX: (Exhibit 4) Good afternoon, Chairman Friesen...Vice Chair Friesen, I should say, members of the Revenue Committee. Nicole Fox, N-i-c-o-l-e F-o-x, director of government relations for the Platte Institute. I am here today to testify in opposition to this bill. This bill proposes a millionaire's tax. Currently, the only states that levy a higher tax rate on income of \$1 million or more are California, New York, and the District of Columbia. According to research by the Tax Foundation, a millionaires' tax is poor policy because it is a narrow, high-rate tax on a highly mobile group of people who earn less in bad economic times. Enacting such a tax makes state tax revenue more volatile and unpredictable. The unpredictability and detrimental economic repercussions of the tax was proven in Maryland when the state tried to address a state budget deficit by enacting a new millionaire income tax bracket. The Wall Street Journal described the result of this tax increase one year later, stating "one-third of the millionaires have disappeared from Maryland tax rolls. In 2008, roughly 3,000 million-dollar income tax returns were filed by the end of April. This year, there were 2,000, which the state comptroller's office concedes is a substantial decline. Instead of the state coffers gaining the extra \$106 million the politicians predicted, millionaires paid \$100 million less in taxes than they did just last year, even at higher rates." This same situation played out in Oregon when they instituted a higher tax rate on high-income earners and according to the state treasury, one-third less revenue than projected was collected and 10,000 high-income earners left the state. When Maryland instituted their millionaire's tax bracket, the rate was only 6.25 percent, which is lower than Nebraska's top rate today. If this bill were to be enacted, the top rate would be 9.84 percent, which would surely result in the same exodus of high-income earners as it did in Maryland and Oregon. Under the current tax code, Nebraska has the 15th-highest income tax rate in the nation and one of the highest in the region. Under this bill, Nebraska will have the 4th-highest income tax rate in the country following California at 13.3 percent, Oregon at 9.9 percent, and Minnesota at 9.85 percent. IRS records show that since 1992, a net total of over \$3.5 billion in adjusted gross income has left Nebraska, the majority of which found its way to states such as Texas, Florida, Arizona, Colorado, and Missouri, which all levy lower top personal income tax rates or none at all. If Nebraska increases its top marginal income tax rate, we will see even more money and

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residents flee for a lower tax state. Just a note, Iowa is discussing lowering their tax rates. When high income earners flee to lower tax states, this puts more pressure on the middle class families to pay for even more of state government. According to USA Today, Omaha ranks eighth amongst the nation's 50 largest cities in both per capita billionaires and Fortune 500 companies. In a Lincoln Journal Star article last fall, 12 Nebraska cities were on a list of U.S. metro areas with the highest share of households with \$5 million or more in assets to invest. A study of 2016 wealth concentration ranked Nebraska 24th among states for concentration of wealth. According to the study, Nebraska has 39,000 households with \$1 million or more to invest. If the state decides to pass LB1074, there will be negative consequences for our state and we will surely drive away the wealth. An ALEC study summed up the result of a millionaire's tax perfectly stating, "The high rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business and invest it in tax-exempt securities or to find other lawful methods of avoiding the realization of taxable income." The research and evidence from other states is clear that this is bad tax policy and not the right decision for Nebraska. I encourage the committee to vote in opposition to LB1074. Thank you and I'm happy to take any questions. [LB1074]

SENATOR FRIESEN: Thank you, Ms. Fox. Any questions from the committee? Senator Schumacher. [LB1074]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Just to be fair, you go back and tell your board that you deserve a raise, too (laughter). [LB1074]

NICOLE FOX: I would like to have that, that would be great. [LB1074]

SENATOR SCHUMACHER: Thank you. [LB1074]

SENATOR FRIESEN: Any other questions from the committee? Senator Groene. [LB1074]

SENATOR GROENE: Hypothetical question for you. [LB1074]

NICOLE FOX: Um-hum. [LB1074]

