

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee February 18, 2021
Rough Draft

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LINEHAN: Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn and represent Legislative District 39. I serve as Chair of this committee. For the safety of our committee members, staff, pages and public we ask those attending our hearings to abide by the following procedures. Due to social distancing requirements seating in the hearing room is limited. We ask that you only enter the hearing room when it is necessary for you to attend the bill hearing progress. The bills will be taken up in the order posted outside the hearing room. The list will be updated after each hearing to identify which bill is currently being heard. The committee will pause between each bill to allow time for the public to move in and out of the hearing room. We request that everyone utilize the identified entrance and exit doors to the hearing room. We request that you wear a fake-- face covering while in the hearing room. Testifiers may remove their face covering during testimony to assist committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and chair between testifiers. Public hearings for which attendance reaches seating capacity or near capacity will be-- the entrance door will be monitored by the Sergeant at Arms who will allow people to enter the hearing room based upon seating availability. Persons waiting to enter the hearing room are asked to observe social distancing and wear face covering while waiting in the hallway or outside the building. The Legislature does not have the available-- availability due to the HVAC project of an overflow hearing room. For hearings which attract several testifiers and observers and for hearings with large attendance, we request that only the testifiers enter the hearing room. We ask that you please limit or eliminate handouts. The committee will take up the bills in the order posted. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate to-- facilitate today's proceedings I ask that you abide by the following rules. Please turn off your cell phones. The order of testimony is introducer, proponent, opponent, neutral and closing remarks. If you will be testifying, please complete the green form and hand it to the page when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page to distribute. We need 12 copies for all committee members and staff. If

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you need additional copies, please ask the page to make copies for you. When you begin to testify, please state and spell your last and first name for the record. Please be concise. It is my request that you limit your testimony to five minutes and we're going to-- let's go with four minutes. We have several hearings this week. Four minutes, so you've got three minutes on green and then a minute on yellow, and then you need to-- need to be done. If there are a lot of people wishing to testify we will use-- that's what we're going to do. If your remarks were reflected in previous testimony or if you would like your position to be known but do not wish to testify, please sign the white form on the table outside the room by the entrance. It will be included in the official record. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. First, I would like to introduce committee staff. To my immediate right is committee counsel, Mary Jane Egr Edson. To my immediate left is research analyst, Kay Bergquist. To the left at the end of the table is committee clerk, Grant Latimer. And now we'd start at my far right. Senators introduce themselves.

PAHLS: Thank you, Senator. Rich Pahls, District 31, southwest Omaha.

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

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

FLOOD: Mike Flood, District 19, Madison, and part of Stanton County.

ALBRECHT: Joni Albrecht, District 17, northeast Nebraska, Wayne, Thurston and Dakota Counties.

LINEHAN: Thank you. This morning, our pages are-- gentlemen, Thomas and Turner both attend UNL and are studying political science. Please remember that Senators may come and go during our hearing as they have bills to introduce in other committees. That's where I know Senator Briese is right now. Refrain from applause as other-- or other indications of support or opposition. I would like to remind our committee members to speak directly into the microphones for our audience. The microphones in the room are not for amplification, but for recording purposes only. Last, we are electronics equipped committee. Information is provided electronically as well as in paper

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form. Therefore, you may see committee members referencing information on their electronic devices. Be assured that your presence here today and your testimony are important to us and critical to our state government. With that, we will open the hearing on LB310. Senator Clements.

CLEMENTS: Good morning.

LINEHAN: Good morning.

CLEMENTS: Thank you, Madam Chair, and members of the Nebraska Revenue Committee. I'm Senator Rob Clements, R-o-b C-l-e-m-e-n-t-s. I represent Legislative District 2, and I'm here to introduce LB310. On November-- on November 10, 2020, this committee held a hearing on my study resolution, LR415, to examine Nebraska's inheritance tax. LB310 is a bill resulting from that study. This bill doesn't address all issues discussed in November, but does focus on tax rates and exemptions. LB310 amends Section 77-2004 to 2006 of the Nebraska inheritance tax statute to reduce the rates and increase the exemptions. The changes in the bill seek to improve Nebraska's tax structure. Allowing people to keep more of their inheritance will increase capital formation and encourage economic growth. Reducing rates and increasing exemptions creates a fairer and more reasonable tax. The question is, who should pay for county services? Many inheritance taxpayers are not using county services. It is not fair to pay taxes for services one doesn't use. Nebraska is losing retirees to the 44 states who do not take 1 percent, 13 percent or 18 percent of their estate when they die. Currently, Nebraska is one of only six states that still levy inheritance taxes, as shown on the page 1 map that I handed out. In addition, Nebraska's taxes have risen substantially. Sharp increases in property valuations have created windfalls for counties since the rates are constant. Over the last 27 years, Nebraska has averaged about 5 percent annual compound growth in total inheritance tax revenue. LB310 seeks to reset the revenue to the amount it would have been with two and a half percent inflation, which is closer to actual inflation experience. LB310 would reduce the rates in each of the three inheritance tax categories by half, while exemptions would be increased for inflation. These changes would take place over a phase-in period of three years starting January 1, 2022. The changes are shown on page 2 of your handout in that table. It shows currently the 2021, a child has a four thou-- a \$40,000

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exemption and a 1 percent tax. This bill by 2024 would be a 160,000 exemption and a half a percent tax. Nieces and nephews, currently 15,000 exemption with a 13 percent tax. This would change to \$65,000 and a 6 percent rate. Non-relatives are currently at \$10,000 exempt with a 18 percent tax. This would change to \$45,000 and a 9 percent rate. Those are the numbers that are in the bill. As a tax preparer and banker for the last 40 years, I've become aware of many instances where inheritance taxes seemed arbitrary and excessive. Not only are people grieving the loss of a loved one, but they may also have to sell the real estate they have just-- they have just inherited to pay the tax they owe or take out a loan. For example, one of my customers died a few years ago with no federal estate tax due, but his heirs owed over \$600,000 of Nebraska inheritance taxes. I think we can do better as a state. I spoke with two farmer brothers last week. They have about the same amount of assets. One has two children and the other has no children. The first brother's children would pay \$100,000 in inheritance tax at his death. The second brother, if his nephew inherits, would pay \$1.3 million of inheritance tax on about the same assets. He wanted to be here today, but his wife is ill, and that's an example of the unfairness-- unfair situations as tax presents. As I said earlier, only six states have an inheritance tax, which makes us an outlier. Out of the five other states, only one is a neighbor, that is Iowa, in a bill to repeal their tax completely has recently cleared its first hurdle in their Senate. The Nebraska inheritance tax rates and exemptions were changed back in 2007 with LB502. The bill is intended to be revenue neutral. However, some rates were raised and subsequently asset values significantly increased, greatly increasing inheritance taxes owed. I'd like to thank NACO for providing historical inheritance tax revenue by county. It has been very helpful. I was able to utilize this data and create graphs that I believe will help you see the volatility and growth of inheritance taxes over time. Please turn to the graph on page 3. That's Nebraska total inheritance tax collections. This is the total of all the county data. You'll see the the top blue line starts at about \$18 million in 1993, and it goes up to where it hit just under \$75 million in 2019. Then, that's the actual data. The red line shows what the starting value would be with 5 percent compound inflation. Then, look at the rate increase that happened in 2008 and how the chart jumps up after the 2008 changes made a big increase. Then the light blue line with the Xs shows what the starting value would go up if it had been two

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and a half percent inflation. In the purple line is half of the actual figures. The-- with the green line, 5 percent inflation, starting with half of the starting value. So you can see that the rates that I'm coming up with would equal what a two and a half percent inflation would have been over these years and that's why I've set the rates where I did to have a reasonable amount of inflation, but not eliminated completely. The data shows that inheritance tax is volatile and not a reliable revenue source for budgeting. The data at the county level is even more volatile. Pages 4 through 10 of the handout have county values for each committee member. The revenues vary widely and have increased from 4 percent compounded to 7 percent compounded over time, depending on the county. I believe we can do better as a state in this area. We need to continue to give people more reasons to stay in our state and not leave. I believe our inheritance tax puts Nebraska at a disadvantage to almost all other states. The ALEC website comparing state pol-- tax policies rates Nebraska 36. If we had no inheritance tax, we would move up to 27. My proposal would put us somewhere in-between. We need to continue to improve Nebraska's tax structure. LB310 would help us take a step in that direction. I will gladly work with the committee and other stakeholders to try to address any concerns they may have with the bill. Thank you for your willingness to hear LB310 and I'll try to answer any questions at this time.

LINEHAN: Thank you. Do we have questions from the committee? Senator Flood.

FLOOD: Thank you, Senator Clements, for bringing this bill. We're only one of three states, I believe, with an inheritance tax. Is that correct?

CLEMENTS: Six states.

FLOOD: Six states, I'm sorry. Wouldn't we be better off eliminating this tax?

CLEMENTS: Well, um, you'll be hearing some opposition to that. And so I'm trying to be reasonable here because my bill doesn't have any backfilling any state aid going to the counties. And so I'm trying to do something that's reasonable would be acceptable.

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FLOOD: Thank you.

LINEHAN: Thank you, Senator Flood. Other questions from the committee? Seeing none, thank you very much, and you'll stay to close?

CLEMENTS: Yes, thank you.

LINEHAN: The first-- we have proponents. Good morning.

RICHARD CLEMENTS: Good morning. I'm not Senator Clements, I'm his identical twin brother, Richard Clements, R-i-c-h-a-r-d C-l-e-m-e-n-t-s. And thank you for the opportunity to speak this morning. I am an attorney and a banker and a real estate broker in Elmwood, Nebraska. I have been doing that since 1976 when I got out of law school. And I wanted to point out that in 2007 there was an attempt, like Senator Flood suggest, to eliminate this tax. The Governor at that time was-- was in favor of an elimination of the inheritance tax and the compromise ended up being a worse tax than we had before. I've seen since 2007 in my law practice a extreme increase in the tax levied against persons inheriting property in Nebraska, especially farm real estate in our county and in eastern Nebraska in general. I looked up the-- the farmland valuations for eastern Nebraska based on the University of Nebraska real estate market report. In the year that this tax was increased in 2007, our-- our land values were \$2,600 an acre. Last year, the same report shows a value of \$6,100 an acre, so almost a triple-- tripling in valuation of that land. That resulted over the last 13 years and over 10 percent increase per year of the taxes assessed on-- on similar ground. I guess I had an example in my handouts, but the-- the tax in 2007, based on a 1 percent rate, would be \$26 an acre. In 2020, now because of the inflation value of land, it would be \$61 an acre. That increase in land valuation was not an intended consequence of the-- of the Nebraska inheritance tax increase that was done in 2007. So my brother indicated that it was supposed to be revenue neutral and it's anything but revenue neutral. It's extremely-- been an extremely increasing tax. To illustrate the large increase of-- of those Nebraska inheritance taxes, my example one shows taxes on an average 160 acres in eastern Nebraska in 2007. The tax on Class 1 persons, which is children, primarily, a tax would have been \$4,000. In 2020, with the inflation of land values, it would be \$9,300 or 130 percent increase. Over the last 13 years since that bill was passed would be a 10

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percent increase per year, which is extremely higher than, for instance, other-- other rates such as income tax. My-- example three on my second page of my handout shows an actual estate in 2013 in Cass County. The individual died with no-- no spouse and no children. Nieces and nephews inherited almost \$5 million. They paid \$642,000 in inheritance tax. If the-- if the-- the bill in 2007 had not been passed, the tax would have been almost \$200,000 lower. So the bill in 2007 increased the tax on this family by \$200,000. It's just an extreme example of why this needs to be changed. The rates are just out of line, in my view. I would accept any questions if I-- if there are any.

LINEHAN: Thank you, Mr. Clements. Are there questions from the committee? Senator Lindstrom.

LINDSTROM: Thank you. A quick-- couple of questions. When you do your trust work, is there any way to avoid inheritance tax at all?

RICHARD CLEMENTS: That's a great question. And there is a-- there's a misconception that somebody that has enough money to hire an attorney like me or others, can avoid this tax. That's absolutely not true. You can avoid-- avoid probate process going through county court with a trust, but that probate process always-- either the probate process or the trust process always includes inheritance tax being assessed on the property inherited by individuals if it's Nebraska property. So there is no out. Absolutely none. The one-- the one out there is if you gift the property away and live three years after that date of that gift, then-- then there would be no tax. But you have to give your property away. Charitable gifts is the only other possibility for exemption of tax.

LINDSTROM: Thank you.

RICHARD CLEMENTS: Sure.

LINEHAN: Thank you, Senator Lindstrom. Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So if you take this revenue away from counties, what are they going to do to replace this revenue or are they just supposed to cut their spending?

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RICHARD CLEMENTS: I think a lot of the counties are using this as a emergency funds, let's say, because of the volatility of the amounts of revenues received. I don't think it's being used as a budget item now, but what-- what to replace it with would be simply taxing those people that are being served by the county and not taxing persons with an arbitrary inheritance tax. And I think one-- one reason for Senator Clements' modi-- compromise proposal of not eliminating the tax, is to allow the counties to continue to have that income, but not an increased exorbitant increase in the tax amounts versus thirteen years ago.

FRIESEN: But it-- you know, again, it goes back to, I mean, I think the counties in my area, at least and I won't say all counties have been responsible, I don't know that. But if they didn't have this revenue to put in that emergency fund, they would levy something and then we would have to increase the levy on our property taxes, is that correct?

RICHARD CLEMENTS: I assume so, yes. I think the concern though that's being-- trying to be addressed here is-- is the increase in the tax amount that's above inflation cost, above the county's inflation costs for equipment or machinery or-- or, you know, services.

FRIESEN: Well, you know, we've-- we've forced the counties to do a lot of unfunded mandates with the courts, and--

RICHARD CLEMENTS: Sure.

FRIESEN: --things like that, so I won't get into that. You talked a little bit about somebody that inherited \$5 million worth of ground. But in my experience, you know, that older generation, that ground probably had a basis of-- could have been 3, \$400 an acre--

RICHARD CLEMENTS: True.

FRIESEN: --and they inherited ground with no tax on that capital gains at all of 4 or \$5,000 an acre and so is a 1 percent inheritance tax unreasonable or is that still too much.

RICHARD CLEMENTS: Because of the increase in inflation, I would tell you that the people that inherited that ground, their income based on the farm cash rent that they're receiving, didn't increase nearly as

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much as the valuation of the land. So their ability to pay the tax is based on their income and in-- farm incomes has not increased nearly as-- as high as the farm valuation. One option would be to try to tax only the taxable assessed value of the land instead of what it will bring on the open market. Fair market value is what's required right now.

FRIESEN: We're also levying property taxes based on that value. It's not on what the income brings, it's arbitrary value.

RICHARD CLEMENTS: True. Yeah.

FRIESEN: OK. You know, and I-- you know, if somebody-- somebody wanted to give you \$5 million worth of property and you had to pay 18 percent tax, would you accept it?

RICHARD CLEMENTS: Sure. If I had-- if I was a thinking individual, I probably would look at exchanging that land tax free for land in Missouri is where it would be not taxed at all.

FRIESEN: Or wouldn't be taxed as high.

RICHARD CLEMENTS: It wouldn't be an inheritance tax period.

FRIESEN: Well--

RICHARD CLEMENTS: In any other 44 states, I'd be--

FRIESEN: Property tax is--

RICHARD CLEMENTS: --wise if I was a planner--

FRIESEN: Property tax is certainly more.

RICHARD CLEMENTS: --to exchange that-- own that-- own that outside of Nebraska and there's-- Nebraska tax won't attach-- won't assess against it.

FRIESEN: It seems like our values keep shooting up, so people still want to own it, I guess. Thank you.

RICHARD CLEMENTS: You're welcome.

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LINEHAN: Thank you. Senator Friesen. Are there other questions?
Senator Flood.

FLOOD: Thank you, Chair Linehan. Thank you, Mr. Clements, for coming in. I looked at the fiscal year 2020 for Cass County and it looks like total receipts in your county are just a little bit over 25 million and this would be 4.1 percent of the county budget, if-- of 1,052,000 for Cass County. Do you have any idea what your proposed changes would do to that number?

RICHARD CLEMENTS: They're my brother's proposed changes, but--
[LAUGHTER]

FLOOD: Is that odd having to call your brother Senator?

RICHARD CLEMENTS: A little bit, and I still just call him Rob, mostly. I got called Senator as I came in the room, but I had my mask on so they couldn't see my mustache. But what it would do, the largest amount of the-- of the tax, the largest number of estates are in the 1 percent category, people inheriting as children. And Senator Clements' proposal is to drop the 1 percent to one half of one percent. So it would be probably close to cutting that amount in half except for inflation of the land and assets that are in the estates of-- that right now, it would be likely to be about 50 percent of the current tax revenue.

FLOOD: Yeah. Well, it looks like your county fluctuates from anywhere from 400,000 a year to 1.9 million in 2018-2019, so there is quite a fluctuation. And that probably goes to your point in Cass County, do they-- do they put this in like a special fund?

RICHARD CLEMENTS: They do. They built the-- the-- they improved the county courthouse, helped use the inheritance tax fund to build the new jail that-- that's next to the courthouse in Plattsmouth. So they have been, I think, responsible using it for special projects of that kind that are typically in the budget.

FLOOD: But not to offset general operations.

RICHARD CLEMENTS: Not that I'm aware of because of the fact that it varies so badly.

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FLOOD: Thank you.

LINEHAN: Thank you, Senator Flood. Other questions? Senator Albrecht.

ALBRECHT: Thank you, Chairman Linehan, and thank you for being here, Mr. Clements. You sound just like your brother. OK, so you've been a planner with the estate trust and inheritance for some years.

RICHARD CLEMENTS: Yes.

ALBRECHT: How many years?

RICHARD CLEMENTS: 44.

ALBRECHT: 44. So has it always just been farm ground that they have taxed, never like bonds or people's retirement--

RICHARD CLEMENTS: Only that--

ALBRECHT: --or stocks?

RICHARD CLEMENTS: --I-- I've focused on land, but everything that the decedent owns is subject to inheritance tax except life insurance.

ALBRECHT: Except the life insurance. So stocks and-- and retirement plans are not.

RICHARD CLEMENTS: Yes, and retirement plans, stocks, bonds, cars, tractors, jewelry, absolutely everything the decedent owned at the date of death, at its value day of death, is taxed.

ALBRECHT: It is taxed for this inheritance.

RICHARD CLEMENTS: Correct.

ALBRECHT: Everything is.

RICHARD CLEMENTS: Whether or not that decedent had a trust or had no trust or had property in joint tenancy, it's all taxed.

ALBRECHT: OK. So to Senator Lindstrom's question, it was-- so even if you have a revocable trust, nothing can keep you away from-- from these taxes.

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RICHARD CLEMENTS: That's true. The-- the fact of ownership, whether it's through a trust or-- and I think that would be 77- 2001 describes the interest in property that are subject to the tax as basically any interest in property of any kind, whether it's owned through a trust or directly. So a trust-- a trust allows the transfer of assets from the decedent to family members without going through the court system to appoint a personal representative to do that transfer. But the tax is assessed on that property at its value, whether or not the trust exists.

ALBRECHT: OK, thank you.

LINEHAN: Thank you, Senator Albrecht. Are there other questions? I just-- clarification. So Senator Friesen talked about step-up bases on ag land. There's stepped-up bases on everything, right? If you--

RICHARD CLEMENTS: Yes, every-- every asset--

LINEHAN: Stocks, bonds--

RICHARD CLEMENTS: --in the estate would step up.

LINEHAN: --everything, everything gets stepped-up basically.

RICHARD CLEMENTS: That's correct, now.

LINEHAN: Now, I know there's talk about there may be other ones.

RICHARD CLEMENTS: There may be proposals that would change that.

LINEHAN: Right. OK, thank you very much for being here.

RICHARD CLEMENTS: Thank you.

LINEHAN: Appreciate it. Are there other proponents?

