

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

LINEHAN: Lou Ann Linehan. I'm from Elkhorn and represent Legislative District 39. I serve as Chair of this committee. The committee will--OK, we're not hearing a bill, so-- OK. To better facilitate, facilitate today's proceedings, I ask you abide by the following procedures. Please turn off cell phones. I think you all know these rules, but if you-- do they need to complete the green form today?

_____ : Yes.

_____ : Yes.

LINEHAN: OK, 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'll 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 your name for the record. We'll go-- are we going to use the five-minute rule?

_____ : Yes.

_____ : Yes.

LINEHAN: OK, and then I'll be-- [RECODER MALFUNCTION]-- speak directly into microphones so our transcribers are able to hear your testimony clearly. To my immediate right is committee counsel Mary Jane Egr Edson. To my immediate left is research analyst Kay Bergquist and to the left, at the end of the table, is a committee clerk Grant Latimer. Now I will begin-- have committee members introduce themselves beginning at my far right.

PAHLS: Good morning. Rich Pahls, District 31, stretched out a little bit longer now in the future.

LINEHAN: OK. Oh--

PAHLS: The district.

LINEHAN: --the district?

PAHLS: The new district is a little bit-- a little longer.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

FRIESEN: Curt Friesen, District 34: Hamilton, Merrick, and part of Hall County and my district didn't change very much at all.

LINEHAN: Don't say that. Everybody's changed.

FRIESEN: Not much at all.

LINEHAN: Not much at all.

FRIESEN: That's good.

LINDSTROM: Brett Lindstrom, District 18, and I [RECODER MALFUNCTION]--

LINEHAN: Don't say that out loud. We might have a problem.

LINDSTROM: No.

FRIESEN: Well, we can do it now.

LINDSTROM: Oh, sorry, I just opened up a can of worms. I'm-- no, I'm good. I'm good.

LINEHAN: Grant, I thought we fixed that.

FRIESEN: You started it.

LINDSTROM: It was the Chairman.

LINEHAN: It was what?

_____ : What?

_____ : It's fine.

LINEHAN: Your district is now the whole state anyway.

_____ : That's right.

LINEHAN: Yes.

ALBRECHT: Joni Albrecht, District 17: Wayne, Thurston, and Dakota Counties and just a smidgen of Dixon County after yesterday.

LINEHAN: Our pages, could you ladies stand up, please, so they can see who you are? Katie is a junior at UNL studying sociology and political science. That's a good mix. Caroline, senior at UNL studying political

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

science and Spanish. OK. Please remember that senators may come and go during our hearing, hearing, as they have-- that's not true either. OK, we need to speak directly into the microphones and Senator Briese, are you with us?

BRIESE: Yes, I'm here.

LINEHAN: Could you introduce yourself, please?

BRIESE: Yes. Tom Briese. I represent District 41.

LINEHAN: OK and I'm going to--

LINDSTROM: All right.

LINEHAN: I'm going to--

LINDSTROM: All right, we'll now open the hearing on LR261. Chairwoman Linehan, whenever you're ready.

LINEHAN: Good morning, Vice Chairman Lindstrom and members of the Revenue Committee. My name is Lou Ann Linehan, spelled L-o-u A-n-n L-i-n-e-h-a-n. I'm here to introduce LR261. I should note that this is a committee resolution that all of us signed near the end of session-- the real session, not yesterday. I realized there was some fatigue around the study and I realize there is some fatigue around studying our tax policy and I know for a fact there's a total fatigue from our special session that just finished yesterday, but we do need to refocus ourselves on tax reform. We seem to discuss it year in and year out, but we only manage changes at the edges or as I've come to call them, Band-Aids. This past session, we did a little bit better than Band-Aids, but we still couldn't fully commit to exempting Social Security income or reducing the corporate, corporate income tax rate because of fiscal fears. But if you're constantly using patches to fix a broken system, you end up with what we have, a 1967 tax code covered in a patchwork of fixes that make our tax code complicated, hard to administer, and leaving everyone in the dark thinking they're paying for more-- leaving everyone thinking they're paying for more than their fair share. What do I mean by Band-Aids? Here are four examples. Example number one, incentives. In the 1980s, we passed LB775. In the early 2000s, we passed Nebraska Advantage Act. And most recently, the Imagine Nebraska Act. We depend on incentive packages to keep businesses in Nebraska because our income taxes are too high. If we didn't have an incentive package, it's doubtful that several of our large employers would still be in Nebraska. But no one thinks

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

depending on an incentive program is the best way to attract or keep employers in Nebraska. Incentives are complicated. They're not popular with Nebraskans, nor are they transparent. Example number two, The Property Tax Credit Fund. This fund is now at \$300 (million) plus the new gambling revenue. I think it's actually \$313 million plus new gambling revenue. The money is sent to the counties to reimburse the local taxing authorities for reducing property taxes. Most Nebraskans have no idea how this works and do not understand that the state uses income and sales tax to reimburse schools, cities, counties, and other property taxing entities. Example number three, the property tax incentive refund. This is a refundable tax credit based on the amount of general funds school taxes pay, but first, you had to pay your property taxes, then a portion is refunded by the state as a refundable credit, credit against your income taxes. The first-year incentive totaled \$125 million. This year, it's just over \$548 million. Example number four, the Homestead Exemption. This program now costs the state over \$105 million per year. It's also reimbursed by the state with sales and income taxes. These three property tax relief programs will total more than \$953 million this fiscal year, all paid for by income and sales taxes. So we have a tax policy that is not transparent, it's difficult to administer and comply with, and we're still left with high tax rates. Since 1962, there have been multiple studies over tax policy: the McClellan study, done in 1962 before the voters repealed a statewide property tax and replaced it with income and sales taxes; the Syracuse study, the most comprehensive study of our state and local tax policies, which was completed in 1988; the Nebraska Tax Policy Commission, commonly referred to as the Burling Commission, was done in 2007; and finally, the Tax Modernization Committee, Tax Mod. This included public hearings across Nebraska and was done during the 2013 interim. We have had enough studies. They all same-- say the same thing: broaden the base and lower the rates. Our state tax revenues continually-- continue to exceed expectations, as they have done over the last few years, even with the pandemic. And I want to thank the Governor and the Legis-- [RECODER MALFUNCTION]-- good morning.

BRYAN SLONE: Good morning. Thank you, Chair Linehan and members of the Revenue Committee. My name is Bryan Slone, spelled B-r-y-a-n S-l-o-n-e, and I'm the president of the Nebraska Chamber of Commerce and Industry. I'm testifying with regard to LR261, a resolution authorizing an interim study examining the structure and administration of our tax system. I have submitted written testimony, so with your permission, I'll summarize and, and, and read my

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

testimony into the record as such. As, as Chair Linehan noted, the issue of tax modernization and the need for tax modernization is indeed decades old. This is a very old debate where battle lines have often been drawn for, for many years now, but the urgency of, of tax modernization is, is probably more important today than it, than it's ever been. Recently, the, the Blueprint Nebraska organization followed up on its 2019 report identifying tax modernization as one of the top 15 initiatives we needed to take from an economic strategy standpoint with a conceptual proposal, which I'm sure you're going to hear much more about today. What's interesting in, in that Blueprint proposal-- and, and sort of sets up a broader discussion that I'd like to have today-- is, is that the proposal includes what I would call the rebalancing of the three-legged stool, a conversation that we've also had for decades, the balancing of sales tax, income taxes, and property taxes. For decades, Nebraska has been heavily balanced towards income taxes and property taxes and, and not so much sales taxes when you compare it to other states. But the Blueprint proposal that will be discussed I'm sure later today also does some other things. It, it identifies economic growth as a basis for continued reduction of, of taxes. And indeed, any tax modernization plan should include a very significant economic growth prospect and what's unique about the Blueprint proposal is they put an economic model. They built an economic model behind it and, and we do think economic modeling is the key to this process because ultimately some significant portion of the, of the revenue is necessary, for tax modernization, over time, will have to come from enhanced economic growth. Just as importantly, the, the Blueprint conceptual proposal is focused on some things that are unique to our state and very important for our state and indeed appear as core concepts in the Blueprint proposal. One is attracting 18 to 34-year-olds and the other is attracting more technology and research-- particularly in our core industries: ag, manufacturing, transportation, logistics, banking, finance-- to this state in order to be competitive. But as I traveled the state this summer, it was clear in every community that I went to that workforce, workforce shortages have become the most significant impediment to community economic health and vitality throughout the state. There was not a single community I went to this summer where workforce was not the number one issue. And so this business of attracting young people to our state becomes very important, not only in terms of our other legislative priorities, but also in tax modernization. On the second page of my testimony, to be responsive to, to the committee's request of, of-- so what all are the items that we should specifically consider as, as we, as we draft tax modernization and consider

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

rebalancing the three-legged stool? We published and, and are public with a set of, of guardrails that, that include the following-- and I will read these-- that any legislation must reduce income taxes to competitive national levels. At the present time to be competitive nationally, I-- it's my personal opinion that that individual-- top individual tax rate needs to get down to between 4 and 5 percent to truly put this in, in a competitive situation with peer states. Two, corporate income tax rates should not-- should be-- or should be reduced not to exceed individual rates in any proposal. And third-- I'm going to move to the sales taxes issues and you can read the others, but with respect to sales taxes, the same transactions should not be taxed twice. That includes business inputs and trade-ins and that we do need to do a survey of, of our, our surrounding states to make sure our sales tax exemptions are competitive so we do not cause dislocation of businesses. And with that, I'll finish with the axiom that what you tax you're generally going to get less of. We remain opposed to the notion of the consumption tax or the EPIC tax. At the rates that would be required, it would simply move our businesses and our, our revenues to our surrounding states, as business would move and goods and services would be higher taxed. And so with that, Chair Linehan, I will be happy to answer any questions that the committee may have.

LINEHAN: Thank you, Mr. Slone. Are there questions from the committee? Yes, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. You know, on the federal level, we keep hearing the proposals now in front of our national legislators and everybody keeps saying how we should tax corporations more, tax those rich, evil corporations. How do you respond to that? I mean, we've always heard the phrase corporations don't pay taxes, they collect taxes. So how does that impact our taxes here and how we should look at corporate taxes?

BRYAN SLONE: Yeah, I would-- it's a great question and I think there's two pieces to that answer. One, our federal tax system is largely built upon collection points once you get beyond individual taxes and, and corporate taxes are indeed a collection point. And, and economically, ultimately-- corporate taxes are ultimately borne by either the shareholders, the consumers who buy products or services from those corporations, which would be individuals again. And, and ultimately, the burden of those taxes flows through to, to one of those two groups. The, the corporate entity is not, is not a individual taxpayer in itself, but ultimately those costs will go

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

through. The second piece is in the last 30 years, the tax world has changed, changed with the, the development of LLCs, limited liability companies, and the flow-through taxation. Anymore, 90 percent or more of new businesses are formed as LLCs and flow through. So you're going to see increasingly amounts-- the amounts of business taxes collected through the individual tax system rather than the corporate system and so it's really important to marry those two rates in my mind as a policy matter because if you have two similarly situated businesses with the same revenues in the same community and one is an LLC and once a corporation, it makes no sense to tax one more than the other just simply because we have a different collection point.

FRIESEN: Does the difference between an LLC and a, a C corp-- so if you would form a business today, everybody says you would form under the LLC form. So at some point does the, does the size of a business mandate that it would go to a C corp or publicly traded--

BRYAN SLONE: That's a--

FRIESEN: --or they're, they're changes that are--

BRYAN SLONE: It's--

FRIESEN: --kind of forced as you get bigger?

BRYAN SLONE: Sometimes it's size, certainly to go public. To be a public company requires C corp status to be a, to be listed. The, the-- when I-- in my prior life as, as a business lawyer, the-- you would generally become a C corp largely because of either capital formation-- either you had thousands and thousands of capital investors, but more likely for governance reasons. And even in family business situations, there-- they-- it was the exception rather than the rule, but there were times that I would recommend a corporation because of-- it has much more-- how, how would I say it-- organized and structured governance procedures. And, and sometimes, Senator, in family businesses or other businesses, that's helpful.

FRIESEN: So if you were, if you were to say who pays the taxes on a corporation, you mentioned shareholders can pay some, but it's basically the fiduciary duty of the board to make sure the shareholders are taken care of. So in the end, wouldn't it be the customers of the, the clients, whoever?

BRYAN SLONE: I would say and studies would show that the customers pay a very large segment of that. I would also say the boards have a

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

fiduciary duty to make sure that the products and services are competitive for that company and so there's only-- it's not totally, totally elastic. They-- every company has competition out there and price is simply competition, so to the extent that, that those prices are not elastic, ultimately the shareholders do bear that and ultimately shareholders, in, in one way or form, flow back through to individuals.

FRIESEN: So under our current tax policy in Nebraska here, do C corps, when they earn money outside the state-- if, if you would have a C corp formed here, but all your income comes from outside the state, do you pay Nebraska taxes?

BRYAN SLONE: Generally, no. We-- you use a sales apportionment factor and so we calculate it based on sales within the state.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Senator Bostar.

BOSTAR: Thank you, Chair Linehan. Sort of, sort of follow up on Senator Friesen's questions, is it fair to say that a significant amount of our corporate income tax revenues come from essentially out of state, from, from businesses headquartered, located out of state?

BRYAN SLONE: I don't know that answer for sure and I, I would hesitate to, to make that assumption. Certainly some of our larger, some of the larger corporations in the country have operations in Nebraska, but we have some very large domestic corporations in Nebraska, so I, I don't know that data, Senator.

BOSTAR: And even the large corporations in Nebraska, if they are a significantly large corporation, I would imagine that the majority of their sales are not in Nebraska.

BRYAN SLONE: Not necessarily. I, I do understand what you're, you're saying. If they're, if they're global, international, and national companies selling products and services, typically a very large portion would not be in Nebraska, but we have large corporations who, who serve Nebraska, depending on your definition of large, Senator.

BOSTAR: So I think personal income taxes, property taxes certainly are almost entirely borne by Nebraskans. Sales taxes can be paid by people coming and visiting the state and then, of course, corporate taxes can also be paid by non-Nebraskans. So as representatives of Nebraskans,

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

why should we reduce a tax that ultimately-- if we are trying to be revenue neutral, we have to raise something else. Why would we reduce a tax that is reducing-- is, is limiting the burden on Nebraskans because some of it is being paid for by non-Nebraskans? From the perspective of representing Nebraskans.

BRYAN SLONE: Right, so again, typically a, a tax system will be largely territorial, which will mean that those sales that trigger taxation-- it's not perfect, but generally the sales that trigger the taxation will have occurred in Nebraska and so I'll use South Dakota as an example. South Dakota, as you know, does-- has no income tax whatsoever and basically funds the state through sales taxes and it does so through phenomenal amounts of tourism per capita in South Dakota. So to the extent of what you're talking about where you're trying to tax people not living in the United-- in Nebraska and have them bear some part of that, sales tax is-- obviously is one of those. From a corporate tax standpoint, ultimately in a, in a corporate world, there's a collection point at the, at the corporate side and, and those are allocated by sales. What gets taxed to individuals then becomes where those sales occurred, generally speaking, and so those would have occurred in Nebraska, which creates, just like in South Dakota, Nebraska jobs and Nebraska healthy communities. And so by, by reducing the, the corporate taxes in Nebraska and making them competitive with other states, which they are not currently, it allows for the jobs and--

[FIRE ALARM]

BRYAN SLONE: I was, I was--

[FIRE ALARM]

LINEHAN: It's not real.