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SENATOR GROENE: Last census bureau...census report said we gained...it was 11,000...12,000 citizens; 15,000....11,000 babies, I think it was 4,000 or 5,000 international immigrants, and we lost 3,500 citizens. So, 15,000 versus 3,500 moved out. If you totaled all the taxes, those 3,500 used to pay to Nebraska versus the 15,000 babies and international immigrants, what do you think the numbers would differ? [LB1074]

NICOLE FOX: That I do not know off the top of my head, sir. [LB1074]

SENATOR GROENE: I think I know. And they left because of taxes, the 3,500. So, thank you. [LB1074]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you, Ms. Fox. [LB1074]

NICOLE FOX: Um-hum. [LB1074]

RON SEDLACEK: Senator Friesen and members of the Revenue Committee, for the record, my name is Ron Sedlacek, R-o-n S-e-d-l-a-c-e-k. I'm here on behalf of Nebraska Chamber of Commerce and in opposition to LB1074. We look at it as a two-part bill, and our opposition is based on the rates. We're not really addressing the earned income tax credit side of the legislation. And in fact, before I guess any one of you were sitting here, you wouldn't recall this, but the State Chamber has met on two or three occasions, I remember, in the early to mid 2000s were supporting earned income tax credit at that time as part of overall packages. And so...but at this time, looking at the funding mechanism proposed, we have to oppose this particular bill. The testimony that I was about to give has pretty much been covered and I don't want to be terribly repetitive. It was covered by questions that you asked, Senator Schumacher, and that dealt with a number of pass-through entities in Nebraska. Over 90 percent of our businesses are pass-throughs at this time. With the federal changes in the shifting, and you've heard testimony on previous bills as to what that means, I don't know at this point. I can't answer that question, it's speculation, but there are trends that could be predicted. One thing we certainly support, and that is to have a competitive income tax system when looking at the region. And right now, we feel we're not competitive. We've been here and testified on previous legislation that would try to put

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us in that more competitive position. And quite often, Iowa is cited as a higher-rate state, but there is always one factor that is not mentioned, and that is Iowa does allow for adjustments for federal income tax paid. And that's a big adjustment. So their rate is only nominally higher than ours. But when you take that into consideration depending upon where you are as far as income, you may be paying at a lesser there, too. So, just to point that particular...that out. And we would probably differ with the theory that there isn't, in regard to migration, particularly into the state based on income tax rates because we find site selectors at least looking at those rates and certainly sharing those rates with those companies that are looking to invest in other states. And the decision-makers are also looking at their own pocketbooks, what's that going to mean for us if we move to Nebraska? So, we do believe from that point of view that it certainly can affect migration within the state. In addition, we know that those who can afford to, can be mobile. And we've been against super brackets such as this just because of that, we don't want to lose those people. We'd like to have them stay in Nebraska if at all possible. That concludes my testimony. [LB1074]

SENATOR FRIESEN: Thank you, Mr. Sedlacek. Any questions from the committee? Senator Groene. [LB1074]

SENATOR GROENE: Has...thank you, Vice Chairman. Have you done any research or seen anywhere...I said the 3,500 that moved out of existing Nebraskans, what their income was and what the taxes they were paying versus our net immigration? [LB1074]

RON SEDLACEK: No, I haven't done any research, at all. [LB1074]

SENATOR GROENE: I'm just wondering. I'm not against immigration, I just wish more of the people who were making some money would stay here. Thank you. [LB1074]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none... [LB1074]

RON SEDLACEK: Thank you. [LB1074]

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SENATOR FRIESEN: ...thank you for your testimony. Any others wish to testify in opposition? Seeing none, anyone wish to testify in a neutral capacity? Seeing none, Senator Vargas, would you like to close? [LB1074]