SARAH CURRY: Good morning. My name is Sarah Curry, S-a-r-a-h C-u-r-r-y, and I'm the policy director with the Platte Institute. All of you should have received a copy of the Platte Institute's most recent report detailing the inheritance tax at length. This tax, which was established in 1901, is largely outdated and no longer serving its original intended purpose. Most states repealed their death taxes when

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the federal death tax credit was phased out in the early 2000s. Nebraska repealed its estate tax because of this federal tax change. And today there are only six states remaining with an inheritance tax. From our extensive review of the tax, we have concluded that Senator Clements bill is a logical and appropriate reform measure to modernize our tax code and eventually eliminate this tax from our state. LB310 will reduce the top rate and increase the exemption amount over time, which will ultimately phase out this tax and allow the counties to adjust their budgets accordingly. It will also help our state drop from having the lowest or having the-- it will also allow us not to have the highest top rate in the nation of 18 percent. I know there's going to be many people here from the counties today to testify in opposition of this bill. But I want to tell you that the impacts of this bill are unknown, and that's a problem in and of itself. When conducting a historical review of this tax, we realized there's never been an accurate reporting of how much is collected by this tax and by how much of each class a beneficiary. In 1981, there was a study committee and again in 2007 the question was raised of how much money is collected by each class. Every time there's been substantial debate and everyone always asks for more questions. In the 2007 debate, the counties-- or the taxes were formed and many of the counties lobbied to get the exemption rate reduced from the original bill to the rates where they are today. If you look at the time series analysis, which Senator Clements provided for you on a county level basis, I've included for you on a statewide aggregate basis, you can see that the inherent tax collections have overwhelmingly increased after the 2007 change, even though many said it would devastate the counties budgets. At that time, NACO reported to this committee that Class 1 was appropri-- approximately 42 percent of the revenues, Class 2 was 48 and Class 3 was 9 percent. Saying all that, I do want to recognize that the counties rely on this tax as a form of their cash reserve. And when conducting statistical analysis of the 2020 inheritance tax collections across all 93 counties, we found that this tax makes up between 1 percent to 6.2 percent of the total county revenues, with an average of 3.6 percent. I've also included a normal bell curve distribution to show you those percentages falling within one standard deviation of the main to account for the outliers. Given that information, we put together other reform options for this tax. The policy in LB310 is one of many reform options we suggested to modernize the tax and make it less of a burden, but I wanted to share

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some of the other reform options with you in advance of opposition testimony. To accommodate for the county's loss of revenue, we would suggest giving them a more stable revenue source they can rely on, such as a county sales tax as a replacement. Remove the probate provisions and move the inheritance tax out from under the court system and put it under the county treasurer. Create a statewide reporting requirement so any future reforms can have a more accurate fiscal note. Exempt children under the age of majority if their parent or direct guardian dies. Under current law, this is permissible and we believe that at a time when a child loses their-- loses their parent, they should not have the additional burden of paying a tax. And although LB310 reduces the top rate, we would also like to see a consolidation of tax brackets. After seeing the data presented from NACO in the 2007 testimony, we do not see any reason why not to consolidate the Class 3 and the Class 2 brackets creating a two-tiered tax, which would also make our tax more modern. Thank you for your time. I'm happy to answer any questions you might have about LB310 or the inheritance tax in general.

LINEHAN: Thank you. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So again, there is really no data showing how much is collected on the intangibles versus real property.

SARAH CURRY: No, we don't have that data. I've done over a hundred year academic literature review and going through legislative testimony and the best I can get is what NACO did in that 2007 study and it was just a survey of 10 counties because they said it was not feasible to find that data because you can't go to the county treasurer, you have to go through the court system and it's just so hard. So that's why we would suggest at least a reporting requirement so future committees can have accurate information.

FRIESEN: So as a property taxpayer of a county, I kind of look at this as the first time that anybody gets to tax the intangibles that we use to tax in property taxes--

SARAH CURRY: Well--

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FRIESEN: --that we removed years ago.

SARAH CURRY: That's a good point. So in 1901, I went back and pulled the debate from that bill as well and back then, the tax collector would come and everyone would hide their engagement rings and their coffee tables or whatnot, so they didn't have to pay tax on it. And so when they levied the inheritance tax, it was a way to get that tax because when someone passes away, they can't hide their assets anymore. And so the counties looked at it as a way to get this revenue that they were owed that-- that had been avoided for so long. Well, then in 1966, we got rid of those-- the personally or tangible personal property tax and the intangible personal property tax which were levied on individual citizens and so at that point that big reason for the inheritance tax went away, but we still have it today. So you're exactly right.

FRIESEN: So the intangibles, though, a person-- can you move those? Because obviously real property is hard to move out of state and avoid the tax. If you continue to own it here, you'll pay the inheritance tax. Is that correct?

SARAH CURRY: Right. And now I'm not an estate planner and I've never actually personally gone through this process but reading the academic literature on it, it says when people own very expensive properties or intangibles, what they'll do before death, they'll actually move it over, and so their grandchild will own their home so they don't own it or they'll give away land. Or actually in a Drake law review journal, it said you can move the family farm or the family business into a foreign LLC, and so that would avoid paying tax. And so there's been a lot of-- surprisingly, a lot of literature out there, how to avoid the tax. And they always use Nebraska as an example because they say this tax breaks up family farms and breaks up businesses. But, yeah, there's no way for a probate to go into your home and say we're going to levy tax on your great grandma's engagement ring because, I mean, someone might have taken it by then or it's not in the home anymore.

FRIESEN: So you're basically saying that stocks, bonds, savings accounts can be not paid the inheritance tax because they could give that away before?

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SARAH CURRY: They could give it away before or let's say grandma becomes a citizen of Texas but keeps the family farm. Well, all those stocks and bonds are going to be using her Texas address and so they're not going to levy the tax on that. It's just going to be on the real property that's left here in Nebraska. So that's a way to get around it, if you will.

FRIESEN: OK.

SARAH CURRY: And then with what Senator-- not Senator, President Biden is proposing by lowering the federal estate tax rate, there's been a lot of discussion in the step up basis. There's been a lot of discussion about people redoing their estate or giving money away or bringing on children as partial owners to avoid that possible change and I think that would affect Nebraska as well.

FRIESEN: OK, thank you.

SARAH CURRY: You're welcome.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? I think you have a typo in your written.

SARAH CURRY: I've been writing a lot about this.

LINEHAN: That's OK. I just want to-- so we have it on the record. So in the third paragraph, the last line-- we'll also help our state drop to having the highest tax rate in--

SARAH CURRY: Yeah, you saw me stumble over my words when I was--

LINEHAN: I knew-- I knew that.

SARAH CURRY: --saying that.

LINEHAN: So we just for the record, that's supposed to be [INAUDIBLE].

SARAH CURRY: Yes, yes, ma'am.

LINEHAN: All right. But if you-- if you don't move your stocks and bonds and your checking account to Texas and stay in Nebraska, then that-- it's all in the inheritance tax, right?

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SARAH CURRY: That's correct. Yes, ma'am.

LINEHAN: OK. Any other questions? Thank you very much for being here.

SARAH CURRY: Thank you.

LINEHAN: Next proponent? Is there any proponent? OK, opponents. Good morning.

LARRY DIX: Good morning, Senator Linehan, members of the Revenue Committee. My name is Larry Dix, spelled L-a-r-r-y D-i-x. I am the previous executive director of the Nebraska Association and here today to testify in opposition to LB310. First, I definitely want to thank Senator Clements for, one, sharing his chart with us. We appreciated working with him and getting him that information, as we did, I believe at the interim study for the Revenue Committee. Thanks also to the Platte Institute for their report. Read that. I know a lot of that information we provided, but to lay out our reasons for opposition, LB310 as written would eventually eliminate all the inheritance tax. And if once all that goes, that's a \$65 million hit to counties. Like it or not, unfortunately, counties would have to come up with a replacement for that which would, in my estimation, shift it to property tax. We all say we want to tighten our belts. We understand that, but the services that would be lost in counties with the elimination of this are not things that people think of by just tightening their belt. And so we've got to realize no one wants to pay property taxes or income taxes or sales taxes or motor vehicle taxes or inheritance taxes, quite honestly. But, it's a way to pay for the services that people want. I found county board members are as conservative as anyone and they don't want to raise property taxes. They don't want to be in that situation. They hear it all the time. They hear from the same constituents that you hear, from some of the same people that sat in these chairs. They hear it on a daily basis. Or my 19 years as executive director and my 43 years of working with county government, I've heard so many people complain about property taxes that-- that-- they ring that bell. Not quite so much on inheritance tax, although I know people don't like to pay it, but it's not the top issue of the day. Property tax is. As this bill is written, it shifts the tax burden from a few to many by reducing the revenue stream to county government. Senator Flood had touched on a question about what that may do, and I'll be happy to answer that at

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the appropriate time. We did the study in 2007. We participated in that study, That was LB502. I was executive director at that time. I remember the floor debate. I remember the discussion outside the Rotunda. I remember the negotiations on how we got to where we got-- got to. I want to let-- I want to make sure that you understand inheritance tax is a use to assist not only counties, but many times counties share some of that inheritance tax with other projects in communities. Some of that inheritance tax goes to fire districts. That's been given to fire districts for special things. Community colleges. I think that happened in Senator Flood's area a number of years ago. Libraries, ag societies. So-- so counties use this in-- in many different ways to support many other areas. There's going to be those that will follow me that will talk about cash flow, the use of this fund for floods while we're waiting on FEMA distribution, rainy day funds, bridge match, indigent assistance, how many people pay this tax, and most importantly, it's used in many counties to buy down property tax. There's-- all of you are aware of the study that was conducted last year. I can also answer questions about the study that happened in 2007. But in closing, I would leave you with just a couple of thoughts. Property tax is one of the things that we look at. If this is eliminated, it's a \$65 million hit. There's no other way. It's going to be made up with property tax. And you compare that to the Property Tax Credit Fund that's--

LINEHAN: You need to--

LARRY DIX: --put out by the state--

LINEHAN: --you need to wrap up.

LARRY DIX: --which is 250 million. You'll also see that not--

LINEHAN: Sir.

LARRY DIX: There are some ag groups also that--

LINEHAN: Mr. Dix.

LARRY DIX: I'm sorry.

LINEHAN: That's okay.

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LARRY DIX: Thank you.

LINEHAN: You're welcome. Are there questions from the committee?
Senator Flood.

FLOOD: Thank you, Chair Linehan. Mr. Dix, what counties buy down their property tax with--

LARRY DIX: Yeah, there's--

FLOOD: --inheritance tax?

LARRY DIX: And you're going to hear some-- from some of those that follow me, some on an annual basis.

FLOOD: What are the names of those counties?

LARRY DIX: Pardon me.

FLOOD: What are the names of those counties.

LARRY DIX: Oh, I'm sorry. I'm not going to have just a complete list of them. I believe Douglas County is one that does that. Lancaster does that. I talked to a county board member last night at Frontier County that they move \$200,000 on an annual basis into their county road fund simply for road maintenance. That's happened in Banner County. It happens in Buffalo County.

FLOOD: Do you know that in Frontier County--

LARRY DIX: Pardon me.

FLOOD: In Frontier County they got \$49,997 last year.

LARRY DIX: Right. And over the average, occasionally they'll have a year where they have a significant amount of money that comes into that fund and they'll-- they'll move that money in to their county road.

FLOOD: So in 2011, when the state ended county aid and city aid, how much money did-- did the counties lose then?

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LARRY DIX: I believe that was about \$11 million. That had been decreasing over a period of time. From when it was at its maximum, I think it was probably 20, but it had gradually decreased until it hit the 11 million.

FLOOD: Thank you.

LINEHAN: Thank you, Senator Flood. Are there other questions from the committee? I have-- I want to follow up on Senator, I have the same question. I'd like examples of-- or maybe I don't understand when-- you mean when you say buy down property tax--

LARRY DIX: Sure. Sure.

LINEHAN: To me, that would mean like reducing the levies.

LARRY DIX: In essence, they are, Senator. So if a county will take-- and say they have a-- whatever their budget is, round numbers, \$500,000 budget and they move inheritance tax into their General Fund or their county road fund, they only--

LINEHAN: Then they lower their levy ?

LARRY DIX: Then-- then that in essence is lowering the levy, because if they would not move that in, their levy would increase--

LINEHAN: Well, that's different, then--

LARRY DIX: --to cover that cost.

LINEHAN: --they keep it from increasing their levy, it doesn't buy down the levy.

LARRY DIX: Yeah, they're keeping it. I think buy down is sort of a terminology we use. They're keeping it from going up. And if you'll also look historically in a number of years ago, I remember coming to the Revenue Committee, you will see that the county's, quite honestly, have reduced their tax rate over this period of time that Senator Clements is talking about. We've all talked about--

LINEHAN: I will agree--

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LARRY DIX: --have ag lands increased?

LINEHAN: --that counties have done a better job than others.

LARRY DIX: Yeah.

LINEHAN: I agree.

LARRY DIX: And--

LINEHAN: So what is--

LARRY DIX: --that's part of it and we think we should be doing that.

LINEHAN: So if it's \$65 million loss, what percentage of that is the total of all the county's budget?

LARRY DIX: I think the overall total county budget is maybe four and a half billion. I, I believe that's close. I will want to double-check that for you.

LINEHAN: So it's less than 1 percent of the total.

LARRY DIX: Yeah, I think-- I think, Sarah from the Platte Institute said it will range from one, one and a half up to 6 percent in some counties, and it will vary from county to county.

LINEHAN: So--

LARRY DIX: But it's--

LINEHAN: So-- OK. Do you think that somebody that's 40-- has \$40,000 in their state is wealthy?

LARRY DIX: I-- I don't have any opinion on what somebody's opinion of wealth would be. I don't know.

LINEHAN: OK. Any other questions from the committee? Thank you very much, Mr. Dix.

LARRY DIX: Thank you.

LINEHAN: Other opponents?

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RON NOLTE: Good morning. My name is Ron Nolte, N-o-l-t-e. I'm a former Cass County commissioner. I'd like to welcome Senator Flood and Senator Pahls for coming back. Congratulations. This inheritance tax is quite a problem, but our county has a cash reserve of 2 million for emergencies. Sometimes it goes up to 4 million, but we take some money out. As Senator Clements mentioned, we put 1.5 million in our courthouse. It was built in 1891. We need a cash reserve. If anything will break a county, will be floods, blizzards and a death or a jury trial on-- on murders. In-- in the state of Nebraska and currently we have three Senators in the Legislature that were county commissioners. Senator Albrecht formerly in Sarpy County. We have Senator Dorn in Gage County. They had quite a problem down there meeting the budget because of murder trials. Go back to Steve Erdman, longtime county commissioner. You have to understand the pressure that's put on the county commissioners. I cannot believe at times that why don't our Senators meet with the county commissioners in their districts and find out what the problems are? We keep that reserve in the county. And I still can't understand why don't people do estate planning. They wait till they die and wait for their kids to pay the taxes. My family homesteaded in Cass County in 1880s. We still have a lot of that land. But fortunately, my father hired a law firm and went in through a trust and over several thousand acres of the land, we never paid a dime. Now, why are you going through probate through the county attorney and a judge. I've never understood--understood the law system, but I'm not going to go any farther with this because there are a lot of information was put out there continuously. But in Cass County as those manuals, you've got the first page-- pages. And I was at LR15 and you can go through the next six years and Cass County has taken in about \$7.5 million. We keep 2 million at all times in reserve. Once in a while, we do pull some money out when we get over 4 million. I've used up my time--

LINEHAN: Thank you.

RON NOLTE: --but thank you so much.

LINEHAN: Thank you, Mr. Nolte. Are there questions from the committee? Did your father transfer the real estate to his family members?

RON NOLTE: Yes.

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LINEHAN: Before he died?

RON NOLTE: No, no. He didn't want any part of the--

LINEHAN: To a revocable trust or an irrevocable trust?

RON NOLTE: --and when my mother died a few months ago at 100, we never had to pay a dime. And Dad passed away 30 years ago, but he hired there at home-- I'll give them a little advertising in Omaha. So I-- I'm kind of disappointed at times. Why don't people plan to die or get a good attorney?

LINEHAN: OK, thank you very much for being here. Appreciate it.. Next opponent. Good morning.

DEB SCHORR: Good morning, Senator Linehan, and members of the Revenue Committee. My name is Deb Schorr, D-e-b S-c-h-o-r-r. I'm vice chair of the Lancaster County Board of Commissioners and past president of the Nebraska Association of County Officials. The Lancaster County Board strongly opposes any action to repeal or reduce the inheritance tax. You'll also be hearing from several other local elected and appointed officials about the importance of these funds to county governments across the state. County governments are facing tough times from the flooding of 2018 and 2019, the falling agricultural prices to the current COVID pandemic. Budgets are tight. Property taxes are primary source of revenue and I don't need to tell you how sensitive our constituents are about property taxes, not to mention many counties are currently at their levy limit. All this underscores how important inheritance tax funds are to county budgets and the flexibility these funds provide to best serve the needs of our constituents. Inheritance tax revenue varies greatly from \$4,000 in Thomas County to nearly 12 million in Douglas County. It also varies greatly year to year. Here in Lancaster County, we budget an estimated 5 million per year, but it has varied in recent years from 3.5 million to 8 million. We utilize these funds 100 percent for property tax relief each and every year. With our Lancaster County valuation, 1 cent in levy authority brings in \$2.9 million. So to replace that revenue with no plan to additional state allocation, we're looking at a 2 cent levy increase in local property taxes just to retain an equal amount of funding for critical public safety and infrastructure needs. The provisions of this bill will ultimately phase out inheritance tax after drastically and

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immediately decreasing inheritance tax revenue. LB310 slashes tax rates and at the same time radically increases exemptions for all beneficiaries. In addition, this proposal perpetually increases exemptions each year after 2024, effectively phasing out the inheritance tax over time. These changes will have a disastrous effect on our county's inheritance tax revenue and will result in a greater reliance on property tax. As you know, counties are an arm of state government and unfunded legislative mandates are ever increasing. We have very limited revenue sources, so increasing pressure on property tax is the most likely outcome should inheritance tax be reduced or eliminated. And ironically, this discussion comes immediately on the heels of the Legislature's passing of meaningful property tax relief just last session. Counties value our partnership with the state, and I ask you to allow counties to retain this important source of revenue to best serve all Nebraskans. Thank you for the opportunity to testify and for your service to our state. I'd be happy to answer any questions.

LINEHAN: Thank you very much. Are there questions from the committee? Senator Albrecht.

ALBRECHT: Thank you, Chairman Linehan, and thanks for being here with your testimony. The previous testifier said that they have a slush fund that they just hang on to, and do you have that? And if so, how much would you have in yours?

DEB SCHORR: Every year we take the amount of inheritance tax receipts and it goes directly for property tax relief. We do not keep a-- of one of his words, slush fund, but we-- we don't operate the way that they do.

ALBRECHT: So is ours--

DEB SCHORR: Ours goes right into the General Fund.

ALBRECHT: It goes right into your General Fund. So it's-- it's used completely. You don't set it aside for roads or bridges, anything like that.

DEB SCHORR: And 93 counties do it 93 different ways.

ALBRECHT: Exactly.

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DEB SCHORR: But it's the flexibility that's important.

ALBRECHT: Thank you.

LINEHAN: Thank you, Senator Albrecht. Are there other questions? I'm not trying to be difficult here, but the exemption amounts are pretty low. I mean, \$40,000, I don't know. That doesn't seem like a fair exemption to me. I mean, I understand why \$40,000 might have been a good exemption. I don't know, in 1901, but today, \$40,000, you buy a car, you can own a car, have to pay inheritance tax.

DEB SCHORR: If-- if I did propose one change, it would remove it from the court system and put it under the county treasurer to know that your constituents have to hire attorneys and, you know, work through the whole court system. And also makes it difficult, as you've learned, to track that amount year to year. If we were to place it under the county treasurer, it'd be a much cleaner system and allow us to more accurately track those funds.

LINEHAN: That was very good, but I don't think you answered my question.

DEB SCHORR: I did not.

LINEHAN: OK, I'll let you pass since you handled it so well. Other questions from the committee? Thank you very much.

DEB SCHORR: Thank you.

LINEHAN: Next opponent. Good morning.

LARRY TEMME: Good morning, Senators. Thank you for your time. My name is Larry Temme, L-a-r-r-y T-e-m-m-e. I am a commissioner from Boone County. Senator Briese is our representative. I'm here on behalf of all the taxpayers of Boone County to oppose LB310. Out in rural Nebraska, we continue to see a decline in population losing about 4,000 on the latest census or we have-- we had 5,500 10 years ago, we're down a little over 5,100. As we continue to see a decline in residents, that puts more pressure on our tax system. Despite having a very aggressive and very successful-- and being very successful with economic development in the county, we are still struggling. After having spent 12 years on the school board and four years with Senator

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Briese, I then started my local county government career in January of 2019. We all know what Mother Nature did to us that year. A sudden need for resources following that event prompted us to go to what I like to call our savings account or inheritance tax to pay for additional wages and material for repairs that were needed immediately. We lost 4 bridges that day in Boone County and 19 approaches to other bridges. Many, many road washouts and the village of St. Edward was devastated. Nowhere in our budget what we had the money to do, what we needed to do to make emergency repairs. We then bonded for \$5 million for repairs and are repaying that bond with half of our highway allocation funds over the next 7 years to again avoid having to raise taxes or to go to our inheritance tax money. All the while, we are waiting for FEMA NEMA money to come back to help with repairs. We have received very little FEMA monies and nothing from NEMA for our finished projects. In May of 2019, Nance and Boone County merged our E911 dispatch system to Boone County. As a result of that merger, Nance County was already on the statewide radio system and Boone County was not, thus requiring us to join the statewide radio system for communication purposes and in doing so we needed a \$330,000 upgrade of equipment, some of which was mandated by the state with no funding to accommodate that. Again, we went to our inheritance-- inheritance tax money to afford that upgrade. Another problem we are faced with is our county road department is aging and we've had two people retire in the last two months. We are having trouble hiring new people because of the starting wage we have set for our employees. We are seeing the same problem replacing dispatchers in our sheriff department. To go along with that, Boone County took \$102 million reduction to our property valuation last year, or about 1.2 percent for the budget for the 2021 budget year. So what the limit of a two and a half percent lid in tax asking, we are acquiring less tax dollars while still trying to pay employees more is becoming very difficult. If our inheritance account were to go away and we had to levy to replace that, we would be unable to do so. An increase in an average quarter of ground or 160-acre row crop farm, just say for round numbers, valued at a million dollars that is raising corn, soybeans or alfalfa would see an increase in tax asking to the amount of an additional \$650 per quarter to replace 1.5 million of inheritance tax. That is about a 33 percent increase and we are only allowed again a two and a half percent increase in tax asking per year. That would be pretty hard to do.