[FIRE ALARM].

LINEHAN: Oh my.

[FIRE ALARM]

BRYAN SLONE: So, Senator, I believe that was my staff telling me my answer was way too long. In short, unlike the federal system, for the state system, the other piece that we always have to recognize is that we're in competition with all other 50 states and to the extent we're

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

uncompetitive, businesses simply vote with their feet and move out of the state.

BOSTAR: So I-- and I, and I appreciate that and that's something that, you know, certainly see on this committee-- we hear a lot about and in truth, I'm just trying to understand it more comprehensively.

[FIRE ALARM]

BOSTAR: So in order to help me understand it better, if you're a business located outside of Nebraska and you're a, a national business, an international business, what have you, and you sell nationally, including into Nebraska, you're currently paying our corporate taxes. If you were to move your business into Nebraska and still you sell nationally, you sell globally, what have you, presuming that your share of sales-- because of where your headquarters is located-- isn't changing, is there actually a disincentive to you moving your headquarters into Nebraska based on our corporate tax rate, considering, from my understanding, you're paying the same thing either way? Is what I said wrong? That's what I'm just trying to understand.

BRYAN SLONE: No and I understand what you're saying. Is it based on a sales apportionment factor? You would, you would generally believe. Now once you move a headquarters to Nebraska, there's all sorts of, of other things that happen. And, and so you also move jobs to Nebraska and suddenly that individual rate becomes really important to whether you're going to move those jobs to Nebraska or you're either going to move them to Texas or Florida or someplace else. Also, the, the construction and the, and the infrastructure that goes around that-- you think of some of the headquarters that we have-- have pretty significant economic effects to the state and the taxes, including property taxes related to, to-- those items also play into it.

BOSTAR: And I think-- that I completely understand, the idea that you wouldn't necessarily-- the, the individual income tax rate makes sense for moving job, the property tax rate, all of that stuff, but from a purely corporate tax rate perspective, that's where I, I still am I guess trying to understand-- when we talk about competition, how we do sales apportionment, how competition really plays into that, but anyway, thank you very much.

BRYAN SLONE: And, and the other thing I would add, if you're a services company, your sales are-- generally occur where your services

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

are provided, so it-- that's-- it's, it's more a problematic onus for this company.

BOSTAR: Thank you.

BRYAN SLONE: Yep.

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

BRYAN SLONE: Thank you, Chair.

LINEHAN: --for being here. Uh-huh. Good morning.

_____ : Sorry.

STEVE SELINE: Oh, sorry. Good morning, Chairman Linehan and members of the Revenue Committee. For the record, I am Steve Seline, S-t-e-v-e S-e-l-i-n-e, here today representing the Greater Omaha Chamber as a former chairman of the chamber and as a former chairman of our public policy council. Thank you for your committee's invitation to offer comments on the taxation policy in Nebraska. Before I address the committee's questions, I want to emphasize that the Omaha business community believes that the most important challenge to our city and region and state is recruitment and retention of talent. Addressing the problem of the brain drain and stymieing the loss of our state's most valuable resource, our children, must be the angle through which we prioritize any potential changes in our state tax policy. And I appreciate the committee providing us with questions. If it's OK, we'll just go through each one of those. Onto the first question, we recognize that the property tax has been a long-term and significant burden across the state for decades. It has been a negative impact on all sectors: agriculture, residential, and commercial. Having said that, the Legislature has invested significant resources over the past several years and especially since LB1107 to address the property tax burden of Nebraskans. Recent projections show state contributions to the property tax issue to be quickly approaching \$1 billion or approximately 22 percent of our state budget. This is why we suggest that state policy makers turn their focus to the income tax. We need to be focused on creating the most competitive tax-- income tax possible while still meeting our obligations as state-- as a state. We need to be competitive with our surrounding states as well as other like-situated states that frequently compete against us, such as North Carolina, Tennessee, and Texas. Feedback from our members indicates

Revenue Committee October 1, 2021

Rough Draft

that the sales tax and property tax are a lesser concern. Not totally-- obviously, it's still a concern, but of a lesser concern to our members than the income tax. As to the second question, historically, we've been supportive of expansion of the sales tax if such expansion is done in a comprehensive manner. We also support the continued exclusion of business and agricultural inputs from taxation in recognition of the move from a goods-based economy to a service-based economy over the last several decades. Services should also be on the table for expanded taxation. Our taxation-- excuse me-- our taxation system should be reflective of our current economic realities. Finally, we believe that any revenue stream from a comprehensive, comprehensive expansion of the base must be placed on lowering corporate and individual rates down together to a lowest extent possible. We believe an income tax rate below 5 percent and closer to 4 percent would be ideal for Nebraska's competitive stance. We appreciate the committee's work to examine Nebraska's tax systems and stand ready to partner with you as you move forward to improve our current situation. The work will not be easy, but is critically important to the growth of our state. Thank you.

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

FRIESEN: Thank you, Chairwoman Linehan. So I-- you mentioned we need to attract people back to the state and, and statewide, I think Mr. Slone indicated too that we have a severe housing shortage. And do you, do you feel our property taxes that currently are out there are an impediment to getting that housing that we need? I mean, because people keep saying, you know, I mean, I get my house-- it's paid for, but I continue to pay for it because property taxes are so high. And so I know there's-- we were given a rebate, but like they mentioned earlier, you know, you first pay your taxes and then you get the rebate later on in the year. But with that housing shortage, I mean, it seems like it's severe across all the state. Whether you're in the rural areas, smaller towns, larger towns, it's everywhere. And so how would, how-- what is the best way to address that housing shortage? Because we got to have people have a place to live when they move, whether it's commercial apartment buildings or anything. What, what, what is the number one thing that will drive the-- that housing industry, I guess, to provide enough housing?

STEVE SELINE: So the housing industry is driven by a number of factors: property taxes-- but primarily the question is what we-- what we're talking about primarily, which is population growth. And to the

Revenue Committee October 1, 2021

Rough Draft

extent that real estate developers see population growth, they are going to build and, and solve the, the housing problem. I understand the tax policy plays into it. It is-- right now, at least according to our members, we find that the rates for housing in the metropolitan area are going up higher than they should be, no question about that, but less than our competitive states. So for us, in terms of attracting people to the state of Nebraska, it isn't housing that's driving the issue. It's the continuous can we get more jobs into the state and can we get more people that, you know, our kids, your kids stay here and stay in the state of Nebraska and make sense? And I personally am competing with Texas. I've got two kids in Texas right now and I'm trying to get them to come back to Nebraska, doing everything I possibly can and offering them jobs and stuff like that, but literally to get them back to the state of Nebraska, we have to pay them 6.84 percent more than we do in Texas because frankly, the--you get-- they're not paying any income tax in the state of Texas.

FRIESEN: Well, I mean, I, I agree. I mean, I-- most of my kids have finally moved back to Nebraska, but I mean, it was-- housing costs in California were just ridiculous. I mean, housing in D.C.-- you can move back here, you can buy a house three times the size, but you can-- you still pay more-- probably a little more in property taxes again, yet. But again, it, it goes-- if we're going to try to attract people, we're short of housing and, and the price is going up and we're not-- there's not enough builders out there. I mean, every house-- city has indicated a shortage of lots of housing and so I mean, how do we, how do we-- at some point, we all know it's going to play catch up and, and we'll have a, a bust again and it happens in those cycles, but it seems like we're a long ways off with our unemployment at 2 percent, record lows. We've got to have housing for these people that we want to move back to be here.

STEVE SELINE: And I agree with you and especially I recognize that the problem is, is more severe in some isolated places throughout the state. In Omaha, the issue is more along the lines of when we're competing with Kansas City or Dallas, it isn't the cost of the real estate. It isn't the cost of the rent, if you will, that's driving them away, even though in that rent is the, is a property taxes. It's more of the cost of the taxes that they come back to-- that they pay when they come back here, so it's, it's always a tradeoff. I, I respect what you're saying, but right now we're blessed or, or-- I don't know how you want to say it, but we have the advantage over a lot of other places in terms of real estate, not in terms of the actual tax rate, but in terms of the actual price of real estate. So

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

what happens when, when the property taxes are high, it drives the value of the houses down or the apartments down and that-- you know, but right now, we're very competitive with all the places that, that we are, that we are seeing other jobs go to and other people go to. We're competitive with them on that basis, but we're not competitive with them on a tax basis right now.

FRIESEN: OK, so overall, you're saying we're competitive in the housing market as far as costs and attracting them back. No matter how you look at the taxes--

STEVE SELINE: Yeah and--

FRIESEN: --we're competitive there.

STEVE SELINE: --and there's, and there's a significant amount of apartment complex construction going on in, in the Omaha metropolitan area and I'm, I'm not sure about other-- I know Omaha and Lincoln are-- both got cranes going up all over the place. I haven't been to Grand Island or anyplace else lately, but it's, it's a-- it's happening and I think the market will satisfy that to the extent that we get the jobs in the state of Nebraska and get the people to stay here.

FRIESEN: OK, thank you.

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

BOSTAR: Thank you, Chair Linehan. Thank you, sir. And so we heard from Mr. Slone and yourself about primarily the need for Nebraska to attract and retain a workforce talent, young people. So I understand that both of you have said either if we lower income taxes, that will attract them. I mean, do you, do you think there's anything else the state should be doing to attract and retain talent and young people or just lowering taxes and we'll get them?

STEVE SELINE: Well, if we can get mountains moved here, that would really help in terms of getting skis--

BOSTAR: Agreed.

STEVE SELINE: --ski resorts and, and things like that. There's, there's a lot of things. Obviously, I'm supposed to be-- right now, I'm supposed to be at the University of Nebraska Foundation board

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

meeting, but I come over here to testify instead of going to that. But obviously I'm supportive of the university, University of Nebraska and that's a, that's an important part of what we're doing here. And fortunately for me, I'm just testifying on taxes today. I know that you guys have to balance out all the other issues in terms of spending and what you do spend it on, but obviously our-- I think one of the crown jewels of our-- of Nebraska is our educational systems and, and to the extent that that our higher education becomes better, that keeps people here. The statistics are obvious that people stay within 50 miles of where they get their final degree. That kind of stuff is, is really important.

BOSTAR: And I agree with you. Thank you very much.

STEVE SELINE: Sure.

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

STEVE SELINE: Someplace Ellie's happy.

LINEHAN: She is. Good morning.

JIM SMITH: Good morning, Chairwoman Linehan and members of the Revenue Committee. My name is Jim Smith, J-i-m S-m-i-t-h, and I am here today as executive vice president and chief strategy officer of the Platte Institute. Thank you for scheduling this hearing and-- this hearing to examine the structure of Nebraska's tax system and for your ongoing efforts to improve the state's tax environment and competitive standing. As one of three Blueprint Nebraska alliance partners and a supporter of Blueprint's 15-point plan for economic growth, the Platte Institute recognizes there are many factors that drive economic growth and affect our state's competitiveness. These dynamics include our education system, the availability and affordability of housing, broadband connectivity and performance, and the list goes on. But perhaps the single most important factor that influences our economic outlook is our state and local tax system. Unfortunately, Nebraska's tax-- state and local tax systems are no longer structured to optimize economic growth or to reflect our current economy, for that matter. Currently, we have property taxes predating statehood, an inheritance tax from 1901, a sales tax designed around a depression-era economy, and business tax incentives built on 1980s economic development concepts. To answer this committee's first question of the portion of the tax system in most need of reform, we believe consideration should

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

be given to a hierarchy of taxes in terms of how they impact our economy. We know that certain taxes are more harmful to economic competitiveness and growth because of the taxpayer's mobility and sensitivity to change. For example, taxes on the most mobile factors in the economy, such as income and capital, have the most negative impact. However, taxes on factors that can't easily be moved, such as land, have less impact. But that does not mean that we should not work towards reducing the tax burden on our most captive taxpayers, the property owner. Regarding the committee's second question on our position on expanding the sales tax base, the Platte Institute supports the careful and strategic broadening of state and local sales tax base. I have included potential targets of this broadening strategy with my testimony. However, such broadening measures should avoid taxes on business inputs-- and you've heard that already today-- as well as goods and services that harm fixed and low-income segments of the population and workforce. The committee's final question involves the strategy or framework for using the incremental sales tax revenues generated by expanding the base. By using the state's portion of this new revenue to reduce the income tax burden on individuals and businesses, dynamic, dynamic modeling shows that we can grow the economy by generating new state revenues from factors like population growth, higher wages, and increased investment. This growth and the new local option sales tax dollars can then be used to further reduce Nebraska's property taxes and the burden on the most captive taxpayer. In concluding my remarks, modernizing Nebraska's tax code should have dual outcomes, increasing the competitiveness and growth of Nebraska's diverse statewide economy and reducing the burden on Nebraska's families, farmers, and businesses. With the right approach and design, we believe we can achieve both outcomes without sacrificing the stable and diverse revenue sources needed for government or government's critical services. Thank you again for your time and continued work on behalf of Nebraska, Nebraska's taxpayers. Thank you, senators.

LINEHAN: Thank you, Mr. Smith-- Senator Smith. Are there questions from the committee? So this is your-- you want to explain this chart?

JIM SMITH: Yes, that's part, that's part of the testimony, Senator.

LINEHAN: OK, so it was-- Oh, Senator Friesen.

FRIESEN: I didn't mean to interrupt you, but-- if you want to ask a question--

LINEHAN: No, no, that's OK.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

FRIESEN: --but thank you, Chairman Linehan. You mentioned here the new local option sales tax dollars can be used to lower property taxes then, but that-- when you broaden that base, that, that doesn't go to communities that are not large shopping centers. I mean, it, it is targeted then toward the larger regional shopping centers where they could theoretically provide property tax relief with that increased income. How do you, how do you propose spreading that out across the rest of the communities that are not as, as reliant on sales tax income for their revenue?

JIM SMITH: Great question, Senator Friesen. Of course, that's the million-dollar question. Though not part of the strategic Blueprint Nebraska plan, one such approach to doing that is to take the incremental revenues from the newly taxed items or services at the local level, recover those at the state level and use those dollars for state aid to education, for example, to, to help to meet the needs of critical government services and allow local governments to reduce the property taxes.

FRIESEN: OK, so you target some of that-- you said to school funding, but it wouldn't necessarily be any state aid to cities.

JIM SMITH: Well, the state aid to cities-- we would not recommend, at this point, reducing the local option sales tax dollars that the municipalities are currently receiving. Only the incremental dollars would be used for strategic property tax relief.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions from the committee? Seeing none--

JIM SMITH: Thank you.