SENATOR VARGAS: Vice Chairman Friesen, thank you, very much. Members of the committee, I want to thank you for your time. I want to reiterate just a few different points here, and do my best to address some of them. You know, we're hearing differing views on what happens in terms of the migration in and out of our state and what impact a millionaire's tax would have on our state. The research that we are referencing, and if we look at Young and Varner from 2000, let's say, a study of residents' decisions in D.C. metro area concludes that taxes are not an important influence on where people choose to live. From 2011, a study that looks at the differences in state tax rates and migration patterns between the ages of 19 and 43 conclude that taxes have a small impact on people's decisions on where they move. And if we were looking at one of the more recent studies done by Young and Varner, 2016, is that there is a marginal 2.2 percent of individuals who are millionaires that would have a tax-reduction motivation, if any. There's research that shows that a very significantly small to nonexistent percentage of individuals that they could actually look at when looking at the statistical analysis of individuals that are moving because of a tax reason specifically for millionaires. Which is why we brought this. In this committee, right now we're dealing with how do we fix property tax relief? How do we fix income tax relief? How do we provide and create revenue for a shortfall that's existing in the committee that I'm sitting in? If we can't find some reasonable solutions, because there is no silver bullet, otherwise we would've done it already. If we can't find some reasonable solutions, part of the puzzle pieces, to move forward in some way, shape, or form and create some revenue to help offset some of the issues that we're seeing, I don't know when we're going to then be able to come up with a reasonable solution that's going to help provide relief to middle- and working-class families. And so, this is a step towards finding a way to target relief to low- and middle-income families. And that's what this is. I urge your support of this bill. I am more than happy to work with any and each of you to find how this fits in a puzzle piece of a greater solution towards providing relief to those that are looking for relief and also finding a way to increase revenue in a way that we don't often see in this committee all the time. So I thank you for your time and would welcome any other questions that you may have. [LB1074]

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SENATOR FRIESEN: Thank you, Senator Vargas. Any other questions from the committee?
Senator Schumacher. [LB1074]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you, Senator Vargas. Can the answer be on the other side of the equation? We have what clearly is underpaid people. We saw that, right at the desk today; lots of talent, lots of skill, underpaid (laughter), okay? And I'm not kidding or trying to be funny. [LB1074]

SENATOR VARGAS: I know you're not kidding. [LB1074]

SENATOR SCHUMACHER: And a 6.84 percent on \$100,000 would bring a whole lot more money if it were 6.84 percent on \$150,000. And I almost get the suggestion today that the folks testifying today weren't even making \$100,000. Okay, so what...it isn't at the threat of somebody leaving... [LB1074]

SENATOR VARGAS: Yeah. [LB1074]

SENATOR SCHUMACHER: ...but it's the need to encourage the system and the system to demand of itself compensation on a par with the real-world. And that's not happening, at least in sufficient numbers to solve your budget problem and our tax problem. [LB1074]

SENATOR VARGAS: Our budget problem? Yeah. [LB1074]

SENATOR SCHUMACHER: And the tax problem. Something has got to be done to make making money fun again (laughter)--I should get a cap with that--because that stopped. And unless you make making money fun and keep the people making it so busy that they can't...don't have time to spend it, we can't get the engine started. And so how do we do that? I just don't think jacking with the tax rates when we're already on the high end of normal does the trick. We've got something else missing in this Kool-Aid. [LB1074]

SENATOR VARGAS: Well, "Professor" Schumacher, while I would say that I don't know what the exact question is, but I'll respond. The...I'm unsure if you asked anybody else, the assumption

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that you're making is that people aren't trying to ask for more in terms of their worth or their income. I think that is already happening. People will try, I'm sure the people that come up here and testified would say that they're asking for that. But we're sitting in a really privileged position, aren't we? We're sitting in a position where we're making decisions on public policy and in the Revenue Committee...and I will tell you again, from my stand on committee, we have one thing we need to do; we need to balance our budget. And we have to do that every single session and we have to make concessions and additions and reductions, and we prioritize and do the best that we can. And in this committee, we're making decisions on this exact same thing, that's the assumption I'm making. And if we can't find the right silver-bullet solution, one big package, because it hasn't happened yet, then at what point are we going to start to look at a solution like this that may not be perfect, meet everyone's needs, but does figure out a way to build revenue and then also provide some relief. I don't want us to wait and see, I'd rather move forward and do something more, because otherwise I'm going to keep continuing to cut services in my committee and we're going to continue to be far apart on this budget crisis. And I don't want to live in a world for us, as senators, where we're relying on public policy that exists outside of decisions we make. [LB1074]