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LINEHAN: Thank you, sir, for being here. Appreciate it. Are there questions? Senator Flood.

FLOOD: Thank you very much for coming down and taking the time and for your service as a county commissioner. You raised a number of different points. I noted here that your-- you had a really big year in 1819. You got 2.1 million.

LARRY TEMME: That's correct.

FLOOD: But you usually get-- looks like usually get much less than that.

LARRY TEMME: That is correct.

FLOOD: That money comes from somewhere. Do you hear from families that are upset about paying the inheritance tax?

LARRY TEMME: I've only been in this two years, Senator Flood, and so, no, I have not yet.

FLOOD: You haven't.

LARRY TEMME: And we haven't received that much since I've been on this board, but I have not heard that.

FLOOD: Do you have a separate fund for inheritance tax?

LARRY TEMME: No.

FLOOD: It goes right into your General Fund?

LARRY TEMME: Yeah, well, it's kept separate, but we do-- I mean, we do use it in emergency situations. Actually, we just purchased a new ambulance and had to take some of the money from inheritance to pay for that. We have a county ambulance yet.

FLOOD: Is that because you own the hospital? Do you own your own hospital?

LARRY TEMME: No. The hospital is separate.

FLOOD: OK.

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LARRY TEMME: It's a county-- it's a county hospital, but they are on their own. The county does not own it.

FLOOD: OK. So you run the ambulance?

LARRY TEMME: Yes, we run. Yep.

FLOOD: What-- help me understand. Like benefits paid to Boone County employees. Do you do health insurance?

LARRY TEMME: We do health. We do full health insurance, yes. And we do help pay for their retirement.

FLOOD: OK, what is the contribution by the employee in Boone County for their health insurance?

LARRY TEMME: They have a \$1,500 deductible. Other than that, they have no contribution to it. That is something we are looking at doing to try and help with that.

FLOOD: So-- so the county employee that gets health insurance, they don't pay anything out of pocket for their health insurance.

LARRY TEMME: That is correct.

FLOOD: So it's 100 percent covered by the county.

LARRY TEMME: That is correct. It's one of the benefits we have with trying to retain our help and that's why the reason we have had help for so long and the insurance benefit is a big part of that.

FLOOD: Yeah, yeah. All right. Well, thank you very much.

LARRY TEMME: Yep.

LINEHAN: Thank you, Senator Flood. Are there other questions? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So personally, I'm not speaking for the county, do you think some of the rates or the the \$40,000 exemption should be raised or just leave it alone?

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LARRY TEMME: I-- I really don't have an opinion, I guess. I'm not sure.

FRIESEN: OK.

LARRY TEMME: Like I said, I'm pretty new to this yet, so I'm still trying to learn a lot of stuff.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Other questions? I have one, if I can remember it. I was looking at this on a different group yesterday on the insurance paying full family insurance. It was about \$25,000 a year. Is that about what it costs for you to provide full family insurance?

LARRY TEMME: That would be correct. Yeah.

LINEHAN: OK, thank you for being here.

LARRY TEMME: Yep.

LINEHAN: Appreciate it.

LARRY TEMME: Thank you.

LINEHAN: You're welcome. Are there opponents? Good morning.

DENNIS OSTGREN: Good morning. My name is Dennis Ostgren, D-e-n-n-i-s O-s-t-g-r-e-n. I'm a businessman, property owner and county commissioner from Holdridge, Nebraska in the 38th District. Thank you for everyone for allowing me to-- the opportunity to speak in opposition of LB310 regarding inheritance tax phase out. On behalf of my fellow county commissioners as well as property owners in the state and as a second generation county commissioner, I have ample background on the subject of our inheritance tax and its vital importance to county infrastructure, livelihood and growth. Phelps County has used our inheritance fund for unexpected events such as the two floods in 2019. I would not have been able to make repairs to roads, culverts and bridges as promptly as we did without those funds. We've used it for unexpected court cases, as well as unexpected repairs to facilities, including our justice center. The stability

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this fund provides our county has allowed us to get better rates on bonds such as our jail bond in 2002. It has also given us the ability to fund large road projects as well as cost sharing opportunities with adjoining counties. Our county has a jail and two senior centers, as well as two very long bridges over the Platte River that we share with Buffalo and Dawson Counties that have to be maintained. As a commissioner, I know that if this fund were phased out, we would have no choice but to increase property tax to offset the loss of funds. As commissioners, the majority of our feedback and complaints come from property tax rates and I have not yet had a complaint on the inheritance tax, although I'm just a sophomore commissioner. I look at inheritance tax as a minor tax on the heirs of an estate in return for its success, whereas if that same family was taxed the additional amount on their property year after year, over many years instead, it may prevent the estate from ever having a chance at success. As a member of a family who has recently had to pay inheritance tax, I did not feel at all like it was unfair or excessive. I felt like it was a tip, if you will, a reward to our county government for its partnership and cooperation in our success, for allowing-- and for allowing us to have good, safe, snow free, water repelling, clearly marked, well-paved and gravel roads to move families, students, workers, livestock, grain equipment, emergency vehicles, law enforcement and mail carriers around the county so that we could have a chance to grow our businesses, thus allowing us to buy property and generate income so that we might have a chance to leave an inheritance to our heirs. As a financial advisor, I tell everyone to have an emergency fund set aside for unforeseen expenses and our county inheritance fund is used exactly for that. In closing, I would just like to say that we are very careful how we use this fund and truly need it to operate our county to avoid shifting tax burden to our taxpayers in other ways that would hinder their chance to achieve success. Thank you.

LINEHAN: Thank you very much. Are there questions from the committee? Senator Flood.

FLOOD: Thank you, Chair Linehan. First, Mr. Ostgren, I will say anybody from Phillips County is probably one of the-- comes from smart stock. You built that Lake McConaughy and delivered the water. That's just amazing to me. But tell me about Phelps County. It looks like you've had some really good years with the-- with the inheritance tax

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and your collections are by far facing ahead of where they were. In fact, you-- I'm looking here. You're used to getting about 3 or \$400,000, but in 2020, you've got-- well, no, in 2017 you got a million. And then it was 821,000 and then it was 401,000 but you're used to getting something under 400,000 going back 15 years.

DENNIS OSTGREN: Um-hum.

FLOOD: Doesn't that make the case for returning things. You know, Senator Clements' bill, I mean a windfall of a million is-- is a lot of money paid for by taxpayers in your county. If we don't adjust this, you know, there are these wild fluctuations there. It looks like you could get along with 4 or \$500,000 and it would be above your average.

DENNIS OSTGREN: We maintain roughly 500,000 in it, typically five to six. We try to not let it go below 300,000, but there are some very success families and longevity in our county and that success, I guess, most-- most people in our small communities, in our small counties are glad for the infrastructure that we have and our county government and realize how important it is. They don't-- it doesn't affect the-- the estates that much.

FLOOD: Does your county offer health insurance to its employees?

DENNIS OSTGREN: Yes.

FLOOD: And do the employees pay any cost, any share of that?

DENNIS OSTGREN: About \$1,500 deductible. Otherwise, the county pays the full cost.

FLOOD: Premium?

DENNIS OSTGREN: Yep.

FLOOD: Does that run about 25,000 for a family?

DENNIS OSTGREN: I believe so. I'm not-- I'm not sure about that, but.

FLOOD: OK. Is that customary in Phelps County that employers pay 100 percent?

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DENNIS OSTGREN: It is. I was in my family business for 38 years and ran it for 18 years and owned it. And an excavation company that repairs roads and builds roads and levels farmland and-- and yeah, we-- it's the only way out in outstate Nebraska that you can get employees is-- is offer those kind of benefits. That's the biggest challenge all business owners that I talk to face is finding employees.

FLOOD: And all the business owners, you know, pay 100 percent of--

DENNIS OSTGREN: Not all of them. Most of them do.

FLOOD: OK, thank you.

LINEHAN: Thank you, Senator Flood. Are there other questions from the committee? What percentage of the people who paid the inheritance tax actually lived in Phelps County?

DENNIS OSTGREN: I don't know the answer to that. I could give you a guess, but I don't have a-- I don't have an answer.

LINEHAN: So I'm-- I'm going to ask this question for the record. You don't-- I expect you answer, but I would like from the NACO to know how many people who pay the tax actually live in the county that the tax is being paid to.

DENNIS OSTGREN: Yeah.

LINEHAN: Because I assume there's a lot of people who inherit land or other things that don't live in the county.

DENNIS OSTGREN: The people that-- just from my brief experience and the experience of my dad's four terms as a commissioner before me, most of the-- of the inheritance funds that I see come in are families that are still living there. And-- but there are some estates that children move away or families move away and they inherit the ground. And-- and that would be the only complaint that I could see coming is people that don't live there and don't care about the county or the town or the farmland or don't even know where it's at, couldn't drive to it. But they would be upset if they had to pay a portion, especially if they were a distant relative, cousin or-- or nephew or something farther down the line and had to pay more because they were

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a distant relative and had to come up with the money to-- to pay that tax on their inheritance. Those are the kind of people that probably don't really care how Phelps County pays for their roads or even if they have roads.

LINEHAN: Do you think \$40,000 is-- is the right amount to start the tax?

DENNIS OSTGREN: I don't know.

LINEHAN: Or 15,000 or 10,000. Remote a little bit of it. So for immediate relatives like your own children, it starts at 40,000, which is like, I think we all know, a nice new car. For remote relatives it's 15,000, which is maybe a good used car. And for non-relatives, it's 10,000. It's like--

DENNIS OSTGREN: Yeah, it's-- it's-- it's a small.

LINEHAN: Kind of in a time warp, don't you think, those amounts?

DENNIS OSTGREN: Yeah, somewhat. I don't know. I'm a-- after I sold my share in our family business, I'm a financial advisor and an insurance agent and I help people plan for that stuff and I plan for that stuff and my father planned for that stuff. He had a trust and and his farmland will go on to-- to family and through savings and insurance and investments, they will pay that tax. It's already been thought out ahead of time.

LINEHAN: But you were talking about a lot more than \$40,000, right?

DENNIS OSTGREN: Oh, yeah, yeah. People that having an estate that small probably haven't thought it out too much.

LINEHAN: Right.

DENNIS OSTGREN: No offense, but one way or the other, the money has to come into the county and we private ourselves on keeping our levy down.

LINEHAN: What is your levy?

DENNIS OSTGREN: 1.26, I believe.

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LINEHAN: I'm sorry.

DENNIS OSTGREN: 1.26.

LINEHAN: OK. Thank you. Other questions for Mr. Ostgren? Thank you very much for being here. It's helpful.

DENNIS OSTGREN: Thank you.

LINEHAN: Are there other opponents? Good morning.

JOE LORENZ: Good morning, Senators. I'm Joe Lorenz. I'm the Douglas County finance director, and I'm just going to take you through a couple of highlights that I think--

LINEHAN: You need to spell your name.

JOE LORENZ: L-o-r-e-n-z, Lorenz. I just want to take you through some highlights on this bill that the commissioners of Douglas County wanted me to come out over and talk to you about. In Douglas County, the annual proceeds from the inheritance tax have averaged about \$12.7 million over the past five years. And given that we're a county of about 600,000 people, there's kind of a law of large numbers, so our inheritance tax proceeds aren't that variable. They're all in that range between 11 and 14 million, which really allows us to budget for them with some certainty. And-- and we do budget for them in our tax, in our annual budget. On average, about 1,200 estates per year, subject to the inheritance tax in Douglas County, which represents 0.2 percent of the Douglas County population. So it hasn't been a big issue. I can tell you in the 10 years I've been the finance director, this-- the inheritance tax issue has never been brought up at a county board meeting, unlike property tax, which we spend a lot of time on. And the other point is, in talking to our county attorney's office, they always tell me, as they are the ones who actually administer the process, there are a substantial number of people who live outside Nebraska who receive-- who are paying this tax. That, as this thing goes out, there's a lot of distant relatives and friends who receive money who are not Nebraska residents. But back to Douglas County, the inheritance tax proceeds are primarily used by Douglas County to fund essential and mandated social services. No inheritance tax proceeds are used for our General Fund. What we really use them for is a safety

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net for social services that we provide within Douglas County, given, you know, that we really are an urban county. So in the chart I handed out, you can see the major areas where we put inheritance tax money, our health center, which is really a long-term care facility. A great percentage of the people there who really receive these services would be considered destitute. It's really a place of last resort for these people. Other significant amounts go to the community mental health center, community services, general assistance, the county health department, the county veteran's services, state institutions, which is the money we pay to Norfolk and places like that. So in general, this money is going towards social services. And then the other last point I'd like to make that 12.7 million, I've done the calculations within by increasing-- or having the rate and increasing the exemption. It would probably cost Douglas County in the range of 8 to \$10 million of lost revenue. That would either have to be made up by cutting these social services or increasing the property tax levy. So with that, I'd be glad to answer any of your questions.

LINEHAN: Thank you, Mr. Lorenz. Are there any questions from the committee? Senator Flood, I was going to ask-- I'm going to ask, do your county employees pay any share of their health care costs?

JOE LORENZ: Yes, they-- well, for one thing, the county is large enough that we're self-insured and county employees pay. If you're a single employee, they'll pay about 10 or 15 percent and if you have a family, you're paying about 20 to 25 percent of the health insurance cost.

LINEHAN: And is the cost about the same, as others have said, \$25,000 a year for full family coverage.

JOE LORENZ: I don't know that exact number. I know that in total, when we budget our fringe benefits for the county, it's in the range of close to \$40 million for 2,500 employees and their-- and their dependents.

LINEHAN: And you do have a retirement plan that is fixed retirement?

JOE LORENZ: A defined benefit plan?

LINEHAN: Defined benefit plan.

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JOE LORENZ: Yes, we do.

LINEHAN: Yes, you do. And how much is their retirement-- defined benefit plan? What is it? Is it 50 percent of their salary or what's it based on?

JOE LORENZ: It is-- it festes over time and it caps at 60 percent. Yes, over-- if you stay 30 years, it caps at 60 percent.

LINEHAN: 60 percent of your highest three?

JOE LORENZ: Your highest five.

LINEHAN: Highest five. And they get Social Security too?

JOE LORENZ: Yes.

LINEHAN: What is Douglas County's total budget-- budget?

JOE LORENZ: \$400 million.

LINEHAN: \$400 million. Where is your-- the community mental health center?

JOE LORENZ: The community mental-- those-- all those-- these are separate funds.

LINEHAN: So is there a community mental health center?

JOE LORENZ: Yes, it's located in the health center building. It's a couple floors of-- of the old hospital there.

LINEHAN: OK. The Douglas County Hospital.

JOE LORENZ: Yes.

LINEHAN: OK, by the-- across the street from the Veterans home.

JOE LORENZ: Yes.

LINEHAN: OK. All right. Are there any other questions from the committee? Seeing none, thank you for being here.

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JOE LORENZ: Thank you.

LINEHAN: Other opponents?

LAVON HEIDEMANN: Good morning, Chairman Linehan, and members of the Revenue Committee. My name is Lavon Heidemann. It's spelled L-a-v-o-n, Heidemann, H-e-i-d-e-m-a-n-n. I am a current board member of Nebraska Cattlemen. I'm on their-- here on their behalf, and also Nebraska Corn Growers Association, Nebraska Soybean-- Soybean Growers Association. And also in January, I became a county commissioner for Pawnee County, so NACO called me on their-- here on their behalf. Also, thank you for the opportunity to testify in opposition to LB310. I'm going to start on the county side first. I'm very new into this. I just got sworn in in January. I'm aware of what inheritance tax, though, has done for Pawnee County. They use it for emergency purposes if there's floods or anything like that. Just a couple of years ago, we got FEMA money they use-- for match for that to repair things to the roads and things like that. Also, they use it. They do have a separate account. They use it for big projects that would never get done unless they had inheritance tax, unless they went to property taxes to do it instead. But a big bridge will come up or something like that, and they use it for match money so that they can match the federal money so they can build this bridge that they would never build any other times. The bottom line is when it-- when it comes to counties and Chairman-- Chairwoman, you asked the question of Senator Flood. I was going to call you Speaker Flood. Asked the question, how much property relief is this buy down or whatever? I would say that all 93 counties, in my opinion, because if they don't have this money, the only other place that they can go is property tax. So, I mean, it's very clear, at least to me, that without this inheritance tax, there will be a property tax increase. So I think all 93 counties actually have a decrease in property tax because of inheritance tax. I want to give you a really brief-- I've been-- thought of here. I've been involved in three different estates, two of them as nieces and nephews. We had farmers at Nemaha County, aunts and uncles that didn't have any children, and we became-- the nieces and nephews became the benefactors at that time. And we-- it was-- they both had farm grounds. It was a large sized one, especially large. They helped the county out to no end. We didn't focus on nieces and nephews as the 13-- the 13 percent that we lost. We focused on-- we got 87 percent. And we was very thankful for that. And there were some of them that actually we talked about it afterwards about the 13

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percent that we didn't get. And we said, you know, our uncles and aunts lived in Nemaha County all their life. And it was a very neat way for them to give back to their county that they lived in all their life and got the services from Nemaha County. The other estate that I was involved with was my mom and dad. And at that was-- was 1 percent. I don't have a problem with 1 percent at all. Of course, nobody likes to pay any taxes whatsoever. But to be right truthful, 1 percent in a lifetime is 1 percent. When it comes to property taxes on real-- my real estate, I pay about one to one and a half percent a year and I do it year after year after year after year. That's what I'm concerned about. You guys, the Revenue Committee and the Legislature did a fantastic job last year. Thank you for all the people that I represent. Thank you for what you did. Don't go backwards because if you pass this bill, you literally will be increasing property taxes by \$65 million. If those counties are going to do the same thing that they've been doing now, they have no other place to go, so it'll be a \$65 million increase. I appreciate the conversation, but I ask you in the end, please don't do this for property taxpayers.

LINEHAN: OK. Thank you, Mr. Heidemann. Any other questions? Your aunt and uncle that lived in-- which county did you say?

LAVON HEIDEMANN: Nemaha County.

LINEHAN: Didn't they pay property taxes the whole time they were alive in Nemaha County?

LAVON HEIDEMANN: They did.

LINEHAN: They did. And if they wanted money to go to Nemaha County, couldn't they just given the money to Nemaha County?

LAVON HEIDEMANN: It's still a way for them to give back after they have passed.

LINEHAN: They could have given--

LAVON HEIDEMANN: They could have. There was probably some of that already to be right truthful. And, you know, there was discussion about some of these people don't live here. This is almost a severance tax to be right truthful. There are people that die in Pawnee County that give their money away to people in California or other places and

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there is-- there is no benefit at that time to Pawnee County. This is-- this is a severance tax so that there is some money, at least 1 percent or 13 percent that is captured--

LINEHAN: So are you saying--

LAVON HEIDEMANN: --and kept locally.

LINEHAN: OK, so is it easier to tax people that don't live in your district?

LAVON HEIDEMANN: I think you know the answer to that question.

LINEHAN: I'm just-- I wanted to ask that of everyone who's come up here, but--

LAVON HEIDEMANN: I don't think the majority of the people that are involved in estates and pay inheritance tax, I don't know, I don't think they know where it goes. And I don't think that's--

LINEHAN: I think we make a mistake, sir, when we question people what their knowledge is, I mean, anyway, I'm sorry. Other questions? Thank you very much for being here. Are there other opponents? So anyone wanting to testify in the neutral position? OK, do we have a neutral-- oh, we do have a neutral. OK. Hi.

JOHN ROSS: Good morning, Senator Linehan, and members of the Revenue Committee. Good morning. My name is John Ross, J-o-h-n R-o-s-s. I was a county supervisor from Cuming County for 12 years, but I am testifying today as a private citizen. Senator Clements, thank you for introducing LB10-- LB310. We need to discuss this inheritance tax and our other taxes. The inheritance tax has been around for a long time. It is time to review it. If the inheritance tax is reduced or repealed, it will have an impact on counties and you've heard that from everybody. The impact will vary from county to county, just like how each county managed the money from the inheritance taxes. Losing any or all of the inheritance tax will put counties in the position of reducing services or raising property taxes to continue to provide the services. They have no other source of revenue to replace any lost inheritance tax money. During 12 years that I served as a Cuming County supervisor, I felt that we spent the inheritance money wisely. We usually held down property taxes and we donated about \$150,000 to

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Northeast Community College. Over the last five years, Cuming County's average revenue from an inheritance tax was \$965,392. Over the same five years, the average property tax request was just over \$3 million. As I see LB310, the goal is to eliminate the inheritance tax. Looking at the numbers I presented for Cuming County, they would have to increase property taxes almost 30 percent just to remain revenue neutral. I think we need to find-- I cannot support LB310 without a new revenue stream. I would support it if-- if a new revenue stream is given to the counties. I can think of two revenue sources and one complete tax change to our tax system. They need to be in the discussion of our inheritance tax changes. Number one is sales tax. And I understand that the state law would have to be changed so that the counties could levy a sales tax throughout the entire county, including within city limits. Some counties would get a lot of money from a county sales tax. Other counties would get almost no money from a county sales tax. The rest would be in the middle. Cuming County would be able to make the county sales tax work. Four communities in Cuming County collected \$1,721,695-- 97 from sales tax in fiscal year 2019-20. The question is what is best for the county? Income tax could be used to return a portion of the income tax paid by every county resident back to the county. I don't know if that would work or not. For the county to run a sales tax per a line, well, that would be near impossible. Have the counties submit their budget and then refund some money to backfill. The other one is, LR11CA. If this would be presented to the voters and it would pass, the discussion of an inheritance tax would not need to continue.