LINEHAN: --thank you very much for being here.

DOUG KAGAN: Good morning. Doug Kagan, D-o-u-g K-a-g-a-n, 416 South 130th Street, Omaha, representing Nebraska Taxpayers for Freedom. Although our members complain mostly about property taxes, we believe that the Legislature should embark on comprehensive tax reform. Examining other state tax trends, we find a definite gravitation towards consumption taxes. These taxes comprise more than the sales tax. They include excise taxes, nuisance taxes on movies, sports, events, amusement parks, occupation taxes, sin taxes like cigarette and liquor taxes, and user and permit fees and charges. One first step

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

would eliminate state sales tax exemptions in place since those tax began. Exemptions have multiplied over the years. For instance, the Omaha Zoo, car museums utilize staggered elimination of most exemptions on agriculture, business, lodging, clothing, housing, personal transportation, energy, etcetera; 25 percent the first year, 50 percent the second year. Exemptions, though, still apply to food, clothing, housing, personal transportation, religious categories, and health and medical expenses. The state sales tax gradually would encompass services, while the total sales tax rate would drop. Again, staggered extension amounts to 25 percent the first year, 50 percent the second year, etcetera. Sales tax extension as part of consumption taxes we believe should combine with the formula that would lower the property tax burden, such as a cap. Options range from a formula to lower property taxes in order to neutralize, a property tax increase caused by a valuation increase on a property to begging valley-- pegging valuation hikes to the annual area inflation rate plus growth or only at a specific percentage increase, work with the public education lobby, as public education consumes most of our property taxes, reduce or merge corporate and individual income tax rates to make our workforce competitive. Also, set differing formulas for urban and rural properties so that our farmers and ranchers-- equal property tax relief. Abuse of the nonprofit system in Nebraska is flagrant and begs reform. Many nonprofit businesses like hospitals and medical clinics enjoy tax-exempt status for their entire facilities, although many of their services compete with private enterprises for clients and customers. Nonprofits use infrastructure services as streets and sewers and public safety services like private commerce. Institute the payment in lieu of taxes system to tax the profit-earning parts of nonprofit businesses to share the property tax burden. Require nonprofits to prove the eligibility for exemption. Consumption tax-- taxation-- I want to interject here. We do not support the fair tax or EPIC, EPIC tax, but it avoids double taxation and penalties on savings because the saver not taxed on the amount saved, but taxed only on future consumption financed by the savings. Trending towards this consumption kind of tax, everyone pays taxes with a consumption tax. The tax base is, base is larger because all consumption tax. If the tax rate sets at the same level for all purchases, individuals who buy more expensive goods will pay more than those who buy fewer or less expensive goods. Taxes on consumption can raise more revenue at lower rates than income taxes. Empirical data show that a consumption tax could increase the size of the Nebraska economy by about 15 percent over ten years. One of the biggest reasons for replacing our current hybrid tax system with a consumption tax is a tremendous boon for the

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

economy because it would eliminate the heavy taxation that the current system places on investments. Investment would arise because the consumption tax would remove the existing steep disincentives for businesses to make new investments and for investors to take the risk to fund them. Higher investment in the economy will create new jobs and increase productivity, which would increase wages. Convenience of payment encourages compliance. Compliance and administration costs would be minimized. This tax is efficient and simple for a state revenue department to implement, even if over several years. If Nebraska abolished or replaced part of the income tax with a consumption tax, it would significantly decrease compliance costs. It eliminates loopholes in the many exceptions and complexities in our current state tax system. Other of our suggestions: restrict tax increment financing to its original intent, fund several local services from the state, and consult experts in the field like the Tax Foundation. Thank you.

LINEHAN: Thank you, Mr. Kagan. Are there questions from the committee? Senator Bostar.

BOSTAR: Thank you, Chair Linehan. Thank you, sir. I-- and maybe I misheard, are-- were you not in favor of the consumption tax or you are in favor of the consumption tax?

DOUG KAGAN: OK, let me clarify that. We are-- other states like Georgia and North Carolina are moving-- they're trending towards consumption taxes. They haven't eliminated necessarily completely the income tax or property tax. They're trending toward, toward it. The reason we don't support the fair tax or some people call it the EPIC tax is we don't think it will work for several reasons. It would very comp-- it will be very complicated for the State Revenue Department to implement. Another thing that has proved difficult, they, they have something called prebate, so it would be difficult to determine who gets a prebate, who doesn't get a prebate. One big fault we find with it is that it's supposed to tax new-- anything that's new services or, or new products. So let me give you an example. A lawn mower company wants to assemble lawn mowers so they go out and buy nuts and bolts. Well, that's a new purchase so they pay tax on that. So they assemble the lawn mower, they sell the lawn mower to the wholesaler. OK, the wholesalers buy a new lawn mower so they pay the tax on that because it's new. The wholesaler pays-- sells the lawn mower to a big-box store and the big-box store gets a new lawn mower so they, they pay a tax on it and then the big-box store sells to a consumer and they pay the tax on it. So what you're doing is you're adding layers and layers

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

of taxes and it's very fuzzy about what you consider a new sale. It would also be very detrimental to specific parts of the industry. For instance, who will buy a new house and have to pay a fair tax on it when somebody can go buy a house that's a year old? It would, it would devastate the construction companies. It would devastate new car dealers because who would buy a new car and pay a huge tax on it when you can buy something that was leased for a year and it's almost new and buy that car instead? So it's very detrimental to, to certain industries and I think you'll find that although states are trending towards consumption taxes like I mentioned, broadening the sales tax, looking at using excise taxes, nuisance taxes, user fees-- in other words, the more you buy, the more you use, the more you pay. But the way the EPIC tax was constructed, it simply won't work and I don't think you'll find a single state or locality in this country that has adopted it.

BOSTAR: Thank you very much.

LINEHAN: Thank you, Senator Bostar. Are there other questions from the committee? Seeing none, thank you very much, Mr. Kagan.

DOUG KAGAN: Thank you.

LINEHAN: Good morning.

CHRIS HOVE: Good morning. Chairman Linehan, members of the Revenue Committee, my name is Chris Hove, C-h-r-i-s H-o-v-e, and I appear before you today on behalf of the Nebraska Bankers Association to provide testimony on issues relating to LR261. I'm the President and CEO of Nebraska Bank of Commerce in Lincoln, Nebraska, and also the immediate past chairman of the NBA. On behalf of the NBA, I want to express our appreciation for being invited to the table and for the opportunity to comment on issues relating to tax reform. While I'm not speaking on behalf of the Nebraska Independent Community Bankers, the NBA has met with representatives of the NICB and I believe that our remarks are reflective of their position on these issues. In preparation for this hearing, I've reviewed the topics for discussion, which were provided by the Revenue Committee. The response of the NBA to issues and questions presented are as follows: on issue one, where is tax reform most needed, the NBA position on tax reform is generally guided by what is best-- in the best interest of our customers, as well as the promotion of economic development and growth of our state. Our business commercial customers would likely benefit most from reductions in individual and corporate income taxes, while our

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

agriculture customers continue to voice their interest in additional property tax relief. On issue number two, expansion of the sales tax base eliminating exemptions, taxing specific services, while the NBA has traditionally opposed expansion of the sales tax on services, we certainly want to participate in continuing discussions if changes in the existing sales tax system can result in a reduction of the overall tax burden for Nebraska taxpayers, both individuals and businesses. With respect to the issue of taxing specific services, the NBA policy and priorities are based upon the following core principles: first, business-to-business services and business inputs should be exempt from sales tax; second, any expansion of the sales tax should not place Nebraska businesses at a competitive disadvantage with the businesses in our surrounding states; and lastly, any expansion of the sales tax on services should be coupled with a reduction in other taxes to provide for a reduction in net taxes paid by individuals and businesses. On the third issue of the sales tax basis expanded, how should increased revenues be utilized, without taking a position in support or opposition to expanding the sales tax base, if additional revenues are derived from such actions, the NBA would recommend that individual and corporate income tax rates be reduced to enhance our competitiveness with other states and that efforts to reduce the property tax burden on individuals and businesses should be continued. In closing, the NBA believes that state tax policy must be designed to retain existing businesses and attract new businesses and additional workers to our state. In addition, tax policy, policy should create a revenue stream that is consistent, predictable, and grows with the economy with tax-reporting obligations that are easily calculated and which require a limited review or auditing by government entities. However, any tax reform or tax modernization efforts involve a two-sided coin. Sustainable tax relief requires fiscal restraint and limited growth in state and local expenditures. We commend the Legislature for having exercised significant fiscal restraint in balancing the state's budget in recent years and limiting the growth of state expenditures in that process. However, we believe that further efforts to restrain local spending are needed in order to maximize the impact of the significant amount of funds that the Legislature has directed towards property tax relief. The NBA pledges to work with this committee and the Legislature to bring about meaningful tax reform for the benefit of the individuals and businesses in our state. I'd like to thank you once again for allowing us to be a part of the hearing today and thank you for your service.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

LINEHAN: Thank you very much. Are there questions from the committee? Senator Pahls and then Senator Friesen.

PAHLS: Thank you, Chair. After listening to your testimony and, and reading, you would be satisfied if we really didn't do anything with taxes. You're more interested in cutting. That's, that's how I'm interpreting and I'm not saying it's wrong, but you want more fiscal constraints on our part. Hard to agree-- disagree with that. What should we do? What-- how should we constrain? What should we be cutting? I mean, it's a fact. We have to be cutting.

CHRIS HOVE: I'm really not prepared to answer the statement, but, but-- or your question, but, but at the same time, I, I, I believe that anything that you cut, you have to-- on the other-- it, it's, it's a balancing act for you and obviously you have to decide what is in the best interest of the state to grow the economy and, and grow the workforce.

PAHLS: And, and I'm not trying to put you on the spot. I understand, but as, as I listen to you and as I read this, you do have some questions on how the taxes-- if we do increase sales taxes, be careful what we do, which cannot argue, but I think-- we're almost at the point-- I meant to ask this question early on. We need to talk about how do we stop the spending?

CHRIS HOVE: It's a good very-- very good point because it's got to be balanced and other than Senator Bostar's comment about bringing in taxes from, from out-of-state folks, it's got to be paid for by the, the people of Nebraska.

PAHLS: Right. And I'm just, I'm just trying to figure out how is that-- because I, I don't believe the state is just going to grow population wise because if you listen on the floor, we-- the state has grown some degree, but a lot of it has, has been the Latino population. But there doesn't seem to be much of a reception for that when I listen to some of the-- my peers on the floor and that's-- I don't know if, if Nebraska really would have increased its population if it had not been for people who looked different than you and I.

CHRIS HOVE: I, I'm-- I can't comment on that.

PAHLS: And again, you just caught me because I've been listening--

CHRIS HOVE: Sure.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

PAHLS: --and, and I do-- I, I understand we need to put a hold on it, but I've also heard people say education is very important. That's a big dog in the fight and we need to be receptive to people, but I'm, I'm listening on the floor and I, I hear my-- some of my peers saying if a person does look like me, we really just don't care. And I think that we, we need to be changing our attitude as a state.

CHRIS HOVE: I would agree with you. I certainly agree with you on that.

PAHLS: And you just got me because I meant to ask this question earlier on--

CHRIS HOVE: Yeah.

PAHLS: --so I-- and I thank you for--

CHRIS HOVE: You bet. I can't agree with you more.

LINEHAN: Thank you, Senator Pahls. Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So I-- you mentioned in here that basically you're saying, you know, we should reduce income taxes and help reduce property taxes, so you're-- we do sales tax broadening if we're going to do it, continue on with both of those kind of equally. So there's a, there's a proposal out there and there's an LR that has been held in Education already, I think, or it's going to be held that says that all commercial and ag land would be removed from property taxes to fund school. Would businesses be in favor of that, taking away their property tax obligation to funding school?

CHRIS HOVE: Senator Friesen, I'm sorry, I don't know enough about the, the process. I don't know if, if business would be interested in that. I can imagine that--

FRIESEN: From a, from a business standpoint, I mean, if, if you were presented that option to you as a businessman, which would interest you more?

CHRIS HOVE: I'm sorry, I can't--

FRIESEN: OK.

CHRIS HOVE: I'm not prepared to answer that.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

FRIESEN: I mean, I-- you do feel it's important to hold down spending?

CHRIS HOVE: That's absolutely correct.

FRIESEN: Right, should probably be our number one priority.

CHRIS HOVE: We're, we're very fortunate here in Nebraska to have such beautiful facilities and, and wonderful roads, but that-- there's a price to that.

FRIESEN: Do you feel we're spending too much?

CHRIS HOVE: That's a great question. I, I, I really can't answer that, but I think that we look around to other states and you look at us to-- we're very fortunate to have the facilities that we have here.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions from the committee? I read your-- or listened and read along to your testimony and I thought what you were saying was this Legislature and the Governor have done a fairly decent job over the last few years of keeping the state's expenditures down, but we have a problem or we have a challenge-- not the same thing has been going on at the local level. That's what I thought you were saying.

CHRIS HOVE: Yeah.

LINEHAN: So last year, we as a committee, with Senator Briese's bill-- and not a constitutional amendment, but legislation, so do it in statute-- to limit local spending to 3 percent plus real growth and not putting it in the Constitution because if we do have inflation, which it looks like we're going to, we could adjust that number, but I would-- you don't have to answer this now, but I would be very interested in your organization's feeling on that matter--

CHRIS HOVE: OK.

LINEHAN: --because it does-- and I think your testimony touched on this or maybe it was Mr. Seline's or Slone's-- we're almost to \$1 billion in property tax relief at the state level--

CHRIS HOVE: Right.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

LINEHAN: --with no control on the expenditures. Do you perceive that as a problem?

CHRIS HOVE: I, I think it's, it's going to be all be looked at and it, it, it's a very, very complicated process, so--

LINEHAN: Let me ask it this way. As a banker, would you have an open line of credit with no control on what was going on in the other end?

CHRIS HOVE: Absolutely not.

LINEHAN: No, because you would go broke.

CHRIS HOVE: That's right.

LINEHAN: OK.

CHRIS HOVE: That's right.

LINEHAN: Other questions from the committee? Thank you very much for being here, Mr. Hove.

CHRIS HOVE: Thank you.

LINEHAN: Um-hum.