SENATOR SCHUMACHER: Senator, listen to what you just said. I heard you say, ask for more, right? [LB1074]

SENATOR VARGAS: Um-hum. [LB1074]

SENATOR SCHUMACHER: It doesn't come by asking for more. It comes by getting more. And that comes from an outburst of creativity and entrepreneurship, and that's where our system is failing. You don't ask for more. You get more. And you go after more. And that's where we're failing and that's why we have such a low income base that we can have that tax rate many percent higher and still be sucking air. That's where our problem is, and it's not an overnight solution, but we've forgotten some basic principles of entrepreneurship. And that's a bad word because it's terribly overused. You got to get more, not ask for more. You're not subservient to the king who hands out tokens, you're the king. Let's think about that a little bit when you start addressing these issues. [LB1074]

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SENATOR VARGAS: Thank you, Senator Schumacher (laughter). [LB1074]

SENATOR FRIESEN: Thank you, "Professor" Schumacher. Any other questions from the committee? When you...if you look forward 10, 15 years from now; the millennials, they move to where they want to work. You don't have to track them. Wages do not bring them to places they don't want to be. I kind of know, I'm raising one (laughter). They don't want things, they want to enjoy things. How do you design a tax system for a generation that's coming up like that? [LB1074]

SENATOR VARGAS: That's a great question, and I don't have the answer for you. But I can tell you that if we...maybe this is getting to what you're saying. We shouldn't only be looking at a tax system that tries to...that's the wrong question to ask, I think, in some sense because that makes the assumption that tax system is going to be the main reason that a millennial chooses to live somewhere A or B. And rather, I think that there's a level of quality of life, experiences, culture that drives young millennials to then invest and then take jobs for either less or specific geographic location. I, myself, am an example of that. So the question we should be asking ourselves is what's the public policy we that need to enact to be supportive of entrepreneurship outside of public policy that then creates a condition for millennials to then want to live in our state. [LB1074]

SENATOR FRIESEN: I think... [LB1074]

SENATOR VARGAS: And then maybe within that we'll get to some tax structure, but I don't want to lead with that question because that question makes the assumption that that's going to be one of the main things in itself. [LB1074]

SENATOR FRIESEN: I think I'm tying into the "Professor." [LB1074]

SENATOR VARGAS: Um-hum. [LB1074]

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SENATOR FRIESEN: We got to make that next generation want things. We have vilified being rich, in a way. That's, I think, a long-term issue. With that, any other questions from the committee? Senator Groene. [LB1074]

SENATOR GROENE: Why don't we tax them as their coming through Nebraska with a higher sales tax and use taxes? I mean, the millennials I know aren't worried about what they spend for their entertainment. They like to keep their paycheck, and then they don't care what they spend for their movies or their entertainment or their skiing or their going out to dinner for six nights a week; why don't we increase our sales tax base and lower the income taxes? Then everybody pays. [LB1074]

SENATOR VARGAS: I don't want to speak on behalf of all millennials, Senator Groene... [LB1074]

SENATOR GROENE: You don't eat out four nights a week? (Laughter) [LB1074]

SENATOR VARGAS: ...I think that's what this has become. This is what this has become. I don't have an answer for you. The only thing I will say is, as bringing this bill forward and we're looking at income taxes and I think that what we'll reform, in this specific leg of the stool, is more fair to then reform. And that oftentimes when we're looking at sales tax and changes in there sometimes it tends to be more regressive. That doesn't mean that we shouldn't be looking at alternative solutions for ways. But that's not a bill I'm bringing forward. [LB1074]