LINEHAN: Thank you.

JOHN ROSS: In conclusion, my children would be happy if the inheritance tax goes away and I'll be happy if property taxes go down. Thank you--

LINEHAN: Thank you

JOHN ROSS: --for listening to me and your attention.

LINEHAN: You're welcome. Questions for the-- anybody ask questions from the committee? Seeing none, thank you very much, Mr. Ross, for being here. Are there other-- anyone else wanting to speak in the neutral position? OK, we had written testimony delivered this morning

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from proponent Jerry Stillmock, National Federation of Independent Businesses, opponents Camdyn Kavan, OpenSky Policy Institute. Letters. We had three proponents letters for the record, I mean. Three proponents, 21 opponents and one in neutral. Senator Clements, would you like to close?

CLEMENTS: Yes, thank you, Chairman Linehan. It's been a very good discussion, I think. I do have some responses to a few items. First of all, I'd like to note about the 1 percent tax on children, only Nebraska and Pennsylvania tax children at all. The other four states, they're exempt. Then the second one with Cass County, I believe they're getting about \$1.2 million lately. My bill would not eliminate that, it would cut it down to about 600,000, but it would still be increasing as valuations asset values increase. Last I looked, I saw a report in the paper lately that there-- Cass County Inheritance Trust Fund is \$6 million. And in the paper they announced that they were spending \$2 million in 2021 on roads and bridges. And so that's OK, but they're still going to have \$4 million. And if they're cut to 600,000 revenues from inheritance tax by LB310, they'll still be able to add to it. With Mr. Dix saying that this will eliminate all inheritance tax, oh, it-- the tax rate don't go away. The exemptions do increase and I put that is about a 5 percent inflation on the exemption amounts. So it's not-- I'm not-- this bill would not get rid of inheritance tax, would cut it roughly in half, but it would still-- all counties would still be increasing as the estate values increase. And there was mentioned by a few that they have no-- no complaints about inheritance tax. Well, it's a hidden tax and I think it's been said that dead men tell no tales. And this is very nontransparent. I think taxpayers would rather have a transparent tax that they can speak to to their elected representatives and I'd rather see more transparency. In Lancaster County, it was mentioned it would cost 2 cents of property tax to eliminate their inheritance tax. That means my bill would be about a 1 cent difference if they need to make up the shortfall. And the reason for-- want to mention the reason for the increase in the exemption amounts. The Platte Institute study shows that if you took the exemption from 1901 and moved it up to 2020, the children should be \$300,000. And I was aware of that when I set this \$150,000 but I was thinking, I want to protect poor families that if two children inherit a \$300,000 house, they wouldn't have to pay tax-- inheritance tax so to keep it from being regressive. And Lancaster

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County mentioned moving from the court system into the treasurer's office. I agree with that and I've been thinking about doing that. I didn't have the ability to get it worked into this bill, but I-- I will discuss with the courts and the county attorneys and look at bringing a bill in the future to make it a little bit easier to file the tax with less expense through probates and also to improve reporting so that we better understand the different levels of tax. So I think the final thing is that most-- almost all the people were talking about paying inheritance tax have paid no estate tax. The estate tax is \$10 million exemption currently per person. And Nebraska is taxing and adding a tax that the federal government is exempting for almost everyone. And even if you looked at this, on my map, there's states that do have an estate tax, but most of them have about a \$2 million exemption before even start paying that. So the fact that we're having to pay inheritance tax and people aren't paying any estate tax, it looks out of balance. And so my bill is trying to balance it somewhat, not completely penalize the counties, but make it more fair. Thank you.

LINEHAN: Thank you very much. Are there questions from the committee? Seeing none, thank you very much.

CLEMENTS: Thank you.

LINEHAN: Thank you. So that brings our hearing on LB310 to an end, and we will go to our hearing on LB377.

DeBOER: Good morning.

LINEHAN: Good morning.

DeBOER: Good morning, Chairman Linehan and members of the Revenue Committee, my name is Wendy DeBoer, W-e-n-d-y D-e-B-o-e-r, and I represent Legislative District 10, which includes Bennington and parts of northwest Omaha. I offer for your consideration today LB377, a bill that will modernize our inheritance tax laws. LB377 was brought to me by the Nebraska State Bar Association and attorneys who practice in the areas of real estate, probate and trust law. Nebraska's inheritance tax laws are structured to provide that a beneficiary who inherits a portion of an estate pays a tax to the county in a percentage determined by the particular beneficiaries relationship to

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the decedent. Depending on the closeness of the relationship to the deceased, the statute creates classes of relatives that pay different tax amounts. For close relatives in what is commonly referred to as a Class 1 by practitioners, the tax-- the rate of tax is 1 percent on any amount over 40,000; for more remote relatives or Class 2 beneficiaries such as an uncle, aunt, niece or nephew, the rate is 13 percent on any amount over 15,000. In all other cases involving unrelated beneficiaries or Class 3 beneficiaries, the amount of tax owed is equal to 18 percent on any amount over \$10,000. Over the last several years, practitioners have begun to see situations arise where those persons who have a true familial relationship with the decedent end up failing-- falling under category of unrelated persons and are asked to pay the 18 percent tax rate. LB377 seeks to address this gap by amending the definition of relatives to include what are commonly known as step-relatives and to recognize that familial relationship. The best way to think about the effect of this change is by way of an example. Consider for a moment that Jim is married and his wife, Sally, has children from a previous marriage. Jim's step-children develop a strong relationship, long standing with their step-aunt and Jimmy's sister, Jenny. Jim's step-children cannot be adopted because their biological father is still alive and maintains a relationship with the children. Even so, for all intents and purposes, the children and their aunt, their step-aunt Jenny have a longstanding, familiar relationship as step-relatives. Imagine, then, that Jenny passes away and wills some of her-- her estate to Jim's step-children. Under the current state of law, those step-nieces and nephews would be considered unrelated persons and would be asked to pay at the inheritance tax rate of 18 percent for any amount over \$10,000. If LB377 is passed, the step-nieces or nephews would be treated instead as remote relatives under the statute and would pay the inter-- inheritance tax rate of 13 percent on any amount over \$15,000. While this may seem like a slight change, the modern family comes in all different types, and the frequency of these situations arising has become more and more common. Attorneys assisting clients are often met with having to explain to a client during the estate planning process that the law is applied differently due to this stepped nature of the relationship the client has to their family. Attorneys are also stuck explaining to a beneficiary why the law makes such a distinction between them and their step-relative during a time of grief after the passing of a family member. There is simply no good policy reason for

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the distinction, and the family familial relationship of step-relatives should be recognized for purposes of determining inheritance taxes. A representative of the NFBA will appear behind me to testify on the bill. And I also understand that the Nebraska Association of County-- County Officials has reviewed the bill and intends to take a neutral position on the change, concluding that it will have a minimum impact on revenues. I'm happy to answer any questions you might have, and I should say that I need to get back to Judiciary, so I will waive closing.

LINEHAN: Thank you. Are there questions from the committee? You don't see that this might cause some real problems? I mean, what's the definition of a stepchild?

DeBOER: Well, the the parent has to be married to their parent, so the-- the stepchild literally is-- has to have a parent married to someone else. So the stepchild is--

LINEHAN: What if the-- what if the stepchild is 40 years old?

DeBOER: Well, if the parent is married to-- if their-- their 60-year-old, let's say parent is married to-- and they have a-- the 60-year-old parent has a sibling who wants to give them the 40-year-old child money, then that would be a step-parent relationship. It is, you know, definable by law as to who is married to who.

LINEHAN: Other questions from the committee? Thank you very much.

DeBOER: Thank you.

LINEHAN: Hi.

TIM HRUZA: Madam Chair, members of the committee, my name is Tim Hruza, last name spelled H-r-u-z-a, appearing today on behalf of the Nebraska State Bar Association in support of LB377. Like to start by thanking Senator DeBoer for introducing the bill. I'm passing out to you four letters from different attorneys that are-- that work in this practice area that are involved in the Nebraska State Bar Association and that have been working on this bill, Bill Lindsay from Omaha, Ramsey Heinisch from here in Lincoln, Frank Heinisch, who practices in Geneva, and then Lisa Line, also an attorney from Omaha. All of them

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have seen these issues arise throughout their practice, but the NSBA has been following it and this-- this situation has become-- began to arise much more often than maybe it had in the past. And I don't know if that's just a result of kind of generational changes or the modern family or what. It's a pretty straightforward bill. Senator DeBoer's example helps kind of illustrate the stepfamily issue. Every one of those attorneys gave you a different one. I think one of them has a-- Ramsey's, I think, refers to the Brady Bunch and explains that-- that sort of situation and how you'd have stepchildren being treated differently than their siblings. And again, this would arise to your question, Senator Linehan, the bill limits it to those step-relatives that deal with-- or that are in a situation where the spouse or the former spouse was married at the time of death. So if they've-- if the step-parent has, you know, is later divorced, this would not come into-- if the relationship is divorce due to the termination of the marriage, this would not apply. I understand that it could be sort of complicated, right, or that there might be situations. I can tell you that estate planning and family relationships are complicated. They are complex. And-- and from a policy standpoint, if we're favoring certain types of relationships, the fact that a stepfather who has an existing relationship but is unable simply by-- or whatever reason to adopt the child, right, because the-- the-- you know, their father is still around or is simply unable to-- if they were able to-- to adopt, they would take that position as the relative under the existing statute. All this does is kind of fill that gap where the adoption is not on the table for whatever reason. I'm happy to answer questions. I think it's straightforward, but I do know that the hypotheticals get complex. And that's-- if you read this-- this language, too, it's pretty hard to work through. But what it's-- what we're aiming for and what it works toward is those step-relatives for persons who have spouses that are married at the time of death to see, so.

LINEHAN: Are there questions from the committee? Senator Albrecht.

ALBRECHT: So, so the bonus is to adopt your stepchildren if you want them treated the same as your own.

TIM HRUZA: That would be the only way to do it right now. And like I said, there are various situations and circumstances where that's not an option, right. So I think, Senator DeBoer's example, where you're married, your-- your spouse has children from a previous marriage,

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that-- that divorce from that previous marriage could still be very healthy. Their biological father could still be in the picture. Adoption would not be an option under that situation.

ALBRECHT: Only an option if-- if the father signs off or the mother signs off or whatever the case may be, but it just makes it easier for the courts, is what you're saying to-- or do you just find-- why did it come up? I mean--

TIM HRUZA: Yeah, I mean, it's come up because-- and you'll see in some of the letters where I think Ramsey in her letter also-- hers sticks out in my mind because of the Brady Bunch example. But in her letter, she explains that it often comes up when-- when step-grandparents pass away, right. So step-grandparents that have been in the lives of the children for years, decades, pass away. They're-- the step-children or the step-grandchildren, I guess, you know, they're the biological children of the mother. Mother remarries father. Father's parents die and leave money to their step-grandchildren. That's more-- the more likely situation, I think, than a lot of practitioners are seeing. In that instance, those step-grandchildren who may have known their step-grandparents for decades are treated as unrelated persons and are taxed at 18 percent. So that's probably the more likely situation. And again, I don't think this would impact the courts or any of the inheritance tax filings, really not the process and procedure, but really the-- the treatment of that familial relationship and whether we're giving them, I guess, the benefit of the closeness of that relationship, even if they're-- they haven't been adopted.

ALBRECHT: But if somebody had a will or an estate all spelled out and this happens, so would you still be following the-- the-- the intent of what was written in the will in the first place, and the only way that those the numbers would be different is if those children were adopted.

TIM HRUZA: Under the current state of the law right now, if-- if my-- if my step-grandparent willed their property, whatever it may be, stocks, bonds, whatever, to me as their step-grandchild, right now I would pay an 18 percent inheritance tax on that on anything over \$10,000. If this bill were to pass, I would instead pay 1 percent as a-- as a-- I would be treated as an actual grandchild rather than as a step-grandchild unrelated.

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ALBRECHT: OK. Thanks.

LINEHAN: Thank you, Senator Albrecht. Are there other questions? Yes, Senator Bostar.

BOSTAR: Thank you, Chairman Linehan. Thank you, sir. I think you touched on this, but just-- just so I am clear. If the-- if a child's, let's say, biological mother through a second marriage, stepfather, if the biological parent were to predecease the other, the step-relationship remained.

TIM HRUZA: Under the language as presented here, yes. So as long as they were married at the time that the biological mother passed away, we continue to recognize that step under the bill would propose to continue to recognize that step-child relationship. If, for whatever reason, they would divorce and then she would later die, again, very complicated and complex, but we would at least be saying that because of that-- that divorce situation we're at least-- we're giving some distance or I guess some--

BOSTAR: So a divorce would sever this step-relationship, but death wouldn't.

TIM HRUZA: Correct.

BOSTAR: Thank you very much.

LINEHAN: Thank you, Senator Bostar. Are there other questions? You don't see any problem with this being if it's some 75-year-old that marries a 65-year-old and their children are grown?

TIM HRUZA: I-- I mean, I suppose-- not a direct answer to your question, Senator, but I suppose that's the policy choice that we're asking you guys to grapple with. I think the position from the attorneys is that in a number of these situations, you might be shorting the county out of some, you know, a 17 percent difference between the 1 percent and the 18 percent distinction by allowing--

LINEHAN: But you're not--

TIM HRUZA: --a step-parent to marry.

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LINEHAN: --too worried about the counties. Trust me, but--

TIM HRUZA: Right, right.

LINEHAN: --I am-- I'm confused why we would take step-children. Well, I'm confused why we have a [INAUDIBLE] so to start with that. But I'm confused as to why we would take step-children who may be 40 years old and put them at a lower rate than you would put a niece and nephew.

TIM HRUZA: I understand the concern. Like I said, I think the the idea is simply that--

LINEHAN: Well, even the brother and sister, right.

TIM HRUZA: But the--

LINEHAN: The brother or sister has to pay 13 percent too. I think--

TIM HRUZA: No, I think a brother and sister would be treated under the 1 percent rate as declined.

LINEHAN: No, I think the 1 percent is the only issue. Is it not only issue, only your direct descendants?

TIM HRUZA: I need to pull up the other statute. I don't have it here in front of me.

LINEHAN: OK.

TIM HRUZA: 77-2005.01 defines it. I think it's 77-2003 maybe, or 2,000.

LINEHAN: OK, well, then we can figure out.

TIM HRUZA: Yeah. And I can get-- I can get an answer for you there. I think the intent of the bill, I guess, is simply to provide or to ensure that a-- a blood relative, a child born is-- is treated on the same level in terms of the tax levied as a step-child, right. When-- when again, if they could-- if they could adopt, right, if there was a method or a mechanism for adopting because of a difference in the nature of the relationship, they would get the benefit of that 1 percent or that 13 percent as opposed to the 18 percent. But when

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adoption is not an option, because there, you know, the family is not-- not-- not able to do that for-- for whatever reason, we still want our-- would support the better policy decision is to apply fairly the different levies.

LINEHAN: Thanks. Other questions? Thank you for being here. Are there other proponents?

SARAH CURRY: Good morning. My name is Sarah Curry, S-a-r-a-h C-u-r-r-y, and I'm the policy director at the Platte Institute. In the Platte Institute's report, Death and Taxes, we discussed many of the reform options available to modernize the inheritance tax while also reducing the burden on Nebraskans. One of those reform options is to consolidate the brackets of the tax. And from the reading of the statute, we feel that the policy included in LB377 by the movement of uncles, aunts, nieces and nephews from Class 2 to Class 1 is an effective consolidation of the class and the brackets. The rationale for the class-- for the brackets have a long history and it explains why a bill like LB377 is needed to modernize Nebraska's tax. When originally established by the states in the early and mid-1800s, the inheritance tax was a flat rate. Illinois decided to levy the nation's first progressive inheritance tax in 1895 as a result of the progressive movement's influence in our nation at the time. There was no income tax, and many argued for a nationwide and state level inheritance tax to break up large fortunes and promote wealth redistribution. This rate structure was challenged before the U.S. Supreme Court in 1898, and it was upheld, declaring that discrimination based upon a person's relationship to the decedent was not in violation of the Equal Protection Clause. In 1901, Nebraska used the Illinois tax as its model when creating its inheritance tax. However, there was not a generous exemption for immediate family members as was the case in the Illinois law. Since its inception, Nebraska's inheritance tax has been levied in three different progressive brackets determined by the relationship of the beneficiary to the decedent. And there's only been one change to the bracket or listing of familial relationships that I can find and that was in 1982, when we used to tax spouses and they were exempt in that legislation. Ironically, even economists that argue in favor of the tax over this last century disagree with the idea of a progressive inheritance tax based on the relationship. Those that favor wealth redistribution and support the tax because it can break up large

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fortunes, believe that the progressive rate should be imposed on the amount of wealth. Under this logic, with no relation or in distant relations to decedents should have the lowest tax, the opposite is the case with Nebraska's inheritance tax structure. The Platte Institute recently conducted a poll of Nebraskans and asked them, Nebraskans who inherit property from relatives or friends other than their spouses may have to pay a county inheritance tax. Nebraska's one of only six states that collects this inheritance tax. Based on this information, how important do you think it would be for Nebraska to reduce or eliminate its inheritance tax? 64 percent said very important, 15 percent said somewhat important, 8 percent said somewhat unimportant, 7 percent said very unimportant, and 5 percent said unsure. It is important to note that an overwhelming 79 percent of those questioned believe reform or elimination of this tax is important. LB377 does not effectively eliminate or reduce the inheritance tax, but it does help by effectively changing the current brackets and reducing the overall burden on family members. We have other ideas for more aggressive reform options to modernize and reduce the burden of this tax and LB377 is a good step in the right direction and we encourage this committee to advance the bill to General File. And I want to share with you, I'm not going to read through it all, but there's the methodology and there's also the vote of that poll question by political party, total vote age and by gender.

LINEHAN: Thank you very much.

SARAH CURRY: Thank you.

LINEHAN: Are there questions for Ms. Curry? Seeing none, thank you so much.

SARAH CURRY: Thank you.

LINEHAN: Other proponents? Are there any opponents? Anyone wanting to testify in the neutral position? OK. We did have a neutral position from Jon Cannon, which was dropped off this morning, this morning written testimony, the neutral position. And letters we had for the record, we had none-- none, which-- and Senator DeBoer is not going to close, so that closes the hearing on LB377. And now we'll go to LB3-- excuse me, LB40. Where is Senator Groene? Well, because he probably didn't think that would go that fast.

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_____ : Senator, I sent a of troop down.

LINEHAN: Oh, you did. Well, that will help. Thank you.

_____ : You bet.

LINEHAN: Well, I think we probably say we're not going to Exec over the noon hour.

_____ : Ready?

LINEHAN: Yes, sir, we're ready.

GROENE: Sorry.

LINEHAN: It's OK.

GROENE: Had proponents, and then all of a sudden you have nobody.

LINEHAN: I know.

GROENE: Breath-- thank you, Chairman Linehan, and members of the committee. During the debate of LB1107, many of at you might remember that I brought a quick amendment about this same issue, Rural Development Projects Act, because at that same time I had been keeping track of what was going on at home. And Gary Person who is here to testify, they had brought up the idea about a rail park. And then I seen in LB1107 what we were carving out for the Nebraska Medical Center Hospital, so I got ahold of Gary and I said, let's-- let's shoot for the stars. And we put together an amendment. I copied the language-- if you look at the language of the-- the Transformation Project Act, which was the 300 million for that, it's the same language, just adapted for rural Nebraska and for the rail park. And so that's been vetted, that language has. So what we did then was came back this year with a bill. Some Senators came over to me, especially rural Senators came up and said, this great idea, something for rural Nebraska that fits us. And I always mentioned on the floor and when I ran for office, my theme was, in Lincoln County we wear blue jeans to work. And those are the type of jobs we need. All we hear about is brain drain, but I always believed the individuals who could work with their brain and their hands, they're the smartest ones available out there and we have a lot of those who want to live in rural Nebraska.