MARK McHARGUE: Well, good morning, Chairman Linehan and members of the Revenue Committee. My name is Mark McHargue, M-a-r-k M-c-H-a-r-g-u-e. I serve as president of Nebraska Farm Bureau and I'm here to share Farm Bureau's perspective on the questions that were-- we were asked to address. Pure and simple, our highest priority is, is balance in the structure when we think about the, the tax structure here in Nebraska. You've heard me say that before and we'll continue to have that message and-- but we do appreciate-- before I kind of get into the four questions-- is this committee's work on property tax relief already. The fact that we've, we've put a substantial amount of money into the property tax credit relief fund. Our new LB1107 has been very helpful on, on property tax relief and I want to make sure that this committee knows that we appreciate that and understand that. But secondly, is-- before we get into the questions-- and, and probably most of you know this as well, but agriculture in Nebraska, our receipts are \$21 billion for the state economy, \$6.8 billion in ag exports. We are the third-largest ag economy in the nation and that's a pretty big deal. For Nebraska being the, the center of the country here, we have substantial scale and diversity in livestock, cropping

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

operations, and then one out-- one out of every four jobs in Nebraska, including a lot of jobs in Lincoln and Omaha, are tied to agriculture and, and there's a reference there to a UNL study on that. So just to get into a couple of the questions that was being asked-- and I appreciate the committee throwing these questions out because it really helped us help formulate some of the comments today. So on the question number one, what part of the tax system needs to be reformed or significantly reformed? And to address that, I would say even though recent work has been done on property tax burden of both owners of residential, commercial, and agriculture areas, according to the Platte Institute, our effective property tax rate is still the eighth in the country. So there's been a lot of conversation today about competitiveness and I think when we look at all the tax structures, competitiveness within the property tax sector is also a very viable conversation that we're, we're still interested in. So recent estimates in the-- for 2022, so including the, the significant bump we'll have next year of \$548 million in LB1107 credits, our calculation is that property tax from a balanced structure is still about 42 percent on property tax, 20 percent on sales tax, income tax about 35 percent, miscellaneous is in there at about 3 percent. So still, we have a high priority on, on balancing the structure. According to those numbers, we are not balanced for agriculture and when we look at residential and commercial, we need to-- probably about \$800 (million) to \$900 million more "ish" to kind of get that close to the three-legged stool that's been talked about several times today. That's our, our calculations and we should start doing that by, as mentioned, broadening our sales tax base. Ideally, we would broaden the base on consumer goods and services to really reflect today's economy. We're, we're living in a different economy than we were even ten years ago and until we reform our sales tax base or reform our sales tax base-- if that, that can't happen, we still may be putting money into a property tax credit fund that's the tier one and then also the tier two. I'm going to talk about exemptions just a little bit. There's three documents in the, in the sheets that I gave to you, one outlining just our current state sales tax exemptions. Then there's a document in comparison, our state to our neighboring states, from the Platte Institute and then a list of exemptions from Senator Briese's LB1084, which we, we think a lot of those exemptions are, are things that we can look at that would generate significant amount of revenue. If those incomes come in from changing our exemptions, we believe that to get that into property tax relief, we need to put more money into state ed, state education and primarily-- preferably-- preference, basic education funding to ensure that every school

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

actually gets funding, state funding of community colleges versus property tax funding, and then after that, money into tier one in tier two. So with that, I would be happy to take any questions.

LINEHAN: Thank you very much. Are there questions from the committee? State funding on community colleges, would you explain that a little bit, just for the record?

MARK McHARGUE: Yeah, so currently, I mean, we, we pull money out of our property tax to pay for community colleges. It's a significant amount. I think we need to have the discussion on whether that should be a burden on property tax or that should be bore [SIC] by the state and so that's one of the conversation. As we're looking at comprehensive tax reform, I think we need to look at where we're collecting our taxes, where we're spending our taxes, and then are those items appropriate?

LINEHAN: And then you want to-- just for the record, basic education funding, what you are speaking to?

MARK McHARGUE: Yeah, so, you know, the question is-- I think the primary question is, is if we collect more taxes through sales tax-- and I think that's been our basic conversation-- how do we appropriate that money? It's been talked about, you know, do we put it to lower our, our income tax rate or do we put it towards property tax? We would certainly lean towards property tax. We think that because in a competitive nature of being the eighth highest, that's-- we're not competitive there. So you lower that competitive nature, I think that will stimulate growth. I think that will, that will add jobs to the sector and then that will, that will continue to roll the economy. But where do we, where do we apply that money to actually get it to property tax relief? So we spend a lot of money on schools and so how do we, how do we work that through the formula? And so doing that through basic education funding, you still have to have a, a mechanism where ultimately, if you put more money into the school system, you, you have to make sure that your, your taxes get lowered. I mean, it's-- it can't be a-- we can't put more money into the system and not balance it on the other side, so I-- we think that's an appropriate way to get money out to the schools. We would need to ask them to lower their levies and what they ask from property tax along with that.

LINEHAN: OK, thank you. Yes, Senator Friesen.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

FRIESEN: Thank you, Chairwoman Linehan. When you talk about the property tax is still number one, but you do mention in there that money should be used also to bide down the, the income tax rates. And with the money set aside currently, what do you think the ratio would be for property tax, income tax? If we continue to fund the two tiers of property tax relief the same, what would be the ratio of any new revenue coming in? How would you look at that as to what the division would be?

MARK McHARGUE: Yeah, I mean, primarily in the testimony, we're kind of talking about priorities, you know, where it would kind of go first. But, you know, we, we would recognize that probably in any bill to get across the finish line, you know, there would have to be some compromises there and so, you know, you take a look at, you know, a minimum of-- you know, if they want to raise \$800 million, we think it takes \$800 million just to do the balance. If we can find, you know, \$1.6 billion and if half went to property tax relief and half went to lowering our rate, I think that would be appropriate. If we're raising much less than that, does it still need to be a 50-50 ratio or not? But I, I think somewhere in that category, I think you would start getting some support from agriculture.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Senator Lindstrom.

LINDSTROM: Thank you. Quick question-- got kind of a couple of things.

MARK McHARGUE: Sure.

LINDSTROM: I agree with you on-- your scripture on maybe where we're trying to get to. On the property tax credit relief portion, it would-- with valuations going up, say double digits and that's really growing-- I'd say single. Does your group or members feel like that money can be, in the long term, be repurposed for-- it's been providing equalization aid for school districts. Are people satisfied with the property tax relief fund as the end-all-be-all to correct it?

MARK McHARGUE: Sure.

LINDSTROM: Is it-- I understand where it's at. We put money in there--

MARK McHARGUE: Right.

LINDSTROM: --but does it actually fix the long-term problem?

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

MARK McHARGUE: Yeah, I mean, a great question. We are not-- I mean, we've gone those routes because that seems like maybe it's the easiest way. I don't know. I mean, that's-- it's been historically done that way, except for LB1107. We're not opposed to looking at repurposing a number of those pots of money if we can get that into a comprehensive reform and it still does the same amount of work towards property tax relief. I mean, I wouldn't say they're, they're sacred cows at this point, but I think we would have to be very diligent on how then are we going to do it? You know, you know, what's the plan? I mean, I think you can, you can, you can probably redo that significantly, put it in towards education funding, but you got to have the back side to get it back out against property tax relief. And then, of course, with our organization primarily looking at the ag sector, does it appropriately and proportionately go back to the ag sector as it would the rest of the economy? But we, we know that with real estate going up the way it is, we want-- we have to think about the labor shortage. You know, I'm in construction as well and we're building workforce houses and we're building apartments. I mean my apartments, \$125 a month goes to pay property tax and that's a direct cost to housing, which ultimately goes around to getting labor in and so we've touched about a lot of those things today. It all, it all works together. It's just figuring out, you know, where those tweaks are that, that we can together agree on that we can move the state forward.

LINEHAN: Thank you, Senator Lindstrom. Other questions?

ALBRECHT: I have one.

LINEHAN: OK. Senator Albrecht and then Senator Pahls.

ALBRECHT: Thank you, Chairman Linehan, and thanks for being here. I really appreciate everybody's comments so far today because it does help me wrap my head around the fact that not all of us can have everything we want, but yet we do have to, to act on this. You know, on your second page, when you talk about we should start by broadening the sales tax base to accurately reflect today's economy-- and well, it could be one thing today and something else tomorrow, but just for the record, when you say business input should not be included in sales tax in your arena, in the, in the agricultural areas, please explain that because it seems like everybody has-- well, we should try this or we should go to the zoo or we should get-- I mean, talk about that to, to the group here, for the record, so that we understand where your agricultural community is coming from.

Revenue Committee October 1, 2021

Rough Draft

MARK McHARGUE: OK, so on page 4, we do have a list of exemptions and so, you know, where we would stand fundamentally is on our federal tax return or Schedule F within agriculture, we need to make sure and keep those exempted. I mean, the federal government says those are business expenses and so I need to-- we need to ensure that that, that stays and those aren't touched. I would say really the business exemptions that we have as a whole in Nebraska that are identified, we would say that we, we agree generally with the business exemptions that we do currently have. So as we look forward, if it falls under an exemption that we have today relative to business-- so, like, machinery would be a good example. There's conversations about whether a tractor should be exempt. Is that actually a business expense? We would consider a tractor the same as a business that manufactures that. You know, they have a press break and they're going to exempt that. We, we consider a tractor the same type of expense that needs to be exempted.

ALBRECHT: You know, I-- I mean, I know when the state chamber comes or Omaha, Lincoln and there's lots of other things that happen in, in their world, but one thing that I don't think a lot of people think about when they want to exempt a lot of stuff that we have to use every day for our business. You know, whether the commodities are high or low, nobody gives us a break when it comes to chemicals or fuels or any of the, the outputs that we have to take care of. Nothing ever comes down. It always goes up. Whether you're coming down-- so I think everybody has to understand that all of us are in a situation that, that we have to protect our own arenas, if you will, our own areas. But as the bankers came in-- and, and I mean, they have the pulse of their consumers as well. You know, they can come and say well, you know, we can't meet our obligations because of this or that. You know, we're going to hear from the cities, I'm sure, and the counties and everyone, you know, has their needs and wants, but I think it's important that we are very careful not to, you know, look for just certain areas of influence when somebody else isn't experiencing the same thing. So I appreciate the testimony and all the information that you put together today.

MARK McHARGUE: Absolutely.

ALBRECHT: Thank you.

LINEHAN: Thank you. Senator Pahls.

PAHLS: Thank you, Chair. I'm just curious since you brought about exemptions-- I'm not trying to take away any exemptions and I'll say

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

it every year I'm down here, but I will keep talking about it because I think everybody ought to know the whole, total picture. Do you have any idea how many dollars in the state of Nebraska that we have on ag exceptions, roughly?

MARK McHARGUE: I've been, I've been told that-- a number of them a number of times, but it would be, you know-- I mean, Briggs, for example-- I mean, cattle feed, that's our livestock feed--

PAHLS: Yeah.

MARK McHARGUE: --is one of the big ones at-- but, Senator--

PAHLS: Total, just give me a total though. Would you say \$1 billion?

MARK McHARGUE: Probably more than that.

PAHLS: Yeah, OK. That's why-- I'm just trying to say--

MARK McHARGUE: Yeah.

PAHLS: --so we, we are giving exemptions and also, we all want to protect our own. But myself having come from a small community, let's say I'm a business man or woman in a small community. I have the same issues that the ag person has because my things go up and down and, and it is-- I've looked at a lot of these small communities and I'm looking at my own. A lot of people went, went shopping and went to the big city. They should have stopping, shopping at their own little town. I can remember my dad saying that. They need to shop here. They go to Hastings or Salina, Kansas, and all those-- and they're spending all that money. But just a couple of things that caught my attention because I've been examining this. Property tax is significant for those of us in the city as well as in the country.

MARK McHARGUE: Absolutely.

PAHLS: Big time because Douglas County, as I reported last year, more property tax is collected in Douglas County than 70 other counties in the state and then you put Douglas, Lancaster, Sarpy, they're more than 87 of those-- the other counties, just all three counties. So property tax is significant. It's not just in the rural or the country. It is a significant issue, but we keep talking about the property tax on ag land. I'm concerned about property tax on residential areas and I think you're also interested in that. We need to start taking a look at that. But here's-- this is-- really

Revenue Committee October 1, 2021

Rough Draft

intrigued me because I get this from an ag culture-- from the Agriculture Department of the State of Nebraska-- university. I'm just going to read. We all know agriculture is the pillar of the Nebraska economy, that's not a question, but this is what really surprised me. Nebraska's total net farm income has averaged a little over 5 percent of the state's total personal income. So if I were a-- in the ag business, I'm not too concerned about getting my personal income tax rate too low because I own-- all those together are only 5 percent of the state. And there's another thing that really surprised me and about 7 percent of the state's gross domestic product in recent years is, is [INAUDIBLE] coming from agriculture. That's just that section, the rancher and a farmer. The rest that we talk about is the other products that come from that, like the farm suppliers, merchandisers, food processors, and etcetera, etcetera. But actually, I-- as I've talked to one of the senators, yeah, I can see why you probably have a concern about property tax because if the farm net income is averaging only 5 percent of the state's total personal income and 7 percent of the state's gross domestic product and they're paying a high property tax, I can see why that is a concern of theirs. But I was amazed at how the income is only 5 percent, personal income, and the gross is only 7 percent. But when we start adding in all the other issues, that's when ag really, you know, becomes a major sector. So I, I think we need to take a look at property tax and most of property tax is spent where? On education. So those people in the audience, if you want to cut, looks like education is the place to cut.

MARK McHARGUE: You know, the interest-- the interesting thing that-- you know, 5 percent of the income, but we pay a significant portion of the actual property tax in the state.

PAHLS: That's where I [INAUDIBLE].

MARK McHARGUE: And to your point--

PAHLS: Yes.

MARK McHARGUE: Thanks for making--

PAHLS: I'm, I'm trying--

MARK McHARGUE: --making the point, I guess.

PAHLS: Yes, I-- but I'm also making a point Douglas County has more property tax than 70 other, other counties together, so it is an issue statewide and I cannot blame all of the school boards who make--

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

because 80 percent of it is-- that is basically salaries. So we've got to find a way-- you know, I just don't think increasing the sales of these services is going to increase that much. I, I don't know. I mean, I see the figures that-- in the back of the document from the-- that we got from the Platte Institute. If you add all of those, it does, you know, bound up some money, but I, I think--

MARK McHARGUE: But the imbalance is really important that of the \$900 million I think we're imbalanced, two-thirds of that goes to residential, you know? And agriculture, you're talking about one-third of that, but we're, we're talking about significant relief needed for all, all Nebraskans relative to property owners.

PAHLS: But you're saying-- how much of that, that is going to the urban areas?

MARK McHARGUE: Two-thirds.

PAHLS: Two-thirds going to the area, so the rural area is getting one-third of the relief?

MARK McHARGUE: Yeah.

PAHLS: Well, if you look at-- most of the property tax is collected in the larger areas too.

MARK McHARGUE: Yep.

PAHLS: I mean, really, that's one reason why I fought to keep Douglas County in the District 2. It's a total county because that's-- I think it's significant. Enough of that.

LINEHAN: Thank you, Senator Pahls. Are there other questions? I have one; \$125 a month you said for taxes for your apartments. Is it-- can you give us a ballpark of what-- how-- what percentage that is?

MARK McHARGUE: Yeah, so a rent on those, like, \$875.

LINEHAN: \$875. So it's over 10 percent?

MARK McHARGUE: Yeah.

LINEHAN: So it's significant, so renters do pay property taxes.