SENATOR GROENE: Thank you. [LB1074]

SENATOR FRIESEN: (Exhibits 5-8) Thank you, Senator Groene. We do have letters of...thank you, Senator Vargas. We have letters of proponents: Jenni Benson, NSEA; Ann Hunter-Pirtle, Stand for Schools. Opponents: Robert J. Hallstrom, NFIB and Coby Mach, LIBA. With that, we will close the hearing on LB1074. [LB1074]

SENATOR VARGAS: Thank you, members of the committee. [LB1074]

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SENATOR FRIESEN: Thank you, Senator Vargas. Now we will open the hearing on LB920. Welcome, Senator Bolz. [LB1074 LB920]

SENATOR BOLZ: (Exhibit 1) Thank you. Well, good afternoon. Thank you for sticking with me on a Friday afternoon after a long week, and maybe special thanks to Senators Harr and Lindstrom who I know who have little people at home. And so maybe you've put in extra hours this week and had to rely additionally on your child-care providers, so you get special thanks for sticking around for this bill. I'm here to introduce LB920, which would adjust eligibility thresholds for the childcare tax credit. I think I've brought a bill of some version of this increase every year that I've been in the body. And I will continue to do so until I prevail because not only do I think it's family-supporting policy, I think it's good for the work force needs in our state. As you all know, we have a work force crunch and I won't repeat the statistics that I know you've heard. But work force development is one of the major needs of our economy. And so the state of Nebraska has a Childcare Tax Credit that was established in 1998. The cost of childcare has increased significantly since then. Today it is \$7,194 for an infant in home-based care, and \$9,157 for an infant in center-based care. The tax credit is based on a federal credit, the maximum amount for the federal credit is \$1,500 dollars for one child and \$2,100 for two. The Nebraska credit currently provides a sliding scale refundable credit for those earning up to \$29,000 and a nonrefundable credit at 25 percent of the federal credit for those earning over \$29,000. So, LB920 updates the credit to better reflect the current cost of childcare in current family incomes. The bill provides a 100 percent refundable credit for those earning up to \$32,000, which is approximately 200 percent of the federal poverty line, and a 30 percent refundable credit for those earning up to \$52,00, which is near the state's median household income. Those earning up over \$52,000 would get a nonrefundable credit at 30 percent, and we would cap the eligibility at \$150,000 annual income. I'm sure you've also heard during your time in the Legislature about the childcare cliff and about how access to childcare is one of the things...access and affordability related to childcare is one of the things that prevents people from moving from lower-wage jobs that let them qualify for subsidies into higher-paying or more hours in their jobs because they simply can't afford the cost of childcare. And this bill addresses some of that. We need to work on the subsidy side, too, but the tax credit and the subsidy should marry up to provide people a better transition into higher wages while still being able to care for their children. I'll just wrap it up and say that Nebraska's growth depends on our talent supply,

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and I think it's important that we develop policies and programs that are aimed at growing and supporting and improving Nebraska's workforce. And that especially includes supporting our young families who are establishing lives and spending their dollars to build their lives in Nebraska. I will...my last comment will be that when we drafted this we had hoped that maybe the cap would bring us closer to revenue neutral. I recognize that this bill has a fiscal note in a tough budget year, but nonetheless think it's an important conversation for us to have. [LB920]

SENATOR FRIESEN: Thank you, Senator Bolz. Any questions from the committee? Senator Groene. [LB920]

SENATOR GROENE: Why wouldn't we give a, like, call it a voucher to parents for childcare and preschool? That way we can make sure the money actually went to childcare instead of a six-pack of beer. [LB920]