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So we've always had a problem in North Platte. We were proud of the railroad and the association with the UP. Guinness Book of World Records still has us as the largest classification rail yard in the world. You go down to the station at the depot down there and go into their office, they've got plaque one, plaque right after another for years and years from the Guinness Book of World Records. It says they're the largest classification rail yard in the world. But we had a problem. We were like O'Hare International Airport in Chicago. You can't land a Piper Cub because it's-- trains come in, large train units come in, they split them up and they-- cars up and they send them to different destinations in part of the country. It's a hub. It's the hub of the wheel for the UP. So they would never allow us to have spurs. They didn't want five cars of grain coming in to O'Hare International Airport to split up, but they have now. They are good business partners with North Platte, have been for years, but they are becoming more and more efficient too and we have lost population, we have lost jobs. So they are working with us now where they will allow us in other communities, I'm assuming, that have their destination and I'm sure the Burlington Northern would do the same, allow us to have a rail park where we could attract manufacturers, blue-collar jobs, where we could attract major distributors for the central of the United States, where they would come into this hub, and because of freight savings, they would create a distribution center. It would be loaded on semis, could be Walmart, could be anybody, and then ship out to their regional stores. Or we could have, like I said, manufacturing and there's other purposes. But-- so we brought this bill. We don't have the billionaires, Omaha does for matching funds and 300 million for a hospital in Omaha for government jobs or another 50 million that was put in the budget this year for space command, more government jobs, which is nothing wrong with that, that's who we are. We don't have that kind of matching funds and what 10 million would do for communities split up between some communities, I give you a list as a handout. I hope you got it. Of communities that this could apply, we're looking at Box Butte County, Alliance on the Burlington Northern; Sidney on the UP and they have the Burlington Northern; Red Willow, McCook has Burlington Northern; Dakota City also; Scottsbluff has the UP; Norfolk has their own line. Nebraska Central, it's basically built for NUCOR. That's how important rail is to major manufacturers, which is tied into-- into the UP system. But with COVID and stuff, companies are looking to get out. They're looking to get

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out areas where they can, and if-- and I'm going to leave it to Gary to tell you what he's been working on. Companies he's-- I don't know if he can divulge, but he has told me he has some major fish on the line, but they need transportation. So we can raise three, five, two million dollars, I've been told from matching funds and part of that would be from the business we attract so that we can expand on a rail line area that's already in place, had to buy more land, and we need to know. And this would-- 3 to \$10 million or a couple million for North Platte, Nebraska, Sidney, Nebraska would be the same as 300 million for Omaha. That's what we could do with that. So I'm looking for your help to-- this would be my priority if we can get it through committee. The money is there. There's 50 million sitting there that isn't going to be used for space command. That was nonchalantly the government-- the Governor came up with to put into the budget. That money is available for economic development and it was intended for that. There's 48 million on the floor for A bills. We've shortened the time limit so it doesn't drag out as long as other economic development plans. So the Appropriations Committee, Senator Stinner signed on this morning to the bill, to-- you have to have your application in before December 31, 2022. Then you have five years to-- to-- it will be approved by the economic development, Nebraska economic development and they-- you have five years then to get your matching funds to be matched by the state. So it isn't drug out for a long time commitment to the state. And that's plenty of time for communities to put their plan together. And then it's competitive, who gets in first, first come, first serve. It's competitive. This isn't the first time we've done this. In the Imagine Act there's two programs. Senator Lindstrom's, that's a actual cash expenditure on the Renewable Chemical Productions Act. And then the Key Employee Retention was 40 million. That's a cash payout and not a tax credit. So this is nothing new that we would be doing here, but it would be specific for rural Nebraska regional. We have a Walmart distribution center there. It brings employees in from hundreds of miles. They come out of Kansas because they have a 3-day work week, 4-day work weeks, and it works for small farmers and individuals where they can. This is not for North Platte. This is not for Norfolk. This is not for McCook. This is regional. Every one of them communities are regional. The railroad workers are regional employees. They ranch and farm. They live in small communities. And it would give some hope for rural Nebraska. I had-- passed out of handout of what's happening in rural

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Nebraska of the 66 counties that lost population since the last census. In my county, we lost a 1,025. These are counties that's around-- I just took because it's my district. Custer is 113. These are counties that touch Lincoln County because we're the big boy. Dawson is 593. Senator Williams has signed on to this bill. Frontier is 116, Hayes is 74, Keith is 300, Logan is-- Logan, I don't know what's going on in Logan. I've got to find out because something's happening there. They went from 763 to 927 people. McPherson has lost one hundred and-- it's-- it's a repetitive story. Rural Nebraska needs good jobs. People want to live there, we just need good jobs. And we think in the state, we think of the big projects, but to North Platte, Nebraska, this is a big project. Thank you.

LINEHAN: Thank you. Are there questions from the committee? Senator Pahls.

PAHLS: I just want to be clear, Senator, this is going to be your priority bill.

GROENE: Yes, I hope to get it out of committee.

PAHLS: And because you are basically intent. I know the power of what happens. In my home town, a guy came back to commercial art, his business there, and he brought 40 different people with him, just in a small so I see the power of that. Without really understanding, I'm going to commit to you early on.

GROENE: Thank you.

PAHLS: If there's that signature, it's up to you.

GROENE: Appreciate it. Yeah, it's-- it's the same as the the hospital one in Omaha.

PAHLS: Yes.

GROENE: There is something that is wrong in the hospital bill and you might want to change. I mean, no, it's a small deal. I brought an amendment--

LINEHAN: Maybe a different conversation. That's in your best interest.

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GROENE: All right, but we found it. The Secretary of State found it.

LINEHAN: OK.

GROENE: Where we-- the fiscal note is wrong too. We do have a fee of \$1,000. The fiscal note from DNE says there's no fee there, it's a thousand dollar point language.

LINEHAN: So--

GROENE: But we paid a thousand dollars to the Secretary of State. That's wrong. He doesn't take checks. And it was also in that-- in the-- well the hospital would have to do because we copied their language. I'm just telling you something you need to correct.

LINEHAN: OK.

GROENE: They paid it to the Department of Economic Development, Nebraska, the fee, and then they create a fund that-- that-- that the treasurer pays out of. And we have an error. So there is AM169. It's just minor. Just says the money goes to Department of Economic Development, not directly to the state treasurer. No, I'm not-- it's a simple thing, but--

LINEHAN: OK.

GROENE: --because we repeated the language, Secretary Murante or Treasurer Murante caught it.

LINEHAN: OK, OK. All right. Well-- OK. Any other questions? Senator Flood.

FLOOD: Thank you, Senator Groene. I appreciate your comments about doing something for Nebraska and I-- I can totally understand that the idea of sharing this with other communities. But you do have the world's largest classification yard. How much would it cost to just do it right in North Platte?

GROENE: That's why-- I do know this. UP is on board. They have their economic development team helping us. It's just not that they're giving us-- they are working with Gary Persons and he will come up here and tell you what the numbers they have been advising. They will

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even help design what we need to do to match the industry that comes. It's a team effort and we're getting some help from the UP. They are good, good members. But if I would-- I would refer that question to Gary, because even me, as you know, when you're attracting businesses, they don't even tell the state senator because they want secrecy. So how much they want to divulge all that about the cost and what they're looking at, I would refer to Gary.

FLOOD: What I would say, I'd be inclined to write this so that we do it right in our state's biggest classification yard instead of trying to have all this competition. I know other communities will have--

GROENE: That's--

FLOOD: --it right in one place.

GROENE: Senator Flood, that's my original bill said, but as a politician, I told Gary, if I do that, then there's going to be people say, what about my town?

FLOOD: Yeah.

GROENE: So actually, politically-- it's a for a political reason. What I would love you to do is, there's 50 million there sitting in plans for space command that ain't going to happen, and you just raised it from 10 to 50 and there's enough to go around, Senator Flood.

[LAUGHTER]

PAHLS: Never stop.

LINEHAN: Are there any other questions? Does this-- have you had conversations and if not, maybe Gary has with Blueprint, because I think this is one of the-- if I remember, their slide show of things that we could do in Nebraska that we're not doing well is distribution because we're in the center of the country and that we should take more advantage of the fact that we could be a distribution center for the whole country.

GROENE: I know the Chamber is on board, the State Chamber is. Gary is going to-- because of COVID, he's going to speak for all three, I think. The economic developers in the state, the Chamber and I talked to former Senator Smith last year, I believe on it, and he

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nodded. He said that's a great idea when he heard my amendment. I believe that we had that conversation. But then I have dreams too, so, but I believe we did have that conversation. [LAUGHTER]

LINEHAN: OK. All right. Will you stay to close?

GROENE: Yes.

LINEHAN: OK.

GROENE: This is important for my district.

LINEHAN: OK, the first proponent. Good afternoon-- or not quite.

GARY PERSON: Yeah, almost.

LINEHAN: Yes.

GARY PERSON: Honorable Chairman, Senator Linehan, Revenue Committee members. My name is Gary Person, G-a-r-y P-e-r-s-o-n, spelled like Person. I'm president and CEO of the North Platte Area Chamber Development Corporation. As part of my testimony here today, I'm submitting additional support testimony from two statewide organizations that are heavily involved in economic development issues, Nebraska Chamber of Commerce and Industry and the Nebraska Economic Developers Association. The McCook Chamber of Commerce also wanted me to mention that they want to go down in record as support of this bill. And I'd like to answer both of those other questions when I get done with the testimony. First, let me thank Senator Groene for his very good work on this bill and his relentless effort to get it to this stage. I'd also like to thank Senator Williams, Senator Albrecht and Senator Stinner for their cosponsorship. We sincerely appreciate the Revenue Committee's consideration of advancing LB40 outlining the Nebraska Rural Projects Act. Numerous letters of support from additional local, state and regional NRDs are also entered into the record ahead of time. I personally been involved in economic development, community development work for 35 years, primarily in western and west central Nebraska. It's often challenging to get companies to consider our location as the state's population continues to move east and economies become more limited in the west. The more economic development tools we have in our toolbox helps us overcome those obstacles. Over a century ago, Nebraska Congressman Moses

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Kincaid realized the vast differences in geography, population stability and climate impacting agriculture sustainability between eastern and western Nebraska. He introduced what would eventually become known as the Kincaid Act that changed the dynamics and stop the outmigration of rural Nebraska. He realized sometimes we need to think differently if we're going to change patterns. Over time as farms became larger and more automated, the population outmigration again, however, accelerated in rural Nebraska. We must be more creative to capture our various assets. In my nearly four decades of work in trying to recruit business and help existing businesses expand, one thing that has become abundantly clear to me is, you at least have a competitive chance to lure manufacturing, distribution, transloading and warehousing if you have direct rail access. When I moved to North Platte five and a half years ago, I thought from an economic development advantage standpoint with the presence of Bailey Yard, the world's largest classification yard, the capability of rail access should be at the top of the list. I later discovered quite the opposite existed due to the uniqueness and traffic congestion flow in and out of Bailey Yard. Industrial rail access for business in Lincoln County was most of the time greatly discouraged, if not impossible, to achieve over the past half century. Certainly, we never traded the dynamics of having rail access for a Bailey Yard, but with automation, precision scheduling ever changing in the Union Pacific Railroad world, that door is now slightly open for us to compete for industries needing rail access as long as it is strategically in an acceptable location. As Union Pacific continues through efficiency and automation to downsize its employment force in our community, the local voices become all the louder that what we must do more to diversify our economy. UP also realizes the critical importance of our efforts and has been incredibly supportive and helpful. North Platte was once the fourth largest population trade center in Nebraska. Today, it is 9th in population and continues to lose population. We see glimmers-- glimmer of hope on the horizon. Certainly this is one of them. Unlike many business parks designed for truck transportation, rail is more complicated and more expensive. But even just on a speculative basis, since we begin talking about establishing a rail park, we are now attracting interest from industry that otherwise would not consider North Platte. We believe this bill could assist not only our community but other rural communities that could diversify their economies. Unless we are content to see Nebraska's urban eastern population

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continue to tip the economic scale and we sit idly by watching a rural economic potential go untapped, it might look really scary in another 25 years. Help us by helping Nebraska reach a greater potential and support LB40, and thank you for your public service.

LINEHAN: Thank you very much, sir. Are there questions from the committee? Senator Flood.

FLOOD: Thank you, Mr. Person. I appreciate your testimony. Do you want to help answer some of those questions--

GARY PERSON: Sure.

FLOOD: --I had earlier.

GARY PERSON: Is-- in regards to-- that was my first question to UP. Why couldn't we do this right at Bailey Yard? Because it makes a lot of sense, so much infrastructure there. But it's-- it just-- it's a very complicated complex, integral part of their operation. It just cannot happen. And-- they-- we have to go at least 10 miles out from Bailey Yard, either side of it, to allow this type of an industrial park to be accessed, but that's better than just completely out of the loop, you know, over the last 50 years. But they-- they could do it. Les France or Scott Moore could certainly answer that question much better than I and I hate to speak on UP's behalf, but trust me, I've had multiple conversations with them. I actually was fortunate to serve on the advisory committee with the Blueprint Nebraska Committee. Both of those gentlemen were on the Central Committee on Blueprint and we had those conversations and certainly, with all those focus points that came forward out of Blueprint, this ties right into that.

FLOOD: What do you think it would cost to do it right?

GARY PERSON: You know, internally within Bailey, or--

FLOOD: No.

GARY PERSON: --are you talking off from [INAUDIBLE]. It all would depend on the size of not only the park, but the company itself that would serve as the anchor that you could afford then to put the infrastructure in. Certainly, and in my conversations with Union Pacific, they said one of the biggest mistakes you can make as a

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community is to go ahead and put a park in, design it, put everything in, because it might not be the right fit for whatever industry becomes your anchor. Your best deal is to get your plans in place, get your options on your land, get your park design, but be flexible enough doing that. Key industry comes along or you can recruit them in there, then you design it so it's capable of handling their direct needs. So, it's all over the table. I think, you know, in a smaller application that might be one industry wide, two to three million dollars, but if you've got a, you know, a mega industry coming in, certainly it would far exceed the 10 million dollar match to put it in place. You'd have to be as creative as you can because it's-- it's a very expensive process. We-- we so happen to have a site where, unfortunately, because of COVID, a company left Nebraska, closed up shop. They do have an existing rail spur that we could modify and then expand from there. And I had great conversations with that company prior to the time that they closed, that we could have some kind of a cooperative situation. But because that switch is already there, we can do it a little more affordable than if you started from scratch. But there are existing spurs across the state of Nebraska that have been abandoned. So one time they did work in accessing the rail and as time went on and those companies left or they quit using the spur, that could probably be reactivated because at one time you could prove, you know, that-- that it was accessible. The railroad is all about precision timing. You know, the less that they have to stop at mainline traffic, you know, that's dollars and cents to them every time they have to stop. But with their new precision timing in delivery, it's different than moving your-- the unit trains that used to have to have 100 to 150 cars to even be able to access the railroad just because of an efficiency standpoint. But I think times have definitely changed. COVID has rapidly increased that line of thinking, and so the timing is good for us to do the proper planning.

FLOOD: Who would we be giving the money to in this case?

GARY PERSON: It would-- you'd work with a development corporation, and if it was near a community, obviously the community would probably be involved. But for instance, if we went out and spent \$4 million to put this in, in a combination of partnership to do that, we could possibly access on the back end of that \$2 million of reimbursement for our expenditure, proving, you know, the various components that are eligible.

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FLOOD: You know, one of the things that would occur to me is if they're going to do it and they hit a home run, we want to be-- we want to ride the train, you know, on the home run.

GARY PERSON: Yeah.

FLOOD: If we did this as like not a tax credit program, but if we put \$5 million in each year for the next four years and we extended that date to collect the money to 2024, then the state could grow with North Platte as you hit the ball out of the park and say, hey, you know, move a distribution center in here and you'll have this perfect best in class rail access. It might be the way, because I hate to cap you at 10 million and all of a sudden you could have a-- somebody big on the line. If this is something you've got in your quiver to look to recruit people, what do you think that will mean to businesses?

GARY PERSON: Well, it makes all the difference in the world. Just-- yeah, and the time that I've been in North Platte, we probably have had 10 proposals come our way. They come from Department of Economic Development. Might come from MPDD, might come from a site selector that's been hired to represent this anonymous company. One of the first questions you usually get on this multitude of questions you get to provide in the proposal is, do you have rail access? Well, first question, you know, we're out of the game before we even start.

FLOOD: Which is ironic.

GARY PERSON: Yeah, yeah. Just the opposite of what you'd think--

FLOOD: Right.

GARY PERSON: --was, North Platte is known for.

FLOOD: Well, thank you.

LINEHAN: Thank you, Senator Flood. Other questions from the committee? Senator Pahls.

PAHLS: Thank you. I agree with Senator Flood, not all the time, but on this particular issue, I do. I hope you and the Senator would sit down and really bring back a story for us, because if this is going to advance, it's got to be more than I think what you're asking for. And

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the reason I'm saying that, I'm from Omaha and we have been treated quite well. And I do believe, as the Senator says, it's time for making the rural section of the state get some of the benefits. So right now, I think you have two of us sitting right here and I'm sure more. I see this as actually helping out on property tax in the long run.

GARY PERSON: Absolutely.

PAHLS: Because it bringing in people. So I'm trying to send the message to you and the Senator that I think you have some support.

GARY PERSON: Thank you very much. I can tell you that the preliminary conversations I've had with different companies that know that we're working on this, none of them have a presence in Nebraska right now.

LINEHAN: Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So I take it the two of you-- if the business comes, they're also going to be qualified in the Imagine Act for that part of it. You're just trying to get the-- the rail yard or that-- that access, that's what this project is. And again, there isn't-- it depends on the size you're building and what you're doing, the cost is variable.

GARY PERSON: Yeah. You know, and the parks like this can exist from 50 acres to thousands of acres. It's hard to find a mega site, you know, that you're not impeding on farms and ranches and-- and highways and so forth. But you can-- you can right fit them and it doesn't mean that you're just limited to one in your county. You know, there are other potential areas in the county that might-- might work also. But at least in our case, the door is open now. And I think that's the same-- the same thing could be true for a lot of communities that previously just couldn't access it or have even attempted to do so.

FRIESEN: The biggest challenge is just getting the land access.

GARY PERSON: Yeah. You know, it's hard to find just a raw piece of ground that hasn't been impeded on with other types of development. But we-- we do have a situation where a very cooperative, community-spirited farmer that has give us options on four different parcels of land. We went through some preliminary designing now at a

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site readiness assistance program through NPPD that we have access to do some environmental planning to make sure it was properly environmentally clean to look at. But we're still in the preliminary stages. And-- and this certainly helps accelerate it. It actually makes it feasible, where before it was head scratching, you know, trying to access every possible program out there and it was still-- it would be a tough nut to crack.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Seeing none, thank you very much, Mr. Person, for being here.

GARY PERSON: Thank you.

LINEHAN: Are there other proponents?

CHRIS BRUNS: Chris Bruns, C-h-r-i-s B-r-u-n-s. Thank you, Chairman Linehan, members of the committee. I'm here today as a county commissioner from Lincoln County. I'm thankful for the opportunity and I'm going to speak off the cuff just to try to put a point of emphasis on the excitement that our area has for the potential to turn the curve economically in western Nebraska. And it's not just localized to North Platte. I've spoken with a lot of different commissioners about this particular bill and particularly out in the Scottsbluff area, and there's a lot of support for it. We all love Nebraska. I think that goes without saying. It's probably more fond to us in times of absence. I experienced that in my military service. Upon transitioning back into the civilian sector, I lived in the great cities of Lincoln and Omaha and I loved every aspect of it. But an opportunity arose where I could move my family back home to where I was born and raised. And upon doing that, I was confronted with the stark reality that the economic opportunity out in western Nebraska is not as good as what I remember it being when I was younger. We have an opportunity with-- with this mechanism to, like I said, turn that corner. There's-- there's potential that is right on the cusp of being realized that not only will impact North Platte, but as the Senator-- Senator Groene was saying it, it's a regional thing. There's regional impact. North Platte and communities like it are regional hubs of commerce and industry. Unfortunately, there's places like North Platte that have

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experienced population decline over the past 30-plus years. My ask of you is to give thoughtful consideration to this, to provide support for advancing it. And with that, I just want to thank you for your consideration, so.

LINEHAN: Thank you very much. Are there questions from the committee? Seeing none, thank you very much. Are there other proponents?

CHRISTY ABRAHAM: Senator Linehan, members of the Revenue Committee, my name is Christy Abraham, C-h-r-i-s-t-y A-b-r-a-h-a-m. I'm here representing the League of Nebraska Municipalities. We just want to add our support to this bill and thank Senator Groene for introducing it. We, too, are very interested in having opportunities in western Nebraska to help them with economic development. We think this is a great plan that he and Mr Person have come up with. We also appreciate that there are matching funds that are required so that the community involved really is going to have-- have a lot of skin in the game and will really be committed to the project. I will tell you, we are devoted to North Platte. Of course we are, they are a wonderful, strong member of the League, but I will tell you, there are other communities in the state that would really also love to have this opportunity. I believe you received a letter from South Sioux City in support of this bill. And Senator Groene mentioned some other communities that I think would also very much benefit from it. So I just wanted to mention that it is a state-- excuse me, a statewide need. So thank you for your time today and I'm really happy to answer any questions.

LINEHAN: Thank you very much, Ms. Abraham. Are there questions from the committee? Seeing none, thank you very much.

CHRISTY ABRAHAM: Thank you so much.

LINEHAN: Are there other proponents? Good afternoon.

JON CANNON: Good afternoon, Chairwoman Linehan, and distinguished members of the Revenue Committee. My name is Jon Cannon, J-o-n C-a-n-n-o-n. I'm the executive director of the Nebraska Association of County Officials, also known as NACO, here to testify in support of LB40. Thank you, Senator Groene, for bringing this bill. This is one of those things that we're happy to come and support because when all

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of Nebraska prospers-- prospers, then I think our individual communities prosper and vice versa. So when an individual community like North Platte has an opportunity to grow and we want to talk about growing Nebraska, this is an excellent way for us to achieve those aims. We think this is a great policy for the Revenue Committee to advance and we urge you to pass this on to General File. And with that, I'd be happy to take any questions. Thank you.