MARK McHARGUE: Absolutely, they do.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

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

PAHLS: That-- then that leads me-- because I'm also looking at this. So if I'm a renter, I-- now I lease my-- in my town. The person who owns the property, he get-- he or she gets a-- the tax break. The only break I would get is you don't raise my rates.

MARK McHARGUE: Sure.

PAHLS: There are some states where there is a rebate back to the renter, but I mean, it's a certain income. I mean, if you're well-off, you're not going to get it, but if you're-- a percentage you get. That seems like a number of states have that and might see that coming in front of us by chance. I'm glad you threw that at me because I didn't realize.

LINEHAN: Thank you. Thank you very much for being here, appreciate it. Can I ask how many people are still going-- and I want you to testify, just trying to figure out if I'm-- we're going to break for lunch or if we're going to wrap this up before lunch. OK, we'll see how many questions we ask. Good morning.

KEN HERZ: Good morning. My name is Ken Herz, K-e-n H-e-r-z. I have a cow herd and farm near Lawrence, Nebraska. I am an immediate past president of Nebraska Cattlemen and I'm here to testify for seven agriculture organizations: Nebraska Cattlemen, Nebraska Farm Bureau, Nebraska Corn Growers, Nebraska State Dairy Association, Nebraska Pork Producers, Nebraska Soybean, and Nebraska Wheat on LR261. Thank you, Chair Linehan and the Revenue Committee for the opportunity to comment today on Nebraska's tax structure. We look forward to working with the committee, other industries and groups affected by the potential changes to Nebraska's tax code. It won't be easy or we would have already done it and we don't expect to get everything we want but look forward to the conversation in the spirit of cooperation. We all want to work toward a solution that makes Nebraska more competitive for the agriculture and business communities. To answer the questions posed by the Revenue Committee today, the question number one: which portion of the state and local tax session do you believe in need a most significant reform? It should come as no surprise that the respective members of our organizations believe that property tax reform is a primary section of the state tax code that needs the most significant reform. Governor Ricketts, the Legislature, and the Revenue Committee have moved the needle in the right direction regarding the state's property tax issues in the form of property tax relief. While we are

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

grateful for these successful efforts, we believe the next steps should focus on property tax reform. Question two, there has been much discussion about expanding sales tax base by eliminating exemptions. We support the expansion of the sales tax base, the elimination of exemptions, and the taxation of services. We draw, we draw no specific lines in terms of which exemptions should remain, except to say that we agree with Blueprint Nebraska's stance regarding business inputs and believe these inputs should remain exempt. Business inputs should in general be broadly defined to avoid double taxation of the ultimate good or service provided by the business. Question three, is the sales tax base-- if the sales tax base is expanded, how should this revenue stream be utilized? For us, this is simple. If the sales tax basis was expanded, we believe the funds generated should be used for funding K-12 to provide an additional source of revenue to reduce the dependence on property taxes for school funding. Question four: other tax matters you would like to address. In addition to addressing the level of property tax, property tax levied for K-12 education, we also feel that the ability for community college to level property taxes should be discussed. Unlike K-12 education, community or technical colleges have revenue sources to balance their budgets and should not have the authority to levy or collect property tax. We also feel the state's role in funding basic education needs continued-- needs continued conversation. This year, school districts in Nebraska will receive over \$880 million in equalization aid through Nebraska's school funding formula. While Nebraska's urban school districts receive more than \$500 million of these state funds, over 150 Nebraska school districts will receive none. The nonequalized school districts are largely rural and their property tax bases consist of mostly agricultural property. Because these nonequalized school districts receive no equalization aid, the task of financing their budget falls entirely on local property taxpayers. As ag producers and the owners of agricultural property bear this burden more heavily in nonequalized districts, modifying how schools are funded to require the state to provide a specific percentage of their basic education needs through state aid will reduce the burden of local property taxpayers, including agricultural producers. Thank you.

LINEHAN: Thank you very much. Are there questions? Senator Bostar.

BOSTAR: Thank you, Chair Linehan. Thank you, sir. You mentioned and weren't the first to mention community colleges. Do you have a sense of how much currently community college is paid for through property taxes versus tuition?

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

KEN HERZ: I'm not-- I do not know that--

BOSTAR: OK.

KEN HERZ: --answer to that question.

BOSTAR: Well, thank you very much.

KEN HERZ: Yep.

LINEHAN: Thank you, Mr. Bostar-- Mr. Bostar, Senator Bostar. I'm sorry. Other questions from the committee? Seeing none, thank you very much for being here--

KEN HERZ: Thank you.

LINEHAN: --appreciate it. Hi.

CRAIG BECK: Hi. Good morning, Chairwoman Linehan and members of the Revenue Committee. My name is Craig Beck. That's C-r-a-i-g B-e-c-k and I'm the senior fiscal analyst at OpenSky Policy Institute. I'd like to start by thanking the committee for including us in today's hearing to review Nebraska's tax structure and potential reforms. When it comes to our tax code, we are an outlier in our reliance on property taxes to fund local governments, with Nebraska ranking 47th in state aid to local governments nationally, according to census data. Granted, the Legislature has done a lot over the last few years to offset property taxes for taxpayers, both increasing the property tax credit and creating the property tax incentive. These two programs are undoubtedly significant, totaling nearly \$850 million in fiscal year '22 alone. However, we're concerned about the sustainability of these programs, as they've undeniably been bolstered by strong state revenue growth, in large part due to an influx of federal funds from various stimulus programs. These funds will end eventually and once that happens, we have significant concerns about revenue decreases, leading to difficult choices between funding vital government services and continuing to provide current levels of property tax credits. To ensure we're able to maintain both, we would support broadening the sales tax base to include more services. We've supported broad base expansions in the past and believe doing so now would help the state maintain a strong fiscal position coming out of the pandemic. We would not, however, support using the base-broadening revenue to lower personal or corporate income tax rates. While we agree with the Legislature's 2013 Tax Modernization Committee that increasing state aid to local governments is the best way to reduce property taxes, we

Revenue Committee October 1, 2021

Rough Draft

recognize that this may not be feasible. If it isn't, we generally support measures that improve transparency and better target credits to those needing them most. This could include ensuring property tax incentive-- the property tax incentive, excuse me, directly reduces one's property taxes like the property tax credit does or implementing a circuit breaker. Finally, I'd like to take some time to talk about the idea that changing the tax code is drawing-- going to draw thousands of people to Nebraska. Research has not found a conclusive link between taxes and migration, with one study showing that elderly migration patterns were stable from 1970 to 2000, despite changes in many states' tax laws intended to draw retirees. The idea that cutting taxes can drive growth in general is undermined by the experiences of Wisconsin and Minnesota, two remarkably similar states in terms of populations, demographics, culture, and industry composition. After each elected new governors in 2010, they headed down divergent policy paths, with Wisconsin cutting taxes and shrinking government and Minnesota raising the minimum wage, strengthening its safety net, and increasing investments in infrastructure and education paid for by taxes largely falling on the wealthy. As of 2017, on virtually every metric, Minnesota workers and families were better off than their counterparts in Wisconsin, according to an Economic Policy Institute report. Minnesota saw stronger growth in wages, jobs, median household income, overall economic growth, growth per worker, and population growth. And despite raising taxes on the wealthy, Minnesota saw no erosion of its income tax base or the taxable income of its wealthy residents, both of which actually grew in the three years following the increase. Wisconsin, on the other hand, lagged the national average across most of these metrics and experienced net population loss. One thing that I'd like to touch on really quickly before I end my testimony is we've heard a lot today about the three-legged stool. We look at the three-legged stool as well. We look at it, I think, a little bit differently than, than the testifiers before me. We use census data and we look at the entirety of taxes levied across the state, so therefore it is comparable to states across the nation. When we look at, again, all taxes levied, not just those that go to the General Fund, we include things like local option sales tax, etcetera. Our stool, particularly when we factor in the Property Tax Incentive Act that, you know, will, will factor into the fiscal year '22 three-legged stool calculations, our stool shows a much more balanced stool. Again, we have to make some assumptions on revenue growth for fiscal year '22, so I'm not saying that these are actual numbers or what-- you know, that-- they could change, but we're looking-- particularly when you factor in that property tax relief, we're

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

looking at about 33 percent property tax, 31 percent sales, and 30 percent income. So again, we thank the committee for the opportunity to participate in this important discussion and I would be happy to answer any questions. Thank you.

LINEHAN: Thank you, Mr. Beck. Are there questions from the committee? Seeing none, thank you very much for being here. Good morning.

LYNN REX: Good morning. Chairman Linehan, members of the committee. My name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. On September 23, 2021, the league executive board met and discussed extensively the questions as posed for this hearing today. I would like to kind of read for you, which I rarely ever do, what their five points are because they spent quite a bit of time reviewing this. And you'll see in your packet that you have the latest data of levies based on the 2020 information presented by municipalities across the state. In addition, you have a list on the history of the historic cuts over the years of all of our programs, except for the Municipal Equalization Fund. With that being said, here are the five points the League of Nebraska Municipalities would like to bring to your attention. Number one, Nebraska's 529 cities and villages need a reliable and sustainable property tax base to fund essential public safety initiatives and other important services and programs for citizens, including maintenance and basically repair of streets, water and sewer lines, libraries, swimming pools, parks, and those types of important quality-of-life issues. The 252 municipalities with voter-approved local option sales tax also need a reliable and sustainable tax base to fund the significant projects and programs typically identified on the ballot question when those were approved, including the use of local option sales tax to provide property tax relief and many-- most of them do. By the way, I'll also mention there are 76 municipalities with LB840 programs for local economic development programs, which are incredibly important in this state. The league supports a broadband and diversified tax base to better reflect Nebraska's increasingly service-based economy. Senators have access to the relevant information to better understand the consequences and the tradeoffs of policy choices when expanding, diversifying, or exempting certain parts of the tax base. For decades, cities and villages have been subject to the lid on restricted funds. That's Section 9-- 13-519 and what's outside of that is in 13-520 and the municipal levy limit, the 45 cents per \$100 of valuation plus 5 cents for interlocal agreements and that's in Section 77-3442(6)(a). With an option, one of the things that we think we need to bring to your attention is that these two statutes significantly preclude many

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

municipalities now from two things: one, from hiring enough personnel. We talk police officers, firefighters, utility workers, but it's more than that. It's-- we're having a hard time getting our-- basically being able to even fund folks if we can find them; (b) financing needed projects and programs, including those voter-approved initiatives like LB840 economic development programs. Clearly, every time the property tax base or the sales tax base is changed, there is a direct effect on the application of those two statutes and the related laws on budgets, programs, and services municipalities financially are able to provide to their citizens. And I think this is extremely important because I know different political subdivisions have a different story to tell you, but this is very important for us based on the levy limits adopted in 1996, which took effect in 1998-- the lid laws, which passed with only LB299 in 1996, which were supposed to expire in 1998, but continued on so we have a double cap. We have a cap on the lid on restricted funds. We have a cap on the levy limits. Based on the data reported by cities and villages in 2020, 223 of Nebraska's 529 municipalities have a general fund levy equal to or greater than 45 cents per \$100 of valuation; 275 municipalities have a levy equal to or greater than 44 cents. That's obviously more than half of our 529 cities and villages; 322 have a levy equal to or greater than 40 cents. Typically, those municipalities with a levy of 45 cents or higher cannot even raise the money to spend the 2.5 percent lid-- basically laid-over, restricted funds in 13-915-- 13-519, I'm sorry, 13-519. The two would allow them to spend if they could even raise it. If the sales tax base is expanded and generates additional revenue, the league respectfully recommends a significant portion of the revenue be directly allocated to local governments. Doing so would help offset, at least in part, the hundreds of millions of dollars in revenue lost by municipalities and other local governments as exemptions to the property tax base and sales tax base as being grant-- excuse me, as being granted over the years without reimbursing local governments for the tax base lost. The report to the Legislature LR155 Tax Committee of 2013, chaired by Senator Galen Hadley of this committee, then Chair, states as follows on Page 35, quote, the primary policy option for reducing property tax use recommended by the Syracuse Tax Study was increased aid to local governments, emphasizing equalization aid for local governments. This was to supplement the then existing aid programs, which had been implemented to offset loss property tax capacity from prior exemptions granted. The recommendation was implemented in part. The preexisting aid programs, which Syracuse recommended retaining, have been

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

repealed-- oh, I'm sorry. This-- and that it was in 1987. I'm happy to respond to any questions you have and respond to your last question.

LINEHAN: Thank you very much. Are there questions--

LYNN REX: Thank you.

LINEHAN: --questions from the committee? Could you, could-- not today, but over the next few weeks, could you provide to the committee-- I know you have put a, a lid on your levies, but there's no lid on the valuations, right? The valuations can go up, however much they go up.

LYNN REX: Well, but in essence, however the valuations go up or down actually becomes a bit of a nonevent because there's a double cap, Senator. So for example-- so basically, the valuations--

LINEHAN: OK, but that--

LYNN REX: --no matter what the valuation is--

LINEHAN: --let me just skip to the question. In your-- how many cities? 500?

LYNN REX: 529 municipalities in the state of Nebraska.

LINEHAN: 529. Could you-- or probably the Department of Revenue could provide us-- if the tax-taking has gone up or down and by how much in each of those cities over the last, I don't know, five years?

LYNN REX: I'm sure they can. I think it's important, though, to understand that as you-- and I know you know this, Senator, that in addition to that levy limit, again half the city-- roughly half the cities are already at their maximum levy limit of 45 cents plus five. And half of that half cannot even raise the money to spend the 2.5 percent of restricted funds over the prior year, where they get an additional 1 percent--

LINEHAN: OK, but I'm-- I--

LYNN REX: --on a supermajority vote.

LINEHAN: --hear-- that's all helpful, but what people pay is their property taxes.

LYNN REX: Correct.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

LINEHAN: So I think what the committee-- would be helpful for the committee to see if the tax-taking has gone up.

LYNN REX: I'm sure they-- it even-- I know that there's been an increase in the amount of actual dollars, but not for everyone.

LINEHAN: Well, that's what I would like to see. What is-- what are, what are the differences and in the 500--

LYNN REX: We can try to find that.

LINEHAN: --cities.

LYNN REX: And I did want to say too that it's so important that-- the league executive board wanted to convey to this committee in particular that-- how much we appreciate the tremendous work that this committee, the Legislature, and the Governor has done on property tax relief with the three major programs that you outlined in your opening, Senator.

LINEHAN: But if tax-takings go up, the people that pay the taxes don't actually see the relief. We have to find-- there's-- I just want to know how much tax-takings--

LYNN REX: OK.

LINEHAN: --have gone up.

LYNN REX: We can do that.

LINEHAN: OK, thank you. Are there other questions? OK, thank you very much--

LYNN REX: Thank you very much.

LINEHAN: --for being here.

LYNN REX: Really appreciate the opportunity today.

LINEHAN: You're welcome.

ROBERT BELL: Good morning.