SENATOR BOLZ: Fair question. So the first answer to your question is that we do have an existing childcare subsidy that does exactly that, that pays directly the childcare costs. There are people that I've had the conversations with about increasing and improving our childcare subsidy. For those that don't income qualify for childcare subsidy, it is still important that we recognize the impact of the cost of childcare on their ability to work. And it's a little bit less simple than what you're proposing, but the state credit is based on the federal credit, and the federal credit you have to claim, you have to be able to prove that you have, in fact, spent the money on childcare, and there are amounts that you have to prove that you have spent that amount. So there are some triggers to make sure that these dollars are being spent on care... [LB920]

SENATOR GROENE: Well, if you took all the earned income tax credit money, and you took this and you said we were going to turn it into a voucher system and we're going to give it directly to the child-care facility, wouldn't that be the best way to do it? That way we're sure that the child is getting the care that we're giving them credit for, or the education. We could create a whole industry of childcare, free enterprise childcare for some of these versus government-run ones. [LB920]

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SENATOR BOLZ: Sure, yeah. I don't dispute the fact that that, maybe, is a solution to the problem. The trickiness is that the childcare subsidy does draw down on matching federal funds, and so we have to follow their rules in terms of the subsidy side of things. So we'd have to figure out for those who are not subsidy-eligible... [LB920]

SENATOR GROENE: Thank you. [LB920]

SENATOR BOLZ: ...how do we build that up? [LB920]

SENATOR GROENE: Thank you. [LB920]

SENATOR BOLZ: Yeah. [LB920]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you, Senator Bolz. Anyone wish to testify in support of LB920? Welcome. [LB920]

KATHLEEN UHRMACHER: (Exhibit 2) Hi, my name is Kathleen Uhrmacher, spelled K-a-t-h-l-e-e-n, Uhrmacher is spelled U-h-r-m-a-c-h-e-r, and I'm here as president of the Women's Foundation of Lincoln and Lancaster County. Thank you for giving me this opportunity. The Women's Foundation is a group of people who serve Lincoln and Lancaster County with programs that provide services of education, outreach, and advocacy. So, on behalf of the women in the Women's Foundation, I am here to speak in favor of this bill. According to Child Care Aware, the average cost of childcare in Nebraska represents approximately 10 to 12 percent of the median income of a two-income household with a single child in a care center. Childcare is one of the most significant expenses in a family's budget, exceeding the annual cost of transportation and food combined. In another report by the National Conference of State Legislatures, childcare costs for two kids are higher than the median rent payment in every state. That number is magnified when looking at low-income and single-parent households with multiple children needing childcare. The National Partnership for Women and Families tells us that in Nebraska last year, nearly 71,000 family households were headed by women. About 30 percent of those families, or 21,010 family households, had incomes that fell below the poverty

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level. The impact of paying for child care in these homes is significantly higher. LB920 would greatly benefit those families. The Women's Foundation are authors of the Women's Voices Survey Project in which 1,250 women were surveyed to learn about their challenges and needs. A record of the complete results are available on our website, lincolnwomen.org. But currently, we are in the process of conducting a follow-up survey. On the questions dealing with childcare 62 percent of respondents cited that cost was the most significant challenge, 24 percent cited quality. Answers given by the participants included; when my children were minors, the cost of childcare kept me from being able to work. Numerous responses expressed similar concerns. LB920 will enable those middle- and low-income women and men who qualify to continue to work while at the same time providing quality childcare. We recommend and support this legislation. Thank you. [LB920]

SENATOR FRIESEN: Thank you, Ms. Uhrmacher. Any questions from the committee? Seeing none, thank you for your testimony. [LB920]

KATHLEEN UHRMACHER: Thank you. [LB920]