LINEHAN: Thank you, Mr. Cannon. Are there questions from the committee? Seeing none, thank you for being here.

JON CANNON: Thank you.

LINEHAN: Are there other proponents?

BILL HAWKINS: Senator Linehan, and members of the Revenue Committee, my name is Bill Hawkins, B-i-l-l H-a-w-k-i-n-s. I want to thank you for really looking at Nebraska in an economic aspect. I'm a lifelong Nebraska resident. I have chose to stay here. I live north of Lincoln and I am very blessed to be a rural Nebraska person. I want to thank Senator Groene for his bulldog efforts in this Legislature to get people to pay attention to rural Nebraska. It's the best place in the world to live. I'm with the Nebraska Hemp Company. This rail development-- economic development package for rural Nebraska would help to bring in companies. In this COVID era things are changing. The economic director mentioned that we can be a distribution hub. The hemp industry hasn't developed or even begun to mature. It is bales and fiber and hurd. I will give the economic development of North Platte is particleboard. We can be producing and shipping out value-added products, but it has to be every community here in Nebraska. Every community is hooked up with a railroad. We have Beatrice, where I'm from down there. All these small towns are losing their infrastructure, their downtown, which makes rural Nebraska. We need to bring back the butcher, the baker and the candlestick maker and bring back these kids that have left. I represent an industry that is-- that other Legislatures on the east coast and other places in the country are scrambling to pass legislation to tax and regulate cannabis. This is a serious issue and it represents a revenue stream for you. Right now, Nebraska has a chance to tax and regulate the tie dyes, longhaired, pot smoking hippies and other cannabis consumers and let local illegal entrepreneurial drug dealers become local,

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sustainable businesses. This is not going away. The other states are scrambling to do it so it isn't the evil that it is portrayed. But I'm offering you and Senator Groene these economic development funds and with multi-- with the federal government getting ready to decriminalize cannabis, and it will happen, it opens up interstate commerce. Nebraska, with its inexpensive land, work force, sunshine and good water already on a distribution center, multi-state companies well-funded in other states that have monopolies on distribution, they will centrally locate once they can and Nebraska would be an epicenter for distribution. And so I am just thankful for Senator Groene for bringing up this. And this isn't just about-- this is economic development for Nebraska. And so I just wanted to bring this point to you that the revenue is there. Illinois hit a billion dollars the first year, 25 percent of that was out of state. Nebraska could do that in their first year. So there it is. And I want to thank the Revenue Committee and Senator Groene, and this bill needs to press on.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much.

BILL HAWKINS: Thank you, and have a good day.

LINEHAN: Thank you. Are there other proponents? Are there any opponents? Is there anyone wanting to speak in the neutral position? We did have three written testimonies dropped off this morning. Proponents: Zane Francescato, Seward County Chamber and Development Partnership; Camdyn Kavan, OpenSky Policy Institute; Gary Pearson, Nebraska Economic Developers Association, Nebraska Chamber of Commerce. We also had letters. We had 13 letters in support, none in opposition and none in neutral. Senator Groene, would you like to close?

GROENE: Thank you, Chairman. You know, sometimes the stars line up. Gary said that there's a spur already into the rail yard and it's 10 miles away. And also it kind of contradicts what we said that they wouldn't allow us the spurs. But this is-- was a special spur. This company that was a subcontractor for-- that closed now, was a subcontractor for the railroad. They rebuilt the wheels. They bring them out on flat cars, weld them up, you know how they weld them and rebuild them and then they-- the railroad, of course, said we're going to build a spur for \$5 million per out there so we can get our-- that

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company closed because of COVID. It took everything to Kansas City and they're a bigger plant. So that's there. I talked to Gary, the land itself, well, we have that option. There's 50 acres on an existing site where that company was that they would, I think, basically donate or-- I heard, or not charge as much for that. They've been-- they were good business neighbors. But the other 110 acres or so that's-- we have options on is 2 million right there to buy that. If anybody knows what farm ground brings. Yes, we-- we-- if you heard Gary, he's not one of these pie in the sky used car salesmen. For an economic development guy, he is very conservative. He could have come down and told you, which I've heard from some, that we got big plans. We need \$100 million. We're going to turn North Platte into Chicago as a freight center. He didn't, did he? When he first came to me, he said 5 million. I said this is politics, Gary, we got to go at least for 10 and-- but we need to go bigger. And I agree with you, Senator Flood, because how do you get the big project? How do you get that big one? You got to think big, but settle for the 100 or 200 employee jobs. So, yes, I would entertain, gladly entertain an amendment to raise that total amount that could be paid out. And, you know, even if we said you had to match that 50 percent on the first 5 million and 25 percent on the next 10 or 20 to keep the-- everybody with some money in the game. But yes, I will gladly work with the chairman and the committee to come up with an amendment to expand this opportunity, because it's there. It really is there. These companies are looking for space. We-- in places where they're coming from, the space sells by the square inch and the square foot. Believe me, we have space in western Nebraska to build these facilities than we have-- they-- they would be the type of jobs of the type of individuals who like living in open spaces. So I would-- but I would like it to be my priority, and if we could increase the amount, we're not going to say no. We'd gladly do that and tweak it a little.

LINEHAN: Thank you, Senator Groene. Are there any questions from the committee? Senator Flood.

FLOOD: One quick one. I know everybody's got to go to lunch, but someday those locomotives are going to run on liquefied natural gas, I think.

GROENE: Run out of what?

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FLOOD: Liquefied natural gas as the-- as everything changes. Has there been any discussion with the railroad about fuel sources that will change over time?

GROENE: I would have to talk to their lobbyist that--

FLOOD: Yeah.

GROENE: One thing that wasn't mentioned, we're not just a railroad center. We sit in the middle of the United States and that's why UP is there in the first place. But we have I-80. We have one of the major arteries of transportation besides rail. We have one of the-- two of the biggest arteries going right through our community. So taking the freight that comes in and out, we have that. That system is there. We also have Highway 83, which is a major to Mexico and north to Canada thoroughfare, which maybe we can get some of that thoroughfare money too to expand it. But a lot of traffic goes through there, too, so it's a gold mine that we've been just held back. We've been held back.

FLOOD: Right now, you've got a dollar for dollar match in there. I worry about if you get into something that costs a lot of money like this that we might have to drop that match.

GROENE: Or save for the first 5 million to keep the small buy-- whatever you want to do, Senator Flood. If you want to help rewrite the thing.

FLOOD: No, no.

GROENE: I mean, no, I would--

FLOOD: Tomorrow we have a bill up for 75 million. [LAUGHTER]

GROENE: But you're talking to Gary Pearson, you're--

FLOOD: No, I'm not-- I'm not sweating the 20 million.

GROENE: So, but you're talking to two fiscal conservatives, Gary Person and the people of North Platte and myself, but we're willing to think bigger.

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LINEHAN: Thank you, Senator Flood. Are there other questions from the committee? Seeing none, thank you very much, Senator Groene. Thank you all for being.

LINEHAN: Welcome to the Revenue Committee. My name is Lou Ann Linehan. I'm from Elkhorn and represent 39th Legislative District. I serve as Chair of this committee. For the safety of our committee members, staff, pages and public, we ask those attending our hearings to abide by the following procedures. Due to social distancing requirements, seating in the hearing room is limited. We ask that you only enter the hearing room when it is necessary for you to attend the bill hearing in progress. The bills will be taken up in the order posted outside the hearing room. The list will be updated after each hearing to identify which bill is currently being heard. The committee will pause between each bill to allow time for the public to move in and out of the hearing room. We recognize that everyone-- excuse me, we request that everyone utilize the identified-- identified entrance and exit doors to the hearing room. We request that you wear a face covering while in the hearing room. Testifiers may remove their face covering during testimony to assist committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize front table and chair between testifiers. Public hearings for which attendance reaches seating capacity-- I don't think that's going to be a problem today. The Leg-- OK, did that. Please-- we ask that you please limit or eliminate handouts. The committee will take up the bills in the order posted. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceedings, I ask that you abide by the following procedures. Please turn off your cell phones. The order of testimony will be the introducer, proponents, opponents, neutral and closing remarks. If you will be testifying, please complete the green form and hand to the page when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page to distribute. We need 12 copies for all committee members and staff. If you need additional copies, please ask a page to make copies for you now. When you begin to testify, please state and spell both your last and first name for the record. Please be concise. It is my request that you limit your testimony to five minutes. We will use the light system. So you have four minutes on

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green, a minute on yellow, and then when it's red, please stop. If there are a lot of people wishing to test-- no. If your remarks were reflected in previous testimony or if you would like your position to be known but do not wish to testify, please sign the white form on the table outside of the room by the entrance. It will be included in the official record. Please speak directly into the microphone so our transcribers can-- are able to hear your testimony clearly. I would like to introduce my committee staff. She sits right here, but she had to run away for a minute, she'll be back. Her name is Mary Jane Egr Edson. And to my left is research analyst Kay Bergquist. And at the end of the table is our committee clerk, Grant Latimer. Now, I would like Senators to introduce themselves starting at my far right.

PAHLS: Thank you, Chairman. Rich Pahls, District 31, southwest Omaha.

BOSTAR: Eliot Bostar, District 29, south central Lincoln.

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

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

BRIESE: Tom Briese, District 41.

ALBRECHT: Joni Albrecht, District 17, Wayne, Thurston and Dakota Counties.

LINEHAN: And Senator Flood, would you like to introduce yourself?

FLOOD: Senator Mike Flood, District 19.

LINEHAN: Thank you. This afternoon our pages are Jason and Reid. Jason, is at UNL studying political science and history, and Reid is at UNL studying ag economics. Please remember that senators may come and go during our hearing as they may have bills to introduce in other committees. Please refrain from applause or other indications of support or opposition. I would also like to remind our committee members to speak directly into the microphones. For our audience, the microphones in the room are not for amplification, but for recording purposes only. Las-- excuse me. Lastly, we are an electronics equipped committee. Information is provided electronically as well as in paper form. Therefore, you may see committee members reference information

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on their electronic devices. Be assured that your presence here today and your testimony are important to us and is critical to state government. With that, we will open on LB502, Senator Flood.

FLOOD: Thank you, Chair Linehan, members of the Revenue Committee. My name is Mike Flood. As I stated before, I represent District 19. This bill, at its core is a process improvement. Last year, with the passage of the ImagiNE Nebraska Act, numerous stakeholders came together to improve Nebraska's flagship incentive program. Many of those improvements were procedural in nature. And Dave Rippe, who was at one time our state's director of economic development and was so during the drafting of the bill, will speak to these improvements later. At a high level, one of the primary improvements was the treatment of sales and use tax within the program. In the ImagiNE Nebraska Act, once a company reaches its required levels of investment and employment, they're allowed to pursue a sales and use tax exemption via a direct payment permit. The permit allows them to realize an exemption at the time of purchase, but to file documentation of their purchases and liability on a monthly basis with the Nebraska Department of Revenue. Conversely, under the old Nebraska Advantage Act, companies would pay all of their sales and use taxes as they go, and the state and its municipalities receive all of the sales and use taxes as the companies pay them. Then, on an annual basis, companies can file for a refund as provided in their agreement of the money that the state has already agreed they have earned. Oftentimes this was problematic and is problematic for the state and for the municipalities as there's not a clean way to track the accumulation of these refund liabilities in real time. Historically, various cumbersome reporting and inspection methods have been pursued as a workaround for the uncertainty of the refund. Providing for an exemption during the entitlement period after a company has already reached the required levels of investment and employment is consistent with the process improvement created by the industry stakeholders in the Advantage-- ImagiNE Nebraska Act and approved by the Legislature. Moreover, it eliminates uncertainty surrounding the accumulation of unknown refund liabilities by never collecting the funds that we've already agreed to give back to the taxpayer. What I would say our-- is that I come from a district that has severe, depopulation issues. These are first world economic development problems. These are problems that they're really facing in Sarpy County with the addition

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of some of these large data centers. And I want to make clear that I have been working with the League of Municipalities and some of the economic development interests that have been trying to remedy this and this bill is-- is fashioned as a compromise to try and make it easier for some of the companies to participate in this thinking that we're making it easier for the municipalities. That said, I looked at the fiscal note and it is a disaster. We have to figure that out before this bill goes any further. It's not intended to have any financial impact. And I think we need to communicate with the Fiscal Office on my side so that they understand that this should be revenue neutral because we're essentially letting them be exempt from the taxes. They pay it and report it instead of collecting it and giving it back. And there should be no meaningful non de minimis cost. There may be some accounting that needs to be done, but as written with the fiscal note, we have some real challenges with this. So I'm sure you'll hear from Dave Rippe, and Lynn Rex is here, and I want to thank our legal counsel for taking an hour and a half of her time to help sort through these problems yesterday. We just need to get everybody on the same page. So thank you.

LINEHAN: Thank you, Senator Flood. Are there questions from the committee? Seeing none. The first proponent, please. Go ahead.

DAVE RIPPE: Good afternoon, Chairwoman Linehan, and members of the Revenue Committee. My name is Dave Rippe, D-a-v-e R-i-p-p-e, and I am a registered lobbyist for NetChoice, a trade association representing America's leading online businesses. In that capacity, I'm here today in support of LB502, which brings a key administrative improvement from the ImagiNE Nebraska Act over to the Nebraska Advantage program. Various working groups and stakeholders, both public and private, spent more than four years crafting the ImagiNE Act, and the legislation was vetted over two different sessions by the Nebraska Legislature, ultimately gaining approval last session. The program was intended to simplify and streamline some of the cumbersome Nebraska Advantage processes while increasing the competitiveness of our state for economic development projects and ensuring fiscal responsibility and accountability to all Nebraskans. With ImagiNE now implemented, it is my firm belief that it will accomplish these mandates. LB502 borrows a key simplification and competitiveness feature as a one time election into the Nebraska Advantage program, creating administrative alignment between the two programs and addressing a cumbersome sales

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and use tax refund process that creates uncertainty for Nebraska localities. To walking very quickly through the function of our incentive program, a company files an application with the Department of Revenue. They ultimately reach an agreement which outlines the parameters of their project, and they start to spend and hire here in Nebraska. Oftentimes this ramp-up period between the time a company makes an application and when they finally complete their capital investment and required hiring can take up to four years. After the Department of Revenue completes their qualification audit certifying compliance, the taxpayer making the investments must then file for a refund of up to four years worth of sales and use tax expenditures. On a large data center project, this refund could easily be well in excess of 20 or 30 million dollars. Now, following this time period after qualification has been certified after a company has done everything they were obligated to do, the Department of Revenue having certified this fact, a company can continue to earn sales and use tax refunds for up to the following six to nine years, depending on the program that they're in. This is on the additional capital investment that they make into the facilities over and above their qualification amount. In ImagiNE Nebraska, we exempt-- we have the option to exempt these purchases via direct pay permit process, where then a company is exempt at the time of purchase, but files their monthly Form 10 with the Department of Revenue and reconciles at that time. What we're looking to do here is take that same exact process and take it back into the Nebraska Advantage program as a one-time election for the company. What this does is clean up accounting on the company side on how they book assets and depreciate assets, bringing in that sales tax refund exemption to the time of purchase not a year or more later. On the-- on the municipality in the state side, what it's intended to do is mitigate the impact of these unknown refunds. And so, as you can ImagiNE, as we accumulate these-- these refunds of dollars that are intended to go out, it's not always so easy to track those as a company making purchases, and this fact has been exacerbated when we start looking at billion dollar data centers for instance. LB502 allows for the process improvement from the ImagiNE Act to be used as a one-time election by companies who have already qualified for Nebraska Advantage program within 60 days of the passage of the bill. It enhances our state's competitiveness, improves and streamlines a process and helps to eliminate annual refund surprises for the state and its municipalities. I appreciate your consider-- consideration of

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the bill. Happy to answer any questions. I would also like to add, though, and certainly echo Senator Flood sentiments on the fiscal note, probably not the first person sitting in this chair, nor will I be the last to be surprised by fiscal note. And certainly the intention of this bill at its core is a process improvement and-- and certainly allowing companies to take advantage of that improvement that was created in the ImagiNE Act. On the other side of that, the intention was to help our states, municipalities, and we're likely going to hear from some of them today too. The full intention is that this is meant to be a helpful bill. And so we had a great call yesterday and certainly planning to continue that dialogue to get us to the point of being helpful with this bill and certainly not hurtful.

LINEHAN: Thank you, Mr. Rippe. Are there questions from the committee? OK. I have a question on the--these monies have already-- they're already cooked in our budget, right. We went through this whole process. We know that a certain percentage of our revenue every year is going to go to pay for Nebraska Advantage and now ImagiNE Nebraska. So why would there be a fiscal note? I know you're not the fiscal expert.

DAVE RIPPE: Yeah.

LINEHAN: You did--

DAVE RIPPE: So I did-- I did start out of grad school actually writing fiscal notes for the revenue one. So been there, done that, but--

LINEHAN: Well, the Nebraska Department of Economic Development fiscal note doesn't show any costs.

DAVE RIPPE: Right. And so really what we're trying to reconcile here is a timing issue. And so, as you can ImagiNE, as a company pays in their sales tax as they go and eventually they file for a refund, so the state banks the money at some point in time, and then when the company files for a refund, it goes out. This process improvement would say, hey, we're-- we're not going to have you pay that money in and then take it back out later, we're just going to let you hold your money so we don't have to guess about what it might be. And so every month, you know, as anticipated, when you file your Form 10, you would

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claim your exemption as you go, which would be more of a pay as you perform type of mechanism, which was recommended by SRI to the state in 2017. How-- I would not, never question the Department of Revenue in their fiscal note process. I think way too highly of the team over there. I think we just need to get to a better understanding of what's creating this and would-- certainly looking forward to doing that following this hearing.

LINEHAN: Thank you. Are there other-- Senator Albrecht.

ALBRECHT: Can I just ask a quick question? So with the Advantage Act, didn't the cities have to pay it before on behalf of the-- the business that was under that Advantage Act? The reason I'm asking that is that we have a business up in my neck of the woods that would call and ask, hey, when is this going to be over with? The sales tax will be, you know, back on the rolls of the city. So maybe the city people can-- when you were in the DED, did you-- did you see that it was happening like that? I mean, or were we always putting it aside for them?

DAVE RIPPE: So, in our incentive programs, Senator, a company is entitled to sales and use tax credits that are-- that encapsulate both the municipal portion and the state portion of sales tax. And so if that blended rate is 7 percent, a company can file for a refund for that full 7 percent.

ALBRECHT: At the end of a year or on--

DAVE RIPPE: On an annual basis a company can-- can file for that.

ALBRECHT: But what was the cities that have been paying, anything for them?

DAVE RIPPE: So it would have-- the only thing that would-- if a company had spent the sales tax and the state had collected it and the state had then remitted it back to the municipalities, then at some point when the company files for that refund, that's when the state would say, hey, oh, by the way, we sent you this money, but this refund has been filed, now we need it back. And so when I talk about a cumbersome process-- cumbersome is a polite word. The idea with an exemption would be to never collect the money that we've already

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agreed to give back to the company. So we're not-- we're not giving a false sense of revenue to these municipalities or to the state.

ALBRECHT: OK, very good.

LINEHAN: Thank you, Senator Albrecht. Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thanks for your testimony here today. Would these companies qualify for this exemption during the ramp-up period?

DAVE RIPPE: So this would not change the mechanism in the ramp-up period.

BRIESE: OK.

DAVE RIPPE: And so in the ramp-up period, you would still pay in all of the money because the greatest risk, Senator, is that they never reach that qualification, right. And so this does not change anything in the time between application and qualification.

BRIESE: OK. Very good. That, maybe kind of, was going to lead into my next question. Is it possible if they ran this fiscal note out another three years, it would net out to zero or--

DAVE RIPPE: So, there's--

BRIESE: --actually why it would, but I'm wondering if it would.

DAVE RIPPE: There's a line in the-- in the fiscal note from Department of Revenue that states that the-- and this is a paraphrase, that the cost is associated with a shifting. And so, yeah, I would-- I would assume just based on the time horizon of what that shift is, that eventually you would anticipate that it would net out and that's-- that was my inference from the fiscal note. But I don't want to put words in the mouth of the Department of Revenue either.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Are there other questions from the committee? Thank you very much for being here, Mr. Rippe.

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DAVE RIPPE: Thanks so much.

LINEHAN: Are there other proponents? Are there any opponents?