LINEHAN: Good morning.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

ROBERT BELL: Chairperson Linehan and members of the Revenue Committee, my name is Robert M. Bell, last name is spelled B-e-l-l. I am the executive director and registered lobbyist for the Nebraska Insurance Federation. I appreciate the invitation of the committee to discuss the impact of taxation on the insurance industry. The Nebraska Insurance Federation is a primary trade association of insurers domiciled or with a significant economic presence in Nebraska. Currently, the federation consists of 30 member companies and eight associate members, representing a spectrum of insurers from small to Fortune 500 companies. Members write nearly all lines of insurance. One of the goals of the federation is to promote the concepts and importance of insurance products to policymakers and the public. Nebraska insurers provide high-value, quality insurance products to Nebraskans that help protect Nebraskans during difficult times. Not only do Nebraska insurers provide protections to Nebraskans, but companies also provide high-paying jobs. Members of the federation alone provide over 14,000 jobs to the Nebraska economy. According to a 2016 study, the insurance industry has had a \$14.24 billion impact on the Nebraska economy in 2015 and I wanted to give a shoutout to my board president, Shawn Pollock from Mutual Omaha, who came here for moral support, not that I need moral support to testify in front of the Revenue Committee. Insurance is important to the economy of Nebraska and Nebraska has become known as a very attractive, attractive home for insurance companies for a number of reasons, including the relative ease of working with the Legislature on needed regulatory laws and the stellar reputation of the Nebraska Department of Insurance. Another primary reason insurance companies prefer to domicile in Nebraska is the premium tax rate and its implications on federation member insurance products sold in other states. Since I'm not before the Revenue Committee very much, I'm going to spend most of my time today addressing insurance premium tax and it's accompanying retaliatory tax and the importance of each to the insurance industry and Nebraskans in general at a very high level. First, insurance premium tax. Insurance premium tax is a very old tax in Nebraska that goes back to at least the beginning of the 20th century. The statutes governing the taxation of insurance premiums are found-- currently found in Article IV, Chapter 77 of the Nebraska Revised Statutes. The tax is collected by insurance companies on the gross amount of direct written premiums received by the company during the preceding year. The rate is 1 percent of the gross amount of direct written premiums for most clients for insurance. The rate is five-tenths of a percent for group health and accidents insurance. Annuity contracts and other types of retirement and pension plans are not subject to insurance

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

premium taxation. Premium tax is unique in how it is collected. Tax is due March 1 of each year for the previous year to the Nebraska Department of Insurance and is remitted by the insurance companies. Insurers also are required to make prepayments on April 15, June 15, and September 15 in a manner and calculation set forth in Nebraska Revised Statute Section 77-918. Nebraska Revised Statutes Sections 77-912 and 77-913 direct how insurance premium tax is distributed for spending with some caveats; 50 percent is sent to the insurance tax fund, 40 percent to the general fund, and 10 percent to the mutual finance assistance fund. The insurance tax fund is allocated as follows: 10 percent to counties, 30 percent to the municipal equalization fund, and 60 percent to TEEOSA. Second, retaliatory tax. Retaliatory, retaliatory tax is a unique aspect of insurance. In the United States, congress has ceded jurisdiction of insurance regulation for the most part to the states, including taxation. The McCarran-Ferguson Act enshrined a state regulation of insurance into the United States code. Because insurance is state regulated, states are free to charge different tax rates to out-of-state insurers. To prevent this from happening, nearly all states have adopted a retaliatory-- a retaliation statute. Nebraska's is found in the insurance code at Nebraska Revised Section, Section-- Statute Section 44-115. In summary, this statute allows the Department of Insurance to charge out-of-state insurers the excess in the amount of taxes, licenses, and fees that a Nebraska insurer would pay in that particular state. More simply put, the retaliatory tax requires an insurer to pay the higher tax rate of its home state or the state where the insurance product is sold. If the tax rate of the out-of-state insurer's home state is higher than in Nebraska-- it's 1 percent-- the Nebraska Department of Insurance will impose a higher tax rate on the out-of-state insurer's insurance product premiums sold in Nebraska. So as an-- excuse me-- as an example, Alabama's premium tax rate is 2.3 percent. An Alabama insurer's products who are sold-- which is sold in Nebraska will have a tax rate of 2.3 percent, which is the 1 percent Nebraska premium tax and 1.3 percent of retaliatory tax. Retaliatory tax is why insurance companies seek to locate in states where insurance premium tax is low, like Nebraska. It provides such companies, at the very least, a level playing field with other insurers when selling their products in other states. If an insurance company is based in a high-premium tax state, their insurance products are already at a competitive disadvantage in a very competitive industry. Retaliatory tax is collected and disbursed in the same manner, same manner as premium tax together, premium tax and retaliatory tax provide Nebraska with a steady and nonvolatile source

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

of revenue to the tune of over \$114 million in 2019. Nebraska benefits from low-- Nebraskans benefit from low premium tax in two distinct ways. First, low premium tax help keep Nebraska insurance rates down. While consumers tech-- while companies technically pay the tax, this tax is obviously passed along to the consumer. Lower premium tax means lower insurance rates for Nebraska. And then second, having a low premium tax rate makes Nebraska a very attractive home for insurance companies due to the retaliatory requirements in other states. I see I'm out of time, so you can probably read the last half of, of that provision. Nebraska companies export approximately \$135 billion worth of insurance products on an annual basis, so the retaliatory tax-- having a low premium tax means that they're paying lower tax rates in other states on those products and that's why it is so important, which I think I reiterated, like, 15 times in my testimony.

LINEHAN: Thank you.

ROBERT BELL: So anyway--

LINEHAN: Are there-- yes, Senator Bostar.

BOSTAR: Thank you, Chair Linehan. Thank you, Mr. Bell. How would the premium tax rate be impacted by something like a consumption tax plan?

ROBERT BELL: So with these-- the consumption tax plan, as it was presented to the Nebraska State Legislature, it eliminated all taxes, including the premium tax and put into place a consumption tax. So-- and if, if you read the, the following legislation-- I believe it was LB133-- it talked about the taxation of those insurance premiums at the consumption tax rate, which would be 10 percent. I think the lowest or the highest tax rate for premium in any state is 4.5 (percent). And so instantaneously, Nebraska products, when they're being sold in those other states, would be taxed at a higher rate in those other states. And that tax rate, I mean, it's taxed by those states, it's collected by the other states. We don't see that money. We ran the numbers. We believe that had about a \$10 billion impact on the insurance industry in Nebraska, which is a little bit of a misnomer because they would all leave the state of Nebraska. They would not stay around. They would, they would take their licenses and they would go to a lower tax state because they would not be able to be competitive being based in Nebraska, so-- which is why we have opposed consumption tax historically.

BOSTAR: Thank you very much.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

ROBERT BELL: Yep.

LINEHAN: Thank you, Senator Bostar. Senator Pahls.

PAHLS: Thank you, Chair. I'm reading the third paragraph. It said that according to a 2016 study, the insurance industry had over \$14 billion in impact on the economy in 2015.

ROBERT BELL: Right.

PAHLS: Do you have more up to date other than--

ROBERT BELL: I do not, actually. We believe our industry has grown in the state in the last four or five years. Economic impact statements are-- studies are not cheap, so we haven't funded one for a while. It perhaps might be time to find a new one.

PAHLS: It probably would because the reason why, I pulled up the Farm Bureau. I'm-- you're, you're a little over \$14 billion. That's 2015.

ROBERT BELL: Sure.

PAHLS: Farm Bureau said receipts from farms and ranch contribute over \$21 billion to our economy and nearly \$6.8 billion in agricultural exports. So if they're expending 21-- or \$21 billion to our economy and in 2015, insurance did \$14 billion, it's-- it goes to show you the power of insurance. We're, we're talking about we're an agricultural state, but apparently insurance, even though it's basically a little over half or less, I mean, it's a significant-- that's why I wanted more up-to-date figures.

ROBERT BELL: Yeah. You know, I think Nebraska is a big enough state for both ag and insurance. I mean, I think we can both be very successful and--

PAHLS: That's true.

ROBERT BELL: --and banks too, even banks.

PAHLS: Yeah.

ROBERT BELL: They can be successful as well.

PAHLS: I think they would give me their information. I [INAUDIBLE]--

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

ROBERT BELL: But we do, we do so-- and I, I remember when the gentleman from the Farm Bureau said that because then I was-- I said, well, we export \$135 billion worth of insurance.

PAHLS: That's, that's another point.

ROBERT BELL: That's very different.

PAHLS: I--

ROBERT BELL: They're very different products.

PAHLS: I understand that, but I'm just going to show you the power. We always talk about the ag being so important.

ROBERT BELL: The financial sector is big in Nebraska as well, yes.

PAHLS: As the former Chair of Banking, I had to push that out there.

ROBERT BELL: I, I appreciate that, Senator Pahls, and I--

PAHLS: Thank you.

ROBERT BELL: --you're an advocate for our industry.

PAHLS: Thank you.

LINEHAN: Thank you, Senator Pahls. Are there other questions? And on the first page, paragraph-- second from the bottom.

_____ : The caller, Mike Flood, has left the conference.

LINEHAN: Bye, Mike.

ROBERT BELL: I do that too a lot, Senators.

LINEHAN: I didn't know he was here. Explain the Mutual Finance Assistance Fund, the Municipal Equalization Fund.

ROBERT BELL: OK, so the Mutual Finance Assistance Fund is a fund for fire departments. So that is money-- there, there's actually a, there's actually a fire tax. So when I said high level-- I'm not going to bore you with all the details of the fire tax, but a portion of that goes back to volunteer fire departments, professional fire departments throughout the state. I'm not terribly familiar with all the details of how that distribution works, but that's what that--

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

LINEHAN: But it goes to fire departments?

ROBERT BELL: Yes.

LINEHAN: Then where does the Municipal Equalization Fund go?

ROBERT BELL: I believe that goes to cities or at least it used to go to cities, whether or not that statute has been updated-- I did not look before the hearing, my apologies.

LINEHAN: OK.

ROBERT BELL: I'm sure Lynn would know.

LINEHAN: OK, yeah, OK. Other questions from the committee? Thank you very much for being here.

ROBERT BELL: You're welcome. Oh and I was going to say thank you for LB1107. That was noticeable on my income tax returns, so thank you very much, committee.

LINEHAN: You're welcome.

ROBERT BELL: Yeah.

LINEHAN: It's called delayed gratification.

KYLE FAIRBAIRN: Mr. Bell might not need moral support in front of the Revenue Committee, but I certainly do. Senator Linehan, members of the Revenue Committee, my name is Kyle Fairbairn, K-y-l-e F-a-i-r-b-a-i-r-n. I represent the Greater Nebraska Schools Association. I represent the 24 largest school districts in the state of Nebraska. All, all the schools in GNSA depend heavily on equalization aid from the state. These 24 schools represent 75 percent of all the children in the state attending public schools. GNSA schools focus a great deal on equalization aid because we have less property value and we cannot meet the identified needs that is projected by the state solely on local property taxes. GNSA was asked by the committee to testify regarding tax policy within the state. We have been asked to address four questions regarding state policy. As an individual, I have had over 25 years of experience in the state and across the country in school finance. With that said, these questions are very difficult for me to answer. I, I know that our tax system has a large reliance on property taxes to fund several items in local government, but I don't know if it is excessive in all parts of the

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

state. I do know that many other states I work with have similar models to fund initiatives through property taxes, but they-- are they more or less than, than Nebraska as compared to the property values and local values and quality of life? I'm not sure I can answer that question. We also have personal income taxes, corporate income taxes, pay sales taxes just like a number of other states do. Ours are probably higher than some and lower than others in all cases, but again, that is something difficult for a school finance person to answer. Sales tax exemptions are another issue we were asked to address and the Legislature needs to decide if sales tax exemptions are right or wrong. With all that said, the one thing that I can comment on is the need for stable funding within our state to educate our children. It is true that property taxes play a different role in all districts across the state, but from being in school finance a long time, it is also the most stable of all the funding sources we receive. The state aid formula, over the years, has been changed several times to lower the needs and also, also just reduce when the state runs short on resources. There is no dedicated funding for schools set in stone as there is with items like the Highway Trust Program. Equalized schools in the state rely on, on the state to fund our schools equitably and adequately and we have no recourse if the funding isn't there. Equalization aid allows our schools I represent to serve children in an equitable manner to their peers, peers across the state. Many of you know that 85 percent of school costs come from salary and benefits. This makes it very difficult to manage when your funding source suddenly is less than expected due to a change in the formula. I believe that my fellow education groups, NRCSA and STANCE, will agree that having stabilized funding is the key to schools in our state. That's all I have for you.

LINEHAN: Thank you. Senator Bostar, have a question?

BOSTAR: Thank you, Chair Linehan. Thank you, sir. So I heard you loud and clear that stable funding is important. Is there a particular revenue source that you are advocating for for school funding? You mentioned property taxes being stable, but just to clarify--

KYLE FAIRBAIRN: Yeah, property taxes right now, Senator, are-- I-- they're stable. They, they-- we-- you get your budget document from the state, you get your needs, you set your needs. If your, if your local property taxes can pay for those needs, you're done with your budget, basically. And in the schools I represent, you get your needs, you minus out what the local property taxes can produce, and then the state has to fund that up or has funded that up in the past. So stable

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

funding is the key and over the last 20 years, I imagine the state aid formula has been changed 15 to 18 times over those 20 years and usually not in the better. We, we don't all of the sudden see more money put to state aid.

BOSTAR: Do you have thoughts on how we could structure school funding that is being sourced from a less stable place to schools in a way that we could get some more consistency out of it?

KYLE FAIRBAIRN: Just-- yeah, I think that-- I, I mean, the Legislature could set aside-- I mean, the Highway Trust Fund has guaranteed money for highways every year. I mean, there's, there's many things that could be done to stabilize the funding in school systems.

BOSTAR: OK. Any particular favorite options?

KYLE FAIRBAIRN: That's, that's your decision, but if it's stable, I'm all for it, Senator, so--

BOSTAR: Thank you very much.

LINEHAN: Thank you, Senator Bostar. Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So a number of times here, different testifiers have talked about if we give property tax relief, there also has to be some sort of controls to make sure it's property tax relief. So is there-- do you feel there's fair enough safeguards in place that if more state aid to-- given to the schools in a different revenue source, that property tax relief will occur?

KYLE FAIRBAIRN: Senator, that's a great question. We have lids right now on our property-- our, our tax request asking. We have lids on our budget, so it's very difficult to get around those. I mean, so if there was more money put in on one side, it would-- because of our budget restraints, it's, it's going to have to react some other way. I mean, you just can't, you can't get around the budget restraints that are already in law. So whether you lowered the LER or did, did something different, it's still going to affect because your budget can't go up because of the state law.

FRIESEN: OK, thank you.

ALBRECHT: I just have--

LINEHAN: Yes. Thank you, Senator Friesen. Senator Albrecht.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

ALBRECHT: Thank you. So you talk about stable funding. In the 25 years that you've sat in the chair that you have, would you ever say that you couldn't rely on what the state has given?

KYLE FAIRBAIRN: Absolutely, a number of times. When I was at Bellevue Public Schools, we had to cut two years in a row because the state cut our funding right at the end of the session and we have to make adjustments.