AUBREY MANCUSO: (Exhibit 3) Good afternoon, Senator Friesen, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o and I'm here on behalf of Voices for Children in Nebraska. We talked a little earlier, and you've heard a lot this year about the challenges that people have with taxes in the state. And I'm here to tell you that my friends and people in my position, what they're talking about is the challenge of affording the cost of childcare. So, I think, you know, that's something that's also really critical to how we support working families and young families in the state. We support LB920 because it makes important updates to the tax credit designed to offset these kind of costs. This credit also helps support families caring for an individual with a disability, which can place a significant strain on family finances. Access to affordable quality childcare can also serve as a barrier to keeping individuals out of the work force. And Nebraska continues to rank in the top ten when compared with other states to the percentage of kids under six whose parents are working. In the most recent year we had 75 percent of kids under six who had all available parents in the work force. Attached to my testimony is a chart that looks at the average cost of basic household expenses for a two-parent family with young kids living in different regions in Nebraska. And you'll that in every case,

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childcare makes up the most significant cost of the family's budget. In our urban areas, it runs close to 30 percent of the family budget. As Senator Bolz stated in her introduction, the current levels set in statute have not been updated since the late '90s. In that time, the number of working parents has increased and the cost of childcare has continued to grow. So LB920 would provide a critical update to our state investment in helping working families address the high cost of childcare and we would urge the committee to advance the bill. Thank you. [LB920]

SENATOR FRIESEN: Thank you, Ms. Mancuso. Any questions from the committee? do you have any data on the households, whether how many are homeowners or how many are renters, did you look at housing costs? [LB920]

AUBREY MANCUSO: In general? Oh, in this data? So this is the...the housing cost in this is not...does not differentiate between owners and renters, it's based on HUD's fair market rate for the area. [LB920]

SENATOR FRIESEN: Okay. [LB920]

AUBREY MANCUSO: We do have data separately on the number of Nebraska families with kids that own their homes that I could get you if you're interested. [LB920]

SENATOR FRIESEN: It would be interesting to see. [LB920]

AUBREY MANCUSO: Sure, I'd be happy to follow up with that. [LB920]

SENATOR FRIESEN: Thank you. Any other questions from the committee? Seeing none, thank you for your testimony. [LB920]

AUBREY MANCUSO: Thank you. [LB920]

SENATOR FRIESEN: Welcome. [LB920]

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SARAH ANN KOTCHIAN: (Exhibit 4) Good afternoon, Vice Chairman Friesen and members of the Revenue of the Committee. My name is Sarah Ann Kotchian, S-a-r-a-h A-n-n K-o-t-c-h-i-a-n, and I appear today in support of LB920 on behalf of the Holland Children's Movement. We would like to express our gratitude to Senator Bolz for her continuous work and dedication to address the Child and Dependent Care tax Credit reform and for the introduction today of LB920. You've already heard the fact that child care reliably plays a significant factor in a family's budget, so I won't repeat any of that. I would just like to share that according to recent public opinion research from our sister organization, the Holland Children's Institute, an impressive 75 percent of Nebraskans polled favor expanding access to affordable childcare for young children. And we see LB920 as a viable pathway forward to address this opinion. The earliest years of a child's life represent a critical window of opportunity to develop a child's full potential and shape key academic, social, and cognitive skills that determine a child's success in school and in life. And with that, I would thank you for your time and your thoughtful attention to this important proposal to help make child care more affordable. [LB920]

SENATOR FRIESEN: Thank you, Ms. Kotchian. Any questions from the committee? Do you feel there are any costs...in the past we've talked a lot about regulation, so if we as a state put undue burdens as far as regulations on childcare facilities that should be looked at down the road or do we not do that to your industry? [LB920]

SARAH ANN KOTCHIAN: We do...the state does have childcare licensing rules and regulations in place. They have typically ranked in the bottom of the nation. They've set very basic and minimum health and safety standards. They were updated...I'm blanking on the year...in...in 2013, I believe. I might need to be corrected on that, but I think they were updated in 2013. But there's still plenty of room for improvement to ensure that when children are in licensed childcare, they are being met with the responsive, stimulating and care that they need to thrive to set us straight on a path for economic development and many other benefits in this state that we can find inside early childhood programs. [LB920]

SENATOR FRIESEN: Okay. I was just looking on the cost side to see if there was anything we could do there to lower the cost of childcare, but if you don't feel there's any undue regulations, that's fine. Thank you. Seeing no other questions, thank you for your testimony. [LB920]