LYNN REX: Senator Linehan, oh, there she is-- Senator Linehan, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. What we're handing out to you is the list-- would be the list of participants in a Zoom meeting yesterday, which we really appreciated Senator Flood's office putting together. So you can see on the front page, it included the negotiating team of attorneys from Lincoln, Omaha, Papillion and others that worked on amendments. We really appreciate committee counsel joining us yesterday and providing clarity to this. Of course, Dave Rippe was involved too, and appreciate all of the work that Jesse Ferguson from Mike Flood's office has put into this. So what you have before you here, I like to just give you the idea of what the amendments are. So these are amendments to basically the overall view is to restore transparency to LB502-- to put transparency into LB502. Nebraska Advantage Act and LB775 have zero to no transparency for municipalities. I can't speak to what the state of Nebraska receives and how you get that information, but for municipalities, zero transparency. The condition of the League's support of the Imagine Nebraska Act was based on over-- oh, my goodness, countless hours of negotiations over a period of months with the Omaha Chamber and State Chamber on language to insert transparency into that bill. And for municipalities, for some of the main reasons that have been outlined by Dave Rippe, and again, we really appreciate Senator Flood and his staff and Dave Rippe and others working with us on this. I would reference you to the last two pages of the handout. This is-- will be very familiar to this committee. These are pages 140-- 139, 140 and 141 of LB1107. And specifically on page 140 starting on line-- basically 21. This is transparency language embedded in the Nebraska Imagine Act, so I'm on the last two pages, page 149 of LB1107. This is the Imagine Nebraska Act. This is just part. These are just some of the provisions of transparency. Every qualifying businesses filed an application to receive tax incentives under the act that they-- LB775, Nebraska Advantage Act, Imagine Nebraska Act, shall with respect to such acts provide annually to each municipality an aggregate data, the maximum amount the qualifying business is eligible to receive in the current year, and refunds of local sales and use taxes of the municipality and exemptions for the previous year. And the estimate of

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annual refunds of local sales and use taxes of the municipality and exemptions such businesses intend to claim in future years. And so the purpose of this obviously was because Imagine Nebraska Act, as Dave Rippe outlined to you, has that a key provision here upon attainment. Then it is, basically they no longer pay sales tax. And so, that's an important element of this, and we want to make sure that there's express language. So if-- if and when LB502 passes, there's not a concern about, well, but that language doesn't apply to what's going on with LB502. In addition, we just want to make sure that that language is there and maybe committee counsel and others can work with us and say, no, it's there, it's definitively there because it mentions the act. We want to make and underscore that mainly because of the decades of issues that have been involved with LB775, the Nebraska Advantage Act, and soon the Imagine Nebraska, we don't anticipate those issues. So some of you may know some of this. I know you probably were mayor of Henderson when some of these issues were happening in real time. But some of you may remember that when LB775 went through and, in fact, I took-- as I was sharing with our group that was involved in our Zoom call yesterday, the mayor of North Bend called me and said, oh, my gosh, you know, we have-- we're going to lose money here, \$38,000, which is a lot of money to us, and-- and what is this LB775? Is this like a new bill that passed? To which I responded, no, that was back in the Kay Orr administration a long time ago and we kind of revisited some of that. Those refunds are still coming in. And so you look at the time frames here for what this means. We want to make sure that companies that may have-- which I would advise them to do, too, before Nebraska Advantage Act act expired December, 2020, went ahead and filed other applications. We don't know. We're not entitled to know under Nebraska Advantage Act, who those companies are-- which those companies are that may have filed. I know you sent us some information here on it, but when we asked the Department of Revenue recently, we were told, no, we can't provide any of that information to you. So we're looking at basically making sure that there's transparency. And we think you as a state obviously want to have that transparency too. So we're very pleased to support the Imagine Nebraska Act, but it was conditioned upon transparency because as many of you know, when municipalities go out on local option sales tax, that is with a vote of the people. Almost always, it is for property tax relief, coupled with a project. For example, a new library or something like that and then you can Imagine

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when you don't have the funds coming in to do it. South Sioux City has testified before this committee before, that in a joint project-- I'll have to stop here because of the red light.

LINEHAN: Thank you, Ms. Rex. Yes, Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So is this-- this is really just a timing issue, but is there in the Advantage Act, I mean, there's probably companies that have earned a lot of credits that they could redeem against things, but haven't claimed them yet, so there's going to be some slippage.

LYNN REX: Huge, yes. That's what we anticipate.

FRIESEN: So you don't know what that slippage will be?

LYNN REX: Well, what we don't know, we don't know. Now, LB502, the way LB502 works into this is prospectively-- if I understand the way that this is intended, and I think it was a well-intended bill, and is a well-intentioned bill, to basically say upon attainment, then the company has a one-time election. You'll note that in the draft amendment, which again needs to be tightened up and that's why we appreciate all of us that Senator Flood and others working with us, if you look on Amendment 3, which is toward the bottom of that page on the amendment, we have such one-time election, this is to tighten it up. Such one-time election only may be taken on one existing agreement between the taxpayer and the state under the act-- that's the Nebraska Advantage Act, and shall not be applicable to any other act of agreements with the same taxpayer under this act. We have been told, but it's all anecdotal because we don't know, that there are companies that have, like you said, there's no question they've built up refunds. The company gets to decide, which I understand, it's their decision, when it's to their advantage, literally, to file for that. In other words, when they're going to activate, when they're going to pull the trigger on those refunds and they get to make that determination. And so, which I understand, but in addition to that, will a company wait in terms of when they make an election on this? And while they're doing that, we want to make sure that we have in real time, you know, aggregate data on what that will mean. And just to complete my thought too with the South Sioux City issue, there was a joint effort to build a jail between Dakota County and the City of

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South Sioux. They went for four months without getting any refunds at all-- or any sales tax at all. And so they couldn't make their bond payments. So these are things that I think the predictability of the Imagine Nebraska Act is great. I mean, I wish the Nebraska Imagine Act had been the first act that instead of LB775, but it is what it is. So we're concerned about the fact that there will be years, and I mean years, of refunds coming in under the Nebraska Advantage Act and/or triggering this. And initially we thought this applied only to data centers. I think perhaps some folks on the Governor's side thought so too. It doesn't. This is for anyone that's got a standing application. And of course, folks, and I would have advised them as well, you know, get your application in under the Nebraska Advantage Act, the benefits are greater, time periods longer, and no transparency under Nebraska Advantage Act. So, in any event, we just want to make sure that we tighten this up and appreciate everybody, especially Senator Flood, working with us, and this committee, of course.

LINEHAN: Thank you, Senator Friesen. Are there other questions?
Senator Albrecht.

ALBRECHT: Thank you. And this is again why I ask, but maybe during the Advantage Act was-- and it was because of a city asking me this information, I was trying to get the information from somebody. And because of the proprietary information, that's why it couldn't be shared. So would any of that actually be asked about? In this particular ask, I mean, would you be seeing anything more than just what is of importance to the state or to the city?

LYNN REX: OK, so-- so basically, and United Cities of-- and Joe Kohout is going to follow me in testimony. They did-- the League worked with them, but they were the lead in for years and working with Senator Cornett as Chair of this committee to make sure that municipalities could at least go over and look at sales tax. In other words, you could see in South Sioux City in that area, OK, what to make sure that if-- I'm going to make this up. A Walmart, if it's out-- you know, are they getting the sales tax or somebody else getting the sales tax. It's more imperative when you're looking at a Minden-Kearney situation or Scottsbluff-Gering situation, who gets it.

ALBRECHT: It was-- it was a small city needing to know when they can have enough money to build on to a water treatment.

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LYNN REX: Exactly.

ALBRECHT: So they did-- but the information was not available. So you're saying that this is what you're asking for us to know at what point would it be available that you could use those sales tax dollars, and--

LYNN REX: Well, under the ImagiNE Nebraska Act and again, the definitive language is on page 140 to make sure that there is, right now this information provided, so.

ALBRECHT: It shall be kept confidential, so--

LYNN REX: Yes.

ALBRECHT: --it's only for the city to see.

LYNN REX: Yes, and that individual. But the point is, they would know who's applying. I mean, the date of application, the way the ImagiNE Nebraska Act works is the date that that application is filed, or maybe not the date, but when the application is approved or you have a filing of it, the municipalities informed of that, the hide-and-seek of you're not entitled to know what company it is, is no longer there under ImagiNE Nebraska Act. We want to make sure. What's being asked of LB502 is to give the key advantage literally of the ImagiNE Nebraska Act, which is after attainment, then sales tax exemption to give that benefit under those that already have applications under the Nebraska Advantage Act, and our position is, they're asking for that basically to go back-- back retroactively. And our concern is to make sure that transparency is there so that there is more information for the state and for local governments.

ALBRECHT: Thank you.

LINEHAN: Thank you, Senator Albrecht. Are there more questions? OK, I'm a little confused. You agree that this is OK, you just want to know more about it ahead of time?

LYNN REX: What we-- we would be neutral if the transparency provisions are there. The League Executive Board voted unanimously to oppose LB502 in its current form because of the lack of transparency. And with transparency provisions similar to what we have and to make sure

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that we are entitled to this information, and the other kinds of information we would be getting anyway under the Imagine Nebraska Act upon obtainment, then when a company makes that one-time election for their one application under the Nebraska Advantage Act, assuming they only have one, I understand companies may have more than that, but I don't know. A lot of companies, I understand have got-- I've heard as high as 10 applications pending so, but I don't know that, you know, those that's all-- pardon me.

MARY JANE EGR EDSON: It's on the website.

LYNN REX: I'm sorry.

MARY JANE EGR EDSON: It's on the Department's website.

LYNN REX: Oh, OK. So in any event, that's just-- we will-- we will be neutral on the bill once we're able to work out the transparency provisions if we are able to.

LINEHAN: OK, that's helpful.

LYNN REX: And we really appreciate Senator Flood meeting with us and his staff.

LINEHAN: Senator Briese.

BRIESE: Thank you, and thanks for your testimony. I thought I heard Senator Flood say the purpose of this was to make things easier on the taxpayer and kind of facilitate things. But are you-- are you really stuck on that bond provision in the red here?

LYNN REX: OK, so the reason for the bond provision is, it's part of recapture and committee counsel indicated that there are some efforts here already in an effort language for recapture. Our concern is, how does that apply on the municipal side? In other words, a couple questions that the attorneys from Lincoln, Omaha, Papillion, the League and others have, and that is the following-- would be-- would include the following-- not be limited to, but include the following, which is, is the state required to recapture. Is that a requirement? I don't know if it's a require-- M.J. is saying it is a requirement, and if it is, then how does that apply on the municipal side? I assume that that means that that's done as well. And on the fiscal note, by

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the way, I do think that one of the issues that is not taken into consideration, but I defer to committee counsel on this, we don't think it includes the interest income for the loss of revenue. And for example, we're looking at one municipality right now, the first class that was informed-- and the company did not have to share it, so we appreciate the company sharing it. But the company involved shared that they're looking at over a \$30 million refund. That's just one project, one city. And of course, then you take that times five plus for the amount of money involved from the state, what the interest income is on the flow. Those are the kinds of things, too, that I don't know if that's in the fiscal note. I don't know if-- committee counsel does not think that it is. I'm just saying that for the record. So in any event, there are some other issues that come into play, but on the bond, the issue was when you have-- let's assume you have a company that makes the election and under the Imagine-- well, under Nebraska Advantage Act, because they're-- LB502 applies to the Nebraska Advantage Act. That has, just like the Imagine Nebraska Act and just like LB775 did, it has provisions on how much you're required to pay, what you're going to pay employees, all sorts of provisions of what you have to do. Let's assume the company, any company decides, OK, we're going to make that election. So we've attained Department of Revenue and Department of NDED or condensed that that attainment is appropriate, so now their sales tax is exempt. Then a year later, you find out they don't have the same number of employees that they said they were going to have, they're not paying what they said they're going to pay, they're not meeting those conditions, so now you've got to have a recapture moving forward, and how do you do that? We-- we looked at it from a bond standpoint. I think-- I don't know that that will in the end will be necessary. So we're looking forward to working with committee counsel and Senator Flood to see how we can tighten up our amendment.

BRIESE: There's no corresponding provision in Imagine Act relative to that recapture.

LYNN REX: There is recapture language in the Imagine Nebraska Act. We-- we did not see it in Nebraska Advantage, though, as it applied to municipalities, but again too, it is--

BRIESE: But as far as the bond or letter of credit, is that in the Imagine Act?

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LYNN REX: No, not to my knowledge, no.

BRIESE: Thank you.

LYNN REX: And actually, to his credit, Dave Rippe actually suggested it initially, but as he clarified yesterday, that was done in the sense of pre-attainment. In other words, if the companies could not have to do any attainment but start at-- start out just being sales tax exempt without attainment and that's not what LB502 is. LB502 is, they have to attain in order to do that.

BRIESE: Thank you.

LYNN REX: Yes, thank you.

LINEHAN: Thank you, Senator Briese. Are there other questions from the committee? Seeing none, thank you very much for being here.

LYNN REX: Thanks very much. Really appreciate it. Thank you.

LINEHAN: Good afternoon.

JOE KOHOUT: Good afternoon, Chairwoman Linehan, and members of the Revenue Committee. My name is Joe Kohout, K-o-h-o-u-t. I appear today as a registered lobbyist on behalf of the united cities of the Sarpy County, coalition of the mayors of the five cities in Sarpy County, Bellevue, Gretna, Springfield, La Vista and Papillion. The home of several of these new large data projects. I want to echo what Ms. Rex said to the committee, and that is that I appear here only as an opponent to LB502 only insofar as the transparency goes. Many of-- I was going back through my calendar and realized that back in 2016, in August of 2016, we began active conversations with the Omaha and State Chambers on what the next version of incentives we're going to look like. And I can remember very clearly a very hot meeting in the City of La Vista in their-- in their planning department with representatives of the Omaha Chamber and at that time talking about what our cities would expect by way of transparency in that next version of incentives. Because I can tell you for multiple years with many chairs before you, Senator Linehan, we came here and asked for some form of relief from certain provisions of-- of-- of Nebraska Advantage and whether that was sales tax reporting or whatever that case may be. Some of those were passed. Some of those were not. And so

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when we began the process, we wanted to be supportive of economic development. We wanted to be at the table and we wanted to be there in such a way that we would eventually agree with whatever this Legislature chose to enact, so long as it had that transparency for the purposes of planning. I want to make that absolutely crystal clear. The city's support economic development, we support incentives, but it's the question of how are we a true partner together on this and how can we plan for the growth of our cities, particularly in those areas that are most popular for locating large economic development projects? What can we do to that end? And so, I sit here only in that regard to say we're not there yet on LB502, but I think we can get there. So with that, I'll try to answer any questions that you might have.

LINEHAN: Thank you, Mr. Kohout. Are there other questions from-- any questions, excuse me, from the committee? Seeing none, thank you very much. Are there other opponents?

JACK CHELOHA: Good afternoon, Senator Linehan, and members of the Revenue Committee. My name is Jack Cheloha, that's spelled J-a-c-k C-h-e-l-o-h-a. I'm the registered lobbyist for the City of Omaha and I want to be on the record with some soft opposition to LB502 today. From the handout given to you by Lynn Rex, Omaha was part of the coalition that's been reviewing LB502, so we're thankful to Senator Flood and his staff and the proponents of the bill to include us in any discussions. In the City of Omaha, we also support the state's economic development incentive programs. We've been-- we've been with you and on your side since LB775 and the Advantage Act and including the latest, the Imagine Act. And so we're supportive, but we still wanted to be on the record today saying that we'd like to obtain some amendments within LB502 to get similar transparency within the bill. Likewise, it's important for us even to know, you know, some disclosures, even on exemptions, if you will. In fact, as we were discussing this back in Omaha, the mayor's chief of staff says, well, why do we need to know what we weren't going to get anyway? And-- and so we decided that it's important to know because it's important for the state and for us to be able to evaluate how effective your programs are and in terms of how much cost that you can associate with a job that's created. It's still important to know that. So we would still like to get these reports and have access to them to not only know what was-- will be collected as a refund, but then what would be

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exempt also. There's one last point that I wanted to make, and it's kind of been an issue for us. And your committee will still hear a bill later this session on it, LB457 has to do more with carrying the responsibility for the sales tax refunds. We're grateful for this committee for putting a provision on LB1107 that requires the department at certain levels to carry a city up to a year on their refund, so that way we can budget for how much will be gone. With that, we still want to look at the existing programs, LB457 would look at the LB775 claim still coming in and the Nebraska Advantage Act plane still coming in because we still can't get a accurate estimate each year of how much our refunds will be, and so we'd like to have that to make budget numbers fit together. So with that, I'm opposed to LB502, but hopeful that we can work something out, so I appreciate your time. Thank you.

LINEHAN: Thank you. Are there any questions from the committee? Seeing none, thank you very much.

JACK CHELOHA: Thank you.

LINEHAN: Are there any other opponents? Is there anyone wanting to testify in the neutral position? We did have written testimony dropped off this morning by Jim Pragert, representing the Lincoln Chamber of Commerce, the Omaha Chamber of Commerce and the Nebraska Chamber. We had one proponent letter and no opponents and no neutral. Thank you, Mr. Flood-- Senator Flood.

FLOOD: Thank you, Chair Linehan. Just a just a few comments. I understand that they want a belt and suspenders this up a little bit. The opponents do, but my patience is running a little thin. I think that they've gone about five steps too far with what they want in an amendment. The true partner here is the state of Nebraska, and we're the ones giving up five and a half cents on every dollar. They get a cent and a half and they get that because we decide they get that and they want extra authority all the time. And they're the first ones at the ribbon cutting to say, look at what we've accomplished here. They're the ones that are offering it. I don't have a lot of sympathy for high growing, fast growing areas that are creating high wage, high skill jobs and that they need-- they think they need to evaluate the worthiness of the program. That's our job. So I'm willing to work with them. And I have had a very good long-term relationship with the

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League of Municipalities and I will continue to, but in this case, I think they're about three steps too far. And I think they need to dial it back. We need to figure out what it is we need to do to make this simple change. And we have to get the fiscal note handled and then we move on. But just because somebody comes in here and opposes something, I don't want to create an expectation that we're going to walk away from this bill and it goes to the floor and everybody is going to be on the same page because reason has to come in here somewhere. And I think that there are a few steps away from reasonable with the way in which they-- with the things that they want. Senator Briese touched on it with some of his comments. So with that, thank you.

LINEHAN: Thank you, Senator Flood. Are there any questions from the committee? Seeing none, that brings our hearing on LB502 to a close and we need to figure out where Senator Wayne is. He's on his way? He's on his way and there he is. When he's-- we told him we could talk about both of these at the same time-- isn't that what we said, Grant? is that what's posted outside?

GRANT LATIMER: Um-hum.

LINEHAN: OK.