ALBRECHT: So tell me how they cut your funding-- because they didn't have enough to--

KYLE FAIRBAIRN: Yep.

ALBRECHT: So that's happening?

KYLE FAIRBAIRN: That's, that's a very difficult-- Senator, again, 85 percent of my costs come from-- everybody says well, just, you know, turn the lights down, you know, don't turn the heat on at 5:00 a.m. in the morning, you know, whatever that difference is. But it's such a small percentage of your budget, you have to then go in to get noncontract, nonunion people and, and eliminate some of those positions because you really don't have any other alternative to cut your budget.

ALBRECHT: So how long ago did that happen?

KYLE FAIRBAIRN: Oh, it's happened numerous times over the years.

ALBRECHT: Really?

KYLE FAIRBAIRN: Oh, yeah. I mean, three years ago, state needed \$42 million to part-- education got cut \$21 million and that went to the equalized states-- the schools in the state. And if you can produce what you need locally, you don't depend on equalization aid.

ALBRECHT: Thank you.

KYLE FAIRBAIRN: Yep.

LINEHAN: Thank you, Senator Albrecht. What years were you in Bellevue when they got cut two years in a row?

KYLE FAIRBAIRN: I was there from '97 until 2010, Senator, but I'll certainly look. But yes, we did get cut at least two years in a row.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

LINEHAN: So that was during the Great Recession, right?

KYLE FAIRBAIRN: Yep, absolutely.

LINEHAN: 2009?

KYLE FAIRBAIRN: Yep, '08 and '09.

LINEHAN: Wasn't there significant funding that came from the federal government in 2009?

KYLE FAIRBAIRN: With very specific needs and, and uses, Senator, yes.

LINEHAN: And wasn't it explicit to the schools at that time that that funding was a one-time deal and wouldn't be--

KYLE FAIRBAIRN: Yep.

LINEHAN: --coming back? So you still call that a cut, even though it was explained it would just be one time?

KYLE FAIRBAIRN: It was a cut in state aid. It wasn't a cut in overall funding, Senator, but it was a cut in state aid, yes.

LINEHAN: OK, but--

KYLE FAIRBAIRN: And, and our funds had to be used on specific purposes.

LINEHAN: OK, I get that, but in 2009 or 2-- I don't have the notes in front of me. I can't remember if it's 2009 or 2010-- there was a significant increase in TEEOSA aid from federal funding.

KYLE FAIRBAIRN: Federal funding in TEEOSA aid? I'm--

LINEHAN: ARRA money. Thank you.

KYLE FAIRBAIRN: Yes, there was ARRA money, but it did not replace state aid because there were specific, specific uses for the ARRA funds. Instructions--

LINEHAN: Did the ARRA funding-- or TEEOSA funding in that year go up significantly?

KYLE FAIRBAIRN: Yes, it did.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

LINEHAN: And then the next-- and they said it was a one time. I mean, there's letters from the Department of Ed, state school board saying that's a one-time deal.

KYLE FAIRBAIRN: Right.

LINEHAN: But then you now referred to that as a cut.

KYLE FAIRBAIRN: It was a cut in state aid, Senator.

LINEHAN: So you do refer to it as a cut, OK.

KYLE FAIRBAIRN: Yes.

LINEHAN: Thank you. Lids-- explain the lid on your asking.

KYLE FAIRBAIRN: We have a budget limitation every year and we have a lid on our tax asking of \$1.05.

LINEHAN: But there's no lid on the valuation increases?

KYLE FAIRBAIRN: No.

LINEHAN: So out of your 24 school districts, how many of them-- considering that most of the valuations have gone up significantly in the last 12 months, how many of them do you expect will cut the levies this fall?

KYLE FAIRBAIRN: I imagine none because it, it's a direct offset from state aid. So if you cut your property taxes, the state doesn't match it because it's using the LER. So there is-- you either lose it on the state or have to tax locally. That's why the state funding for, for TEEOSA has not gone up because the property values have gone up. It's a straight, it's a straight deduct.

LINEHAN: I think TEEOSA funding has gone up, but next time I'll have more information in front of me. Thank you. Are there any other questions? Yes, Senator Pahls.

PAHLS: Thank you. So in other words-- like I say, you either have state aid or a property tax, is that--

KYLE FAIRBAIRN: That's it.

PAHLS: If one goes up, the other one--

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

KYLE FAIRBAIRN: In, in an equalized school district, that's correct, Senator, yep.

PAHLS: OK.

KYLE FAIRBAIRN: So Lincoln last year, their property taxes, I believe, went up 7 percent. Their state aid went down 7 percent.

PAHLS: So it's actually a-- a tradeoff is what it is.

KYLE FAIRBAIRN: It's a tradeoff.

PAHLS: So you, you really didn't gain a lot by the increase in property tax because you--

KYLE FAIRBAIRN: No, because it's an offset in, in the state aid.

PAHLS: Yeah, I think sometimes people don't understand--

KYLE FAIRBAIRN: That's exactly right, Senator.

PAHLS: But I have a question here. I've been at this a long time. Why are, why are we hesitant about going to the public for additional money? Let's say we had to do that on a regular basis. Because I hear-- I've heard the chambers think education is needed in the state. Everybody's bragging about that. Well, then why are schools afraid of-- let's say we're going to go to a vote of the people on some of these things.

KYLE FAIRBAIRN: Well, and I think-- and you've seen that happen. We've had overrides in Westside and Millard--

PAHLS: Right.

KYLE FAIRBAIRN: --because they have felt it's that important to continue the education programs that they have. But it's also a very difficult decision because our property taxes are at \$1.05 in most of our school districts, which is the maximum allowed by law. And to go over that, it, it looks like you're doing something wrong. And that's not necessarily the case, but it looks-- the, the perception is that's the case.

PAHLS: But if the people really believe in your school, I, I, I would think that it's called marketing--

KYLE FAIRBAIRN: I-- yep.

Revenue Committee October 1, 2021

Rough Draft

PAHLS: --you know, and-- see, I, I think there's got to be a challenge out there because so many places we're-- that we're talking about and even in the rural areas that everything's going up and there's no control. Well, then let's make it so the school boards are forced to go to the vote of the people more often. Because here's the catch, as I, I talked to on the floor, talking to these colleges, the people going into teaching, it's going downhill.

KYLE FAIRBAIRN: Absolutely.

PAHLS: Eventually, supply and demand is going to-- is-- it's going to be an issue. You may say I want to cut all this, but you just told me 85 percent of this-- of it is salaries-- of the, the budget. I think, I think it's a challenge and just say hey, guys, if we can run a good school here, take to a vote of the people, take that chance. I know there's a cost to that, but now everything is done by-- can't you do that all by mail, the ballots?

KYLE FAIRBAIRN: You can. There's still, there's still a cost to have an, have an election, Senator, but yeah and I think you're going to see that because there are major teacher shortages and not just in Omaha, but rural Nebraska finding teachers. Qualified teachers for special education, it's almost impossible. All the West Coast schools come to Nebraska and South Dakota and North Dakota and recruit their, their, their special education teachers because there's none in California and Washington state. And so, yeah, I think it's going to come to that.

PAHLS: Well, then I say take the challenge. Let people know. If we want good schools, we have to do it and if they say no, then that's--

KYLE FAIRBAIRN: Their decision.

PAHLS: --those communities will either-- blow away if they don't have teachers. I mean, I think-- I would accept the challenge. I would not backtrack because if you think you're good-- I know some of my peers would shoot me for saying that, but if they-- go that extra mile, go that extra step, prove to the people.

KYLE FAIRBAIRN: And we do have-- I-- the-- we have great schools in the state of Nebraska.

PAHLS: I'm not questioning that.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

KYLE FAIRBAIRN: Yeah, and that's, and that's something-- again, the business folks come up and they talk about-- education is, is a main feeder in keeping people in this state.

PAHLS: Right.

KYLE FAIRBAIRN: And I, I think it's very important that we do the right thing for kids.

PAHLS: Then they would start selling the schools themselves.

KYLE FAIRBAIRN: Absolutely.

PAHLS: I think instead of sitting on the sidelines, they be more-- I, I, I say take the challenge and if we can't do it, then we deserve what we get.

KYLE FAIRBAIRN: Yeah.

PAHLS: I know that's-- I'm, I'm sort of hard-nosed on some of that stuff.

LINEHAN: Thank you, Senator Pahls. Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So over the years, we've heard the Governor talked a lot about school funding, property taxes are a local issue and it's a local decision. And you're saying how important education is to communities. Should we raise the lid limit? It's been stable for a long time.

KYLE FAIRBAIRN: It's been, been at \$1.05 a long time, Senator. With the conversations around property taxes right now, I'm not sure if that's a doable thing, Senator. I-- you know, just being frank. Again, in equalized school districts, it is a direct tradeoff. I mean, whether your property taxes go up, your state aid goes down. I mean it a, it's a--

FRIESEN: Well, we were just advocating here for a vote of the people to raise your lids, so I mean, maybe we should just raise the lid.

KYLE FAIRBAIRN: I'm-- I'd-- we could get behind that.

FRIESEN: Thank you.

LINEHAN: The \$1.05 is your general fund, right?

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

KYLE FAIRBAIRN: Yes, ma'am.

LINEHAN: So many of the schools are at a higher levy than \$1.05.

KYLE FAIRBAIRN: Yes, absolutely.

LINEHAN: Because I think Elkhorn is at \$1.40.

KYLE FAIRBAIRN: Right and that's almost all bonding because I mean, they're adding 500 kids a year. My biggest school in Bellevue is--

LINEHAN: I-- yeah-- familiar with Elkhorn. So the formula, the basics of the formula are pretty simple, although everybody says it's very complicated and you pointed that out. When valuations go up, aid drops. So isn't that what happened to agriculture?

KYLE FAIRBAIRN: In what way, Senator?

LINEHAN: In-- their valuations went up, so that's why we have 170 schools with no equalization aid.

KYLE FAIRBAIRN: That's-- I-- yep.

LINEHAN: So do you support basic funding so some of those schools would get funding?

KYLE FAIRBAIRN: Not, not in, not in the way it's set up right now, Senator, because they can produce all they need locally and the schools I represent can't. If TEEOSA was firm on where it was at, absolutely, but it, it hasn't proven--

LINEHAN: Excuse me--

KYLE FAIRBAIRN: --to be at that point.

LINEHAN: --firm in where it's at, what do you mean firm?

KYLE FAIRBAIRN: Firm that it's funded, it's funded first and, and over the top because our schools can't, can't live without it.

LINEHAN: Has TEEOSA funding being cut the last three years in the Legislature?

KYLE FAIRBAIRN: No.

Revenue Committee October 1, 2021

Rough Draft

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

KYLE FAIRBAIRN: Thank you.

LINEHAN: Hi.

AARON PLAS: Hi. My name is Aaron Plas, A-a-r-o-n P-l-a-s. I'm the superintendent of Lakeview Community Schools in Columbus and the current president of Schools Taking Action for Nebraska Children's Education, also known as STANCE. STANCE is comprised of 19 mid-sized school districts free of lobbyists that represents over 25,000 schoolchildren in Nebraska. STANCE is unique in the fact that we represent the entire state from Chadron all the way to Blair, districts that have a \$1.05 levy down to 67 cents, and enrollments from 900 to 4,000. We are representative of Nebraska education. We do not take our position lightly on legislative issues or testimony. STANCE really appreciates the opportunity to testify at this hearing and like to begin by thanking Chair Linehan and the Revenue Committee for having us. While we're very flattered to be here testifying for this hearing on the structure of different taxing sources, we would also like to acknowledge that we're not tax policy experts. On the other hand, we do believe we can speak on taxation as it pertains to education. We're often active on taxation bills related to education, but rarely when they're not. With that said, my testimony is geared towards answering the questions posed from your committee from the vantage point of the schools represented by STANCE. The first question asked in the invitation about the tax system in Nebraska and the areas of potentially needed reform, property taxes are very clearly an area of focus as it pertains to school funding and we continue to believe there's an overreliance on property taxes to adequately fund our schools and we've testified that-- on that in the past with other bills. In stating this, we concurrently believe that there is a direct result of the current school funding model, which makes property taxes the only stable source of funding for our schools. Without different, different revenue sources, we believe there are few sustainable options to reduce property taxes while also adequately delivering the high-quality educational services our stakeholders and communities expect. We know that there's-- it's been said several times today and we expected that, the rhetoric that schools are overspending, which is also a direct result of high property taxes, but we also feel that that's a very narrow view on a super complex topic. Schools have increased their yearly-- average yearly expenses below the state expenditures over the last ten years. In addition, schools have many

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

expenditure and revenue caps and lids, as discussed previously, that ensure there are reasonable parameters and oversight. Each school district also has a locally elected board of education that represents and holds accountable to the local constituents. There are also many practices, procedures, and laws which reinforce the transparency that schools provide to their local communities. STANCE is very open to finding solutions, which-- any type of solutions that are out there and any shifts in funded education, as long as it's maintained as some type of stable funding source without any additional caps and lids and restrictions. For our organization to take a formal position, though, we would need an actual bill to examine since there are often much gray area and concepts are different maybe than what materializes in actual bill language. The next question that was asked was to provide that information about the expansion of sales tax base by eliminating exemptions and adding specific services. As an educational group, we are not tax policy experts and cannot provide any type of detailed assessment on tax exemptions, but within our school systems, we know our boards of education are always looking at revenues and expenses and examining the cost and benefits of those different decisions, strategies, and actions. This process happens all the time and it's necessary to ensure our school systems are functioning as our community would expect. During preparations for this testimony-- I'm not certain if this is correct or not, but I counted 91 tax exemptions currently offered by the state of Nebraska. It seems prudent that our state would look at those 91 exemptions and any lost revenue they may generate just to determine if the, the benefit is worth the cost. Several years ago, STANCE and other education groups worked closely with Senator Briese on LB1084. That particular plan lifted several state tax exemptions and STANCE was at the table during the development of that legislation and we, we continue to be eager to be involved in any genuine conversations geared towards finding solutions. If the sales tax is expanded, how should any new revenue stream be utilized was the third question asked. Our education-based group would be remiss not to believe that additional money into the educational system to create a reliable funding mechanism and reduce the overreliance on property taxes would be a prudent use of any additional state tax revenues. With that said, again, STANCE is not a tax-- an expert in tax policy. Therefore, in this testimony, you've noticed we've avoided wading too deeply into the intricacies of tax policy other than the perceived role we see for future school funding solutions. So in conclusion, STANCE supports policy that promotes a stable and reliable system of funding that both improves the availability of funding for schools and is free of unreasonable

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

additional caps, lids, or restraints. We realize the burden of taxes on our local patrons and are always open to ideas that ensure a high-quality education for our students while keeping taxation associated with education reasonable. Thanks for the opportunity to be here and be happy to try to answer any questions.

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

FRIESEN: Thank you, Chairwoman Linehan. So in the past, STANCE was always opposed to giving any more money to the nonequalized schools. So if we broaden our tax base and our sales tax base and put more money to schools, are you still going to be opposed to giving money to nonequalized schools or does it all have to go to equalized schools?