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SARAH ANN KOTCHIAN: Thank you, very much. Welcome. [LB920]

KEN SMITH: (Exhibit 5) Thank you. Good afternoon, Senator Friesen and members of the Revenue Committee. My name is Ken Smith, I'm an attorney with Nebraska Appleseed, which is a nonprofit law and policy organization that works for justice and opportunity for all Nebraskans. And I appreciate the opportunity to testify before you today in support of LB920. Oh, I'm sorry; so Smith is S-m-i-t-h, just like the Chair's last name is spelled. So by revising federal adjusted gross income eligibility thresholds for the Child Care Tax Credit, LB920 addresses--what you've heard from other testifiers--is an increasingly urgent issue facing thousands of low- and middle-income families in Nebraska, which is how expensive childcare is. I know we've heard the statistics, so I won't repeat them, but I would point out that according to the U.S. Department of Health and Human Services, childcare is affordable if it costs 10 percent or less of a family's income. Under our current conditions in Nebraska, a family will pay about 13.9 percent of its median household income for infant childcare, and about 12.5 percent of median household income for childcare for a four-year-old. And so both of those numbers are above the threshold identified by the federal Department of Health and Human Services as what constitutes affordable...and I would also point out that in cases where a family has maybe one child who is an infant and one child who is a four-year-old, those costs can be upward of \$14,000 per year, or about a quarter of median household income. So while child care is expensive for middle-income families, it's simply out of reach for low-income families. A person working for minimum wage in Nebraska would need to work for about 22 weeks, or from January to May, to pay for child care for one infant for one year. So when a working family can't afford childcare and has no other options, they may be forced to quit their job and stay home, putting an even greater financial strain on a family already struggling to make ends meet. So with the changes in LB920 including revising the income threshold from an annual gross income of \$29,000 or less to \$52,000 or less, and by providing also an increase in the nonrefundable...the amount of the nonrefundable credit for taxpayers with gross annual incomes between \$52,000 and \$150,000 we think LB920 would provide a lot of needed relief to families that are now struggling to meet those costs. And I think, as the Senator mentioned in her opening, it's not just about the accessibility of quality childcare, it's a labor force issue. If people aren't able to stay in the labor force, that's something that, you know, we should look to avoid if we can. And we think LB920

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would take positive steps in that direction. So for all those reasons, we would urge the committee to advance this bill. And I would be happy to answer any questions you may have. [LB920]

SENATOR FRIESEN: Thank you, Mr. Smith. Any questions from the committee? Seeing none, thank you for your testimony. [LB920]

KEN SMITH: Thank you. [LB920]

SENATOR FRIESEN: Any others wish to testify in support? Seeing none, anyone willing to testify in opposition to LB920? Seeing none, anyone wish to testify in a neutral capacity? Seeing none, Senator Bolz, you wish to close? [LB920]

SENATOR BOLZ: I just wanted to add a couple of closing comments. I know you had a full house earlier in the session on bills relating to income tax relief and I would say that this bill also is income tax relief. It's income tax relief for families who need it most, who are spending a significant amount of their income on childcare so that they can stay in the work force. Your fact sheet reminds you that 4,204 parents quit, did not take, or greatly change their jobs because of childcare problems in 2016. This is an economic issue, it's an income issue, it's a family issue and I'll keep bringing this bill until we get something done. [LB920]

SENATOR FRIESEN: Thank you, Senator Bolz. Any questions from the committee? Seeing none... [LB920]

SENATOR BOLZ: Thank you. [LB920]

SENATOR FRIESEN: (Exhibits 6-7)...thank you, Senator Bolz. We have letters, proponents: Liz Lyons, Nebraska Child Health and Education Alliance; Dr. Wendy Patterson, National Association of Social Workers Nebraska Chapter. That will close the hearing on LB920. [LB920]