WAYNE: Good afternoon, Chairwoman Linehan, and members of the Revenue Committee. My name is Justin Wayne, J-u-s-t-i-n W-a-y-n-e, and I represent Legislative District 13, which is north Omaha and northeast Douglas County. I would say that I planned to leave that to give you guys time to walk-- look through my materials, but I didn't think that far ahead. But to start this off, it's real simple. Every community throughout Nebraska should have a strong neighborhood school, opportunity for great paying jobs and access to healthy foods and safe streets. Economic development, jobs, education, housing, transportation, public safety are all interconnected. My vision for-- vision for Nebraska has always been simple, to have a top-performing economy and the best place to live, learn, work and do business. When I ran for office four years ago, I told people-- actually this was kind of how my whole campaign was about was, the people have good paying jobs, 80 to 90 percent of the problems that we have in north Omaha would go away. They would have disposable income. They would be able to do things with their family. They would have a

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schedule and they would have pride. I always looked at stats around small businesses because I've always said that a major manufacturing facility won't necessarily come in north Omaha and I'll explain to you why and show you some examples. But I always looked at a couple of stats and one in Omaha, Nebraska, particular, has always been top 10 for affordability. Right now, we're ranked six according to U.S. today's rankings. Economic opportunity, we're always in the top half of all the states. Right now we're number 18. But a stat that's always been interesting is one called equality. We've always been in the bottom 10. Right now we are currently ranked 48th and they use a different number of factors around school gap, achievement gap, work force gap, those kind of things to rank the quality and we've always been in the top-- bottom five when it comes to those things. Over the last 60 years, there's been countless of plans for north Omaha, south Omaha and for the entire stat, but yet the socioeconomic conditions of many of the small towns in rural Nebraska and north and south Omaha have not changed. This is an important issue, whether it's Democrat or Republican, black, white, rich or poor, because we all, I think, believe in something and that is some form of capitalism and that the middle class and those working hard should be able to have equal opportunity to participate in this democracy, which I call the American dream, the dream to go to school, the dream to have kids, the dream to be able to have a house. I'm not speaking on anything that most of you don't disagree with. The bills before you, and there's two of them, LB544 and LB547 provide that opportunity for job creation in a targeted, small way. And I crafted it in two different bills. Well, first, there was a Pew report that came out ironically this month that talked about-- and that's on tab 1 --that talked about how we should develop and do economic development to different states. And what they found out through all the years of studying is that there's pretty easy categories. The programs have to be targeted using qualified measures. They systematically have to address geographical areas, not just the entire state. They have to be able to regularly update their locations. They have to tailor the economic strategies to the local needs, and they have to create jobs for low-income residents. If we're truly trying to change the distressed areas throughout the state, we have to do that. And so I put together for those-- I mean, we've been all kind of-- all-day committee hearings, haven't been able to meet and that we tried and those who have been able to, I really appreciate it. But I want to walk through this binder and I know this is going to

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be kind of a long opening and that's why I wanted to kind of a combined hearing, because it's a concept that works for both north and south Omaha and I believe small-- small rural towns across Nebraska. And that's why there's two bills. One is for the urban development, which is LB544, and one is for Nebraska small businesses throughout the rest of the state. I didn't come up with this idea on my own. I'm not that smart, but if you'll turn to tab 2 on the back page, you'll see the Nebraska Advantage Rural Development Act. And it's a grid. It would be on the grid, it says bill summaries. You got the first two, but on the back page, it's-- it's the Advantage Act. This bill has been around and this act has been around for farmers for the last 10 years, actually 15 years. And so, again, it's under bill summaries and it's the single page, but it's the back page that I'm going to start with. I took this concept and thought, how do we apply this to north Omaha? How do we apply it to south Omaha? And after Imagine was passed last year, I tried to incorporate Imagine, the concept to what we have in LB55 and LB47. So this is an evolving thing. But I knew it worked for rural-- for rural because there was tax credits of about \$1.7 million on a \$2 million cap almost every year it's been in existence. So people are using it. It works, but it's very limited. It's limited in the sense that it only applies to livestock and those kind of things. So it was targeted. So it works. So what LB55 does-- I mean, LB544 does and LB547 in the bill summary section of the tab, it's pretty simple. We have two options. And I'll start with rural Nebraska first, which is LB547 is \$15 million cap, a \$50,000 investment that needs to be in an ERA, which is the Economic Redevelopment Area, or cities under 100,000 in the ERA preferably, but you get a bonus if you do. And the reason of that is because I think north Omaha is often alike rural Nebraska. Now our symptoms of poverty may be different when it comes to violence because maybe there's easier access to certain handguns. It may be different when it comes to jobs because there's an education gap that we see in rural-- in urban Nebraska. And even if you look at the drug scenario, you have crack cocaine in urban, and out in western Nebraska you had more of a meth problem, but that's all around, I think, a lot of it is around poverty. So if we deal with the core issue of economics, even though the symptoms may vary, we can solve both-- both situations. So the \$3,000 per FTE, and I know somebody's going to ask, where did you come up with that? Well, it came out of last year's bill. Key Employer and Job Retention Act, there's \$40 million over 10 years to keep a 1,000 people here. You do

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the math, you break that down, that's 4,000 per year to keep a job in Nebraska. That's the job that we've already placed on large-- on large companies to stay in Nebraska is \$4,000 a year for that job. So underneath the Small Business Act in rural Nebraska, do the math, \$15 million cap over three years with the 5,000-- \$50,000 cap for the employer. So if you get the maximum people to apply, that would be 300 businesses, small businesses all adding five jobs. That's roughly 1,500 jobs we would be able to create. Based on these numbers, I'm asking for a credit for a 1,000-- \$1,000 per year for the creation of a new job rather than \$4,000. And the reason the numbers work out is because we're including an investment. So we are getting a job and an investment because that key employer didn't require them to invest just to maintain jobs. Underneath the small business, we are actually requiring them to have a \$50,000 investment. In these areas, that's roughly comes out to 33-- or \$3,000-- \$333.00 per job. So we're still under the \$4,000 job. That's where I came up with the number. And I can email that to you and you can see the math, but it's already less than what we're currently valuing jobs for larger companies. And the same thing applies to LB544, which is an \$8 million cap, but the numbers work out-- roughly work out the same. So you take that from a money perspective, we're actually doing it for a cheaper price and we're targeting areas. So let's go through the Pew report,--not through the Pew report, but why it matters here. Targeted programs with qualitative measures. If you turn to the ER maps underneath the small businesses, it says label LB547 maps. These are all the ERs that are existing today. In a previous bill that we've already passed for Imagine Act that the department has already defined, and that's these large maps.

LINEHAN: OK. What cap?

WAYNE: Tab-- LB547. It says LB547 maps. These are the Economic Redevelopment Areas across the state. And as we turn through them, I won't go one by one, you'll see it hits some of our hardest areas. We turn to the next page, you see, Norfolk has a census track. Thurston County, almost the entire county is a census track. You can flip the page again. Scottsbluff, Keith County, Ogallala, and Scotts Bluff County has a map-- has a census track. Buffalo County in Kearney, which is odd because it's actually the university and that's why their unemployment rate is so high because they're in school, but they have one and so does Hastings. My point is under LB547, we are going across

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the state and we are looking at the hardest hit areas and we are driving jobs there. Now, why is this important compared to Imagine? We are decoupling the qualified business requirement. If your communities that you represent out in these areas are anything like north Omaha, I don't need a specific job, I need a job. So if it is telemarketing-- construction doesn't qualify for Imagine. It would underneath here. I have a construction company. I am not in the ERA. Let's just clear that up. This is not a Waynes' bill. And I will explain why it matters in north Omaha, but these are good jobs that we are trying to drive to these areas to increase employment opportunities and pay them 70 percent of the wage. That is a requirement that was in Imagine. We doubled that down and said we should do the same thing in poverty areas. So that is the basis of-- so again, targeting populations. Systematic geographic locations, as you can see, we are targeting geographic locations. Now, here's what's interesting about the regular updating that the Pew report. In the bill, it says for-- to qualify, you have to be averaging an adjustment of 150 percent of the poverty of the most recent. That's done almost every two to three years. If we were to run the numbers today, Senator Flood, Norfolk is out. So I think two years is too soon. So we're going to bring an amendment to make sure it's done every five years. And the reason that's important is because the second piece of 20 percent poverty is done on this-- on the census, which is done every 10 years, because the key that we're trying to change is poverty. If we keep it every 10 years with the five years, Norfolk is still in and we can see it over a 10-year period because that's the purpose of this goal and it is sunset in 10 years. In 10 years, we'll come back here and we'll know whether these census tracks are changing or not based upon the economic development in this program. So it's a limited time addition. So, we are regularly updated and it is again tailored to the economic needs that are required in the Pew report. And why is it tailored? Because, again, we're decoupling the business. We don't need a manufacturing business. I do need a local T-shirt printer on 24th and A. They may have five jobs. That's good jobs for my community. That could be good jobs for rural Nebraska. Nothing wrong with Imagine, but we didn't focus in on the small part of this, what I call the small business and it wasn't-- it was just too big. As we all know there's bills that are just too big and you keep adding more, everything falls off. And that's why we brought this bill back this year and we critiqued it a lot, critiqued it a lot. So I want to turn to LB544. And if you look at the maps,

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besides Dodge County, which would fall into LB547, this is just how the map is printed out. The urban redevelopment focuses on east Omaha and the poverty in Lancaster County. Now, there is a fundamental difference between the two only in this regard, and I'm going to ask everybody to flip back to their bill summary because it's really important and I'm going to explain to you why. LB544 is different in this regard. There are two options. There is one option that mimics everywhere else with the five employees and 150 million-- \$150,000 investment, not just the 50,000, but there's also one that doesn't require any jobs. And the reason why I want to take a little bit of time on that, because that goes against the grain of what we think we should do for jobs. So I'm going to ask everybody to please flip to where you see the color pictures and they're all labeled and I'm going to walk through them, and my person who was going to come testify got exposed yesterday-- two days ago, and I told him not to. But I want to-- if everybody would flip to District 11. This is Senator McKinney's district and these are real printouts of-- and you can open up your tablet. The page numbers are on the back. I'm doing the best I can to help everybody through this. This is why I wanted to sit down one on one. But the first one on page 1 is 24th Street from Ames to Pinkney. So 24th Street, if you're not familiar with Omaha, 16th Street and 30th Street, are the major infrastructure "thoroughways" in north Omaha. And I want you to focus a little bit on where it says 24th Street right in the middle. And if you look to the left, you'll see empty lots. If you look to the right and down one block, you'll see empty lots. This is not a \$20 million project or a \$10 million investment. These are often under a million dollars-- these are often under 500,000 to build storefronts. We don't have the infrastructure that if a small business wanted to start in north Omaha, they could go east somewhere. So, again, your tab would be the yellow tab and it's number 1 in the middle of 24th Street. And you can flip through every one of these and I won't go through every one. You'll see up and down these major thoroughfares, empty lots. And I can give you the historical reason of how that happened, '66, '68, there were riots on 24th Street, 16th Street and 30th Street. The buildings were often damaged and left to rot and the city tore them down. But these buildings have been empty for the last 40 years. And one of the individuals that was going to come down and testify, but I am going to talk to him about it, you can go-- [LOUD NOISE] sorry, to the 30th Street one and it'll be number-- your tab number 6, yellow tab 6.

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Again, 30th Street is one of the main ones and it's a greenish yellow tab. Number 6 would be on the back page-- it will say 6 on a little corner. 30th Street where you see 30th, circled, to the left of there, again, you see a lot of lots. And the reason these lots are interesting because we had developers who want to come in, they can use TIF, but here's what's interesting about TIF in Omaha. If your project is under \$500,000, City of Omaha will not even look at your application. So these small commercial developers don't have access to TIF. Now, the city is supposed to be coming up with a new 250 and above program, but there's no access to TIF. So the individual who-- if you go to the left, you'll see the street ----- Spaulding and that building right there, his name is Mark. He was going to come down and testify and tell you that they actually wanted to build a facility right here of about a million dollars. They were off about four to five percent on the numbers to make it work. That's where I came up with a tax credit of the amount that we came up with. If we could start making up these numbers, it can develop. Instead, he spent \$100,000 redoing the bar and the restaurant on that corner. Every business he hired were small businesses, none of them which qualified for any of ImagiNE Act because they're construction and they're small. But all of those businesses are looking for an opportunity to grow, but they can't grow in north Omaha underneath the current system. It's an unfair advantage. And so, again, if you look at 30th Street, this is a major "thoroughway." A school right across the street. You have empty lots and that's the issue. If you know any developer or know anything about development, they need more lots. They need land mass to make the numbers work. And we're trying to do is offer these small businesses who may just want to renovate, may want to put up a small storefront to allow an insurance agent to come in and sell insurance or to put up a small telemarketing services or to rent a T-shirt. We need some infrastructure built. So that's why there is an investment only option in the urban, because we're just looking for some infrastructure. But again, they still capped at eight million. The program ends in ten years. I don't have a whole bunch of fancy words that a whole bunch of great language to inspire anyone, because it really comes down to the nuts and bolts of these communities. And I would venture to say that even underneath the rural, what I would call Nebraska Small Business Act in these rural parts of towns, getting two or three jobs or even five jobs, no matter what the jobs are, we really help out that community. If you're in a small town and you want

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to start a grocery store, you don't qualify for any program. But how many small towns, at least in north Omaha, we need grocery stores. We don't need a super Walmart. We need some local grocery stores. But they don't qualify for any of these tax breaks or tax credits. And that's what these two bills are trying to solve. Sorry for the detail-- going through pages, but after four years, I believe this is the only thing that will work for some of these small companies. And with that, I'll answer any questions.

LINEHAN: So have you looked-- I'm sorry. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So when you're-- when you're talking a small business, you're talking like you said, and I like the idea of small business sitings. You're looking more at redeveloping the communities with either small storefronts, coffee shops, anything and everything.

WAYNE: Correct.

FRIESEN: Just get some investment, get some jobs in there. It doesn't matter what they pay. Someone's going to go to work and--

WAYNE: We have a pay requirement. They still have to meet the 70 percent. But-- but, yes, this far as a type of job, we just want jobs.

FRIESEN: What would a typical business-- what kind of tax credit would this all add up to? And you're saying the City of Omaha really isn't willing to work for them because they're too small?

WAYNE: Correct. So currently in the City of Omaha, if it's under \$500,000, they will not look at your TIF application. And-- and I get it. And that's why we worked so hard last year on the Micro-TIF bill. And we left out Omaha because they have enough TIF applications that if they were doing \$250,000, it would be-- I mean, it would be a lot of city council work and a lot of work for everybody.

FRIESEN: I'm not excited about TIF. I'm-- this sounds better to me.

WAYNE: Sounds better to me.

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FRIESEN: Not exempting property-- property taxes. So what kind of tax program would this add up to for a typical business? What would-- because they need money to start up more than they need--

WAYNE: Well, it's about cash flow, right? So if I can-- if I-- if I know I have \$10,000 coming back in tax credits, that's in-- that's in payroll that I-- payroll tax credits, I don't-- or payroll tax, I don't have to pay it. Frees up my cash to do other things. And so it's about getting that cash. But I don't have a typical number because I think it depends on the job and how many jobs you create. I mean, so it's pretty simple that if you hire somebody and you have five people, you get a \$3,000 tax credit. I think it's a bonus, which is why I included it. If they're from the poverty community, which is that part of the Pew report of hiring local and getting people out of poverty, you get an extra \$1,000 tax credit if they're from the ERA. So in that sense, it's a \$4,000 per job if they're from-- from the ERA. If they're not, it's just a \$3,000 per job. So it depends on how many jobs you create.

FRIESEN: I've kind of looked at business startups. They could be almost like a TIF project if-- if that business wouldn't come there. If the business starts up, you let them run there. They're tax free for five years and keep all the taxes, sales taxes, everything, because if they wouldn't be there, there would be no revenue.

WAYNE: If you recall, I tried that with the same concept of the same census track. My-- I think the Chairman Smith was at the time and it was one hundred million and something dollar fiscal note. I said you can get a statute if you pass the bill, but you still didn't vote for it, so.

FRIESEN: Tough one. Little back when we didn't have money. Thank you.

LINEHAN: Any other questions from the committee? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you, Senator Wayne, for bringing this to us. In LB544, which is the urban area one, that-- that's going to ramp up to eight million, eventually eight million to cap, correct?

WAYNE: Correct. Eight million is the cap.

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BRIESE: Any estimate when we get to that eight million?

WAYNE: According to the Fiscal Office, it will take at least-- part of the reason there is a delay is you start it up you don't-- it doesn't hit your budget until the following year when you apply for your tax credits that-- they're projecting three to four-- three to four years out.

BRIESE: OK, and does the bill make a provision how to handle the cap or how to allocate things to avoid going over it or-- I'd have to go back to it more closely.

WAYNE: Yeah, so we copied the language from Imagine where it said the director can approve-- can't approve anything once they hit their cap. So once-- once they're at eight million, the director has to deny our applications at that point and the program is done. That way you never go over to-- the cap.

BRIESE: Possible we would exceed a little bit here and there or perhaps-- I don't know.

WAYNE: I mean, the director did, but we're not budgeting for it, so that would be part of the problem.

BRIESE: OK, thank you.

LINEHAN: Thank you, Senator Briese. Are there other questions from the committee? Senator Pahls.

PAHLS: Thank you, Chairperson. I will say one thing. Anything that came in front of the council in Omaha, you had the unbelievable sized project or have a nice attorney. The little guy, whenever they come for almost for any issue, I'm not even talking about this, they're fighting a wall. I made that comment many times. We really help the big guy and big companies, but the small guys we have a tendency to ignore and I see you're trying to help them.

WAYNE: I am, and to-- to respond kind of about the \$250,000 TIF, let's just say, it kind of doesn't make market sense. And that's part of the problem, which is why it intrigued me about the Micro-TIF to see how it works in smaller communities and if we could, or cannot expand it because at 250,000 you're going to still end up paying 500,000 for an

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attorney to go through the TIF program, along with probably \$5,000 to the bond and investor and circulator to-- to do that. So at that point you're already out \$10,000 and you haven't even hired your architect or your-- or your construction company. So there's-- there's a problem moneywise of going the TIF route too.

LINEHAN: Thank you, Senator Pahls. Senator Albrecht.

ALBRECHT: Thank you, Chairman. You know, of course, I'm in Thurston County and we have lots of wishes that we could have, but certainly don't get a lot of-- we really have some good businesses in the Thurston County area, but I'm just saying there are areas that like they closed our grocery store. I want to go to the grocery store, I'm in the car 17 miles one way or 32 miles the other. I mean, it would be nice, but, you know, there's no money available to get that started. So have you had any planning, like in these different areas that we looked at where like a wish list or or has anybody come to the table and said, hey, this is what we'd like to see here? Is it more-- is it all zoned for commercial? Is it zoned residential? I mean, are there-- are there pockets that they've already said, hey, this is what we'd like to see here?

WAYNE: I know, obviously, Omaha, there are really property owners and the person who was going to speak really just owns two properties and they're both on corner lots and he just thought they should put a building up. And then when they started running the numbers, he's like, I'm not-- I'm not a developer. I just thought it'd be nice to put a building up and lease it out to people. But the money didn't make sense for the small amount and not getting any kind of return on it that he thought he might be able to get, so this would-- if this were to pass, that development would happen. I don't know if that would happen in Thurston County or not, but we're talking about a metal-- a metal-- a steel building that cost 100 to 150 thousand to put up. But it's office space that we desperately need. I mean, right now, when I was trying to move from downtown, my law firm, I can't move in north Omaha. There's just not office space really available. And that's crazy for me to say, but there's not one available that would meet basic requirements I need for my clients. So I'm stuck downtown or I got to go way out west.

ALBRECHT: Right.

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WAYNE: And I've had insurance companies and a couple other people say the same thing.

LINEHAN: Thank you, Senator Albrecht. Are there any other questions? Thank you, Senator Wayne. Are there any proponents?

JENNIFER CREAGER: Hello.

LINEHAN: Good afternoon.

JENNIFER CREAGER: Good afternoon, Chairwoman Linehan, members of the committee. For the record, my name is Jennifer Creager, J-e-n-n-i-f-e-r C-r-e-a-g-e-r, with the Greater Omaha Chamber. On behalf of the Chamber, I'm offering our support for LB544 legislation that would provide tax credits for job creation and investment in areas of high poverty and unemployment. We thank Senator Wayne for bringing this to the committee. Certainly investment and job creation and what would be deemed as economic redevelopment areas under LB544 is vital not only to those who reside in these neighborhoods, but to the broader community as well. A community is not successful unless all of it prospers, and the Chamber has long been committed to developing policies and programs that can address this and catalyze the investment necessary to do so. The tax credits provided by LB544 could provide the necessary spark that brings in the development and expansion to make this an effective and sustained effort. There is no doubt that environmental and infrastructure challenges create real opportunity-- excuse me, real obstacles to growth opportunities in certain areas of Omaha more than others. Targeted incentives can be part of addressing those challenges. We urge your positive consideration of this proposal. Thank you for your time.

LINEHAN: Thank you, Ms. Creager. Are there questions from the committee? Thank you for being here. Are there other proponents? Are there any opponents? Is there anyone wishing to testify in the neutral position?

LYNN REX: Proponent.

LINEHAN: Proponent, oh, no, come on. I didn't know, I wondered.

LYNN REX: I'll make it real quick.

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LINEHAN: OK.

LYNN REX: Senator Linehan, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. We support these two bills in concept. We think that they-- I said-- I did not get to see Senator Wayne's presentation to you, but I heard similar things from him before and there's no question that we need to have some targeted assistance in certain areas of the state. And so with that, be happy to answer any questions that you might have.

LINEHAN: Thank you, Ms. Rex. Are there any questions from the committee? So the League of cities supports.

LYNN REX: Both of them.

LINEHAN: Both. OK.

LYNN REX: Yes.

LINEHAN: All right.

LYNN REX: Thank you.

LINEHAN: Thank you very much. Are there any other proponents? Are there any opponents? Is there anyone wanting to testify in a neutral position? Senator Wayne, would you like to close? And we don't have-- no one dropped off testimony and no letters.

WAYNE: I will keep this short. One of the tabs is an amendment in there. I'll ask the committee to disregard. Actually amendment was my fill-in tax credit for hiring, but I don't want to bog down this. And so I really want to focus on these two bills and hopefully get them out. I just want to remind everyone that we are creating underneath LB547, 1,500 jobs at \$15 million, compared to 40 million for a thousand jobs. And this also includes an investment. I think that's critical. We can do it better, we can do it cheaper for small businesses and I think small businesses are the backbone of Nebraska. These bills would create more jobs, reduce poverty, educate more children, because obviously we all know that education and poverty are linked together and give families more security about their

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neighborhoods. So with that, I would ask for your green vote to vote this out of committee. I'll answer any questions.

LINEHAN: Thank you, Senator Wayne. Are there questions from the committee? Oh, Senator Flood and then Senator Briese.

FLOOD: Senator Wayne, could these two bills be put in the same bill together, or is there a reason you put them in two separate ones?

WAYNE: Yes, they could be. I did it to compare and contrast, and part of it was also the-- the investment only portion of-- of LB544. I wasn't sure how to draft that in there. Sometimes we try to, but it gets a little complicated with bill drafting sometimes.

FLOOD: OK. Thank you.

LINEHAN: Thank you, Senator Flood. Senator Briese.

BRIESE: Thank you, Chairman. Fifty-- \$50,000 credit cap, that's lifetime?

WAYNE: Yeah, per year-- well, per year. So it'd be three years, it's capped. It would be capped each year. So it would be 150,000 at lifetime, because typically it's-- it's only the ramp-up period is only three years. So you get three years to get it done.

BRIESE: So it would be 150 per taxpayer cumulative total.

WAYNE: Correct, I think. Now I got to go back and read it because you're going to make me--

BRIESE: I looked for it and I couldn't find it. Thank you.

WAYNE: I'll find out and email the committee. I think it is.

LINEHAN: Thank you, Senator Briese. Other questions from the committee? Seeing none, that brings our hearing, LB44 and I guess, can I say, LB47 to a close. OK, thank you. All right. Thank you all for being here. Thanks, Senator Wayne, and now we have Exec Committee.