AARON PLAS: I don't know that STANCE has been opposed to money not going to nonequalized schools. Sometimes in those situations, we've had to take a neutral stance because we have--

FRIESEN: I don't remember any favorable testimony-- any of the different things we've had here, is there?

AARON PLAS: So we're typically neutral because we have nonequalized and equalized.

FRIESEN: OK.

AARON PLAS: And if-- you know, when there's specific bills that come through, we look at them as a group and if we can't come to a consensus, then we may end up taking neutral testimony and every school kind of do their own--

FRIESEN: So there hasn't been support.

AARON PLAS: Yeah, we've been neutral on the those--

FRIESEN: OK--

AARON PLAS: --generally.

FRIESEN: --so would they take a neutral stand on where the money goes if they expanded funding?

AARON PLAS: If there was a specific bill that had-- that we could examine and look at how would it affect all of the 19 schools, you

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

know, we could be support, opposed, or neutral just depending on what the language of that specific bill was.

FRIESEN: OK, thank you.

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

PAHLS: Thank you, Chair. You know, I'm looking over the group of schools that are under your leadership and I-- just by looking at these names and having been to, to all of these towns, I see them as sort of like little hubs. They have to-- and for them to survive, they have to have good schools, so I would think that, that the individuals living in those towns would support even taking a vote on increasing monies for schools. I, I would assume they would.

AARON PLAS: I think our-- the communities that STANCE represents are generally very supportive of education. You know, every two years they go to the ballot or the polls and they elect boards of education as well. And I know in these small communities, you know, our boards of education, they're, they're ingrained in the community and they're hearing if people believe that there's anything going on in the school that they don't like. And so, you know, I think in some ways, every couple of years, our, our communities go to the polls and figure out what's going on in the school, if they're OK or not.

PAHLS: So they're very involved, but you're telling me, for the most part-- I have to be honest. Several weeks ago at a Millard, Millard board meeting, one of the board members was absent and people clapped because it was dealing with the mask on him. So I commend the school boards. So many times we got on them because schools are spending all this money, but if they are part of that community, they're probably-- they have a lot of neighbors who would probably talk to them if they think they're overdoing it. Just that part irritates me when we act like all this money that's being spent by the local-- in these local communities, like by some formed group that's coming in, people who live there.

AARON PLAS: Yeah, we have a lot of respect for our boards as well. The-- it's a, it's a tough job and especially in smaller communities like we represent in STANCE and that. You know, they do a great job of making decisions that are best for their school and community.

PAHLS: Thank you for your information.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

LINEHAN: Thank you, Senator Pahls. Are there other questions? I think just-- clear the disconnect here on-- I think STANCE and NRCSA did support Senator Briese's LB1084. The part of the-- then the disconnect came along when we went to LB974. We didn't have a dedicated revenue source, right? That's where we disconnected, I believe.

AARON PLAS: It's been a few years, but I think that's generally-- I think that's true.

LINEHAN: It's been a couple years, yes.

AARON PLAS: As it continued to be amended, it--

LINEHAN: Right.

AARON PLAS: --it-- things changed.

LINEHAN: Right. So part of that-- I just want to add this because part of that was they didn't know where would we come up with the \$524 million in the third year of that program. And we're now in what would have been the second year and we're at \$538 million in the property tax-- income tax relief, so we would have had the money.

AARON PLAS: Yeah.

LINEHAN: Other questions? Thank you for being here.

AARON PLAS: Yes, thank you, guys.

LINEHAN: We're going to-- I think-- we think there's only three more testifiers, so we're just going-- wait--

_____ : Three.

LINEHAN: --three, so we're not going to break for lunch. We're just going to push through.

JACK MOLES: I was going to say if there's no questions, I can [INAUDIBLE] too.

LINEHAN: No, no, no.

JACK MOLES: Good morning, Senator Linehan and the members of the Revenue Committee. My name is Jack Moles. That's J-a-c-k M-o-l-e-s. I'm the executive director of Nebraska Rural Community Schools Association, also known as NRCSA. NRCSA last year was made up of 213

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

member institutions, including 197 rural public schools, 13 ESUs, and the three state colleges. Our public school members have a combined student population of almost 85,000 students. This year, we expect to be at 216 members, 200 of them public schools, rural public schools. On behalf of NRCSA, I would like to express my appreciation to Senator Linehan for inviting us to provide testimony in reference to LR261. NRCSA believes that the portion of the tax system that is most in need of significant reform is property taxes. We do believe that there is an overreliance on property taxes to fund our public schools, especially in our rural public schools. As ag land valuations skyrocketed, the number of nonequalized districts grew from 48 in 2008-2009 to a high of 178 in 2017-18. Currently this year, 157 out of 244 school districts do not receive equalization aid. Most of these nonequalized districts are rural districts and most of them are members of NRCSA. Not a good selling point for NRCSA, I guess. But in 2008-2009, Class C and D-size schools-- and for that I use NSAA basketball classifications-- received almost \$163 million in equalization aid. This year, those schools receive a little over \$69 million in the equalization aid. Most of those districts, however, have long lost any equalization aid that they were getting. During that same time frame, of course, their expenses, operating costs did not go down. Thus, they have been forced by the state of Nebraska's school funding system to become so overly reliant on property taxes. It is the belief of NRCSA that if state funding were to be made available with nonequalized districts, that property taxes would be lowered in most cases. One of the outcomes of the reduced number of school districts receiving equalization aid is something I-- I call it the compounded effect of lost equalization aid on the property owners in these districts. And to explain this concept, I'm going to use Ainsworth Public Schools. I gave you another sheet there and it-- I just have a couple of sample school districts there, but I'm, I'm going to concentrate on Ainsworth as the example. In 2007 and 2008, the district received \$2.4 million in equalization aid. The next year, they received \$1.987 million, a loss of \$433,000. The, the local property owners had to make up for that lost state aid. The next year, the district lost \$256,000 and again, the property owners had to, had to make up for that lost. However, they also had to again still make up for the \$433,000 they'd lost the year before. Thus, in year two, the property owners had to make up for a combined loss of \$689,000 over a two-year period. The next year, the district lost another \$244,000 in equalization aid. Couple that with the \$688-- or \$689,000 from the year before, they had to make up for a loss of about \$934,000 in equalization aid over a three-year period. Now, if we extrapolate

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

that over-- out through this year, the combined amount of the total property or-- that the local property owners had to make up in lost equalization aid over a 13-year period is \$24 million. This example is repeated in most of our, our rural districts today. I provide-- like I said, I provided a few other examples of that. The compounded effect of lost equalization aid on local property owners has, has been caused especially by growing land-- ag land valuations over a period of time, a school funding system that, in our opinion, was not able to react to that phenomena. NRCSA does believe that sales taxes would be a good starting point for the senators to consider in an attempt to provide true property tax relief. Eliminating some sales tax exemptions and also adding to-- or adding some services or products to the base is likely needed. We're part of a group called Nebraskans United, which is made up of all of the major education groups and most of the major ag groups. We did work-- as stated earlier, we did work with Senator Briese on LB1084 and LB314 and those bills did provide ways in which sales tax-- in which the sales tax base could be broadened through both the elimination of some exemptions, as well as-- excuse me-- new sales taxes on selected services. NRCSA would encourage you to, to again revisit those bills to look at ways in which you, you might consider using them.

LINEHAN: Mr. Moles.

JACK MOLES: Yes. Thank you.

LINEHAN: Are there questions from the committee? Did you-- what year did the ARRA funds come to the state?

JACK MOLES: It seemed to me they were, like, 2010, 2011 somewhere in there. In case, in case it--

LINEHAN: OK, we need to get this.

JACK MOLES: '08 and '09, OK.

LINEHAN: --'07, '08, '09, '10? OK, so that did affect the school funding, did it not?

JACK MOLES: Yes.

LINEHAN: And weren't you told-- I think-- this is my recollection when I went back and looked at this-- that in one of those years, at least, if not two of them, that that funding was more than you would get the following year?

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee October 1, 2021
Rough Draft

JACK MOLES: Yes.

LINEHAN: OK, so when you have these numbers here and they go down, the year you're missing is the year before they went up, right? I just-- then the other question I have is just on numbers. GNSA says they have 75 percent of the students in public schools, so that's around-- you're all counting-- I assume you're all counting preschoolers too, right? This is not just K-12. It's-- when you-- your student population, you're saying you have 85,000 students. That includes preschool, right?

JACK MOLES: I'm going to say I think it does. We, we just use the numbers off the state of-- the NDE website.

LINEHAN: OK, well, they do both, so-- I know. That's just the problem with numbers floating around. So if you have 85,000 and STANCE has 25,000, that's \$110,000.

JACK MOLES: Well, one thing I would tell you there, Senator, is we do have overlap of members. There are members--

LINEHAN: OK.

JACK MOLES: --of-- some of the members of, of STANCE, for example, are members of NRCSA also.

LINEHAN: And I think some of the members of GNSA are members of STANCE--

JACK MOLES: Yes.

LINEHAN: --because I see Columbus on here. So that's how we're coming up with more children than we actually have.

JACK MOLES: OK, yeah.

LINEHAN: OK. That was confusing to me.

FRIESEN: [INAUDIBLE] population.

LINEHAN: Yeah, OK. Double counting, I get it. All right, any other questions? All right, thank you--

JACK MOLES: Thank you.

LINEHAN: --very much for being here.

Revenue Committee October 1, 2021

Rough Draft

JOHN HANSEN: Good afternoon, members of the Revenue Committee. It's good to be with you. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, and I am the president of Nebraska Farmers Union. We're the second-oldest, second-largest general farm organization in the state. Thank you for the invitation to be here today. I've tried speed-reading my testimony and I would be over if I tried it, so let me pick a few of the things. I've got the responses and if you know our organization, they're pretty predictable responses to the questions. And I would draw your attention to several things in the testimony and a couple of things not, but an issue that we-- that I have ran into for a long time-- and I'm just going to share it with the committee, but it's out there-- and so relative to agriculture and tax policy, when you look at the variables that we have to pay in order to do our business, one of the things that is, you know, considered a, a capital investment-- but it's certainly from our perspective, is an input-- and that is that you can't really farm or ranch without land. And so it is an annual cost that you incur every year and you either pay for it in rent or you pay for it in terms of your purchase costs and you amortize it over time. But it certainly is an input, so the issue that our members raise and they have raised for a long time is that, you know, we are, we are rightly not taxing inputs on manufacturing and we strongly support that position. That's, that's good tax policy. And yet, in the case of ag, the way that we get treated in tax policy is that even though that is one of the inputs that we have to pay for every year, one way or the other-- that it is a kind of, of an input, not precisely the same, but sort of comparable, but-- so I just want to raise that issue with the committee and just say that's out there and it's something to kind of think about. So in terms of how heavy the hand of taxation is on that particular variable, it has a lot to do with whether or not we're profitable or not. So the, the point of our organization and all of the other ag organizations who are constantly talking about property taxes is, you know, we're a high-risk, low-margin operation on a good day. And so, you know, we, we still get-- when you look at the USDA data, we still get the majority of our net farm family earned income from off-farm sources. And the Secretary of Ag has been talking about more of that lately, but it's an issue we've raised for a long time. So here, here we are, you know, borrowing all this money, taking all this risk, and yet our spouses are the ones who bring home the bacon in order to be able to buy the bacon. And so, so that's why our number one focus continues to be on property taxes. That's the issue that I hear as I go across the state is property taxes. It's not income or sales, so I want-- while we've made a lot of progress, I want to kind

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

of stick with that. The other thing is-- and I-- wearing a different hat in terms of my-- some of my national organization experience is that as you look at trade policy, for example, which is the, the-- one of the organizations that I work-- I've been on the board of Coalition for a Prosperous America, but it is made up of domestic manufacturers, organized labor, and agriculture. And so, you know, we're increasingly looking at the nuts and bolts of trade policy and how it is that we level the playing field. And we've been-- we, we've got some good economists on board and one of the things that comes out of that is that it is really important for the economic health of America that we have domestic manufacturing and that we really focus on that. And then when they're profitable, they generate new jobs, new wealth, new tax revenues, all of those things, and I would just-- take that comparison to domestic manufacturing and also remember that in the case of ag, it's not-- we have a very different funding and a very different spending attitude when we're barely scraping by. And so as you look at us as a, as a part of the Nebraska economy, when we're profitable, when we have money to spend, by God, we go to town and we spend it. That's, that's ag. My grandpa always said if you want a farmer to go to town and spend \$100, give him \$50 and tell him it looks like rain. And so that's what we do. We invest, we buy back, we improve. We buy equipment. We buy machinery. We improve buildings. We do all of those things. And so it's important for ag and it's important for our state for ag to not only just exist, but also to be profitable so we could be the economic driver that our state wants and needs. Thank you very much.

LINEHAN: Thank you very much, Mr. Hansen. Are there questions from the committee? Mr. Bostar-- Senator Bostar.

BOSTAR: Thank you, Chair Linehan. Thank you, Mr. Hansen.

LINEHAN: You can call me--

BOSTAR: In advocating for ag property to be viewed as a business input, are you advocating for the abolition of property taxes on ag property?

JOHN HANSEN: I'm not, but I'm telling you that that view is out in the country and they look at it and say, you know, our tax system is completely out of whack and, you know, we keep raising this issue over and over. And so while some progress has been made and they appreciate that, that there's still the view that-- and I think it's rightly so when you look at the comparison data-- that our state continues to

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

still have, despite the progress we've made, an overreliance on property. But when, when you ride a horse too hard, finally the horse just, you know, is either going to bulk or buck. And so there's, there's certainly that view out there that, you know, that, that ag land valuations have been allowed to, you know, rise to the point that they look at the inequity of rural schools and say, you know, we're paying the whole load. You know, they've, they've sort of taken advantage of a-- of, of the inability of the TEEOSA formula to be able to make the necessary internal adjustments to accommodate the increased valuation of land. And so there, there are folks out there who say well, yeah, you know, if you keep abusing that tax, then maybe it's, you know, should go away. I think that the better, the, the better view is to continue to hope for remedy and progress and come up with a more fair and balanced tax system that really does get us back to something that is more consistent with the three legs of the stool.

BOSTAR: Thank you very much.

LINEHAN: Thank you, Senator Bostar. Are there other questions? Would you-- along with your lining that it's a business input, wouldn't commercial buildings be a business input in the same manner?

JOHN HANSEN: Yep.

LINEHAN: So would you think that maybe commercial property and-- should be treated like ag is when its valuation? Because that's always, I think, been one of the issues we face. We have ag at 75 percent and commercial at 100 percent. They're both businesses, so have you given any thought to whether maybe commercial and ag should be put together and maybe we get from 75 percent to 50 percent?

JOHN HANSEN: Yeah and I'm familiar with those arguments, those, those discussions and, you know, the, the amount of capital investment that ag has to pay compared to the price of a building, there's also--

LINEHAN: And the land the building sits on.

JOHN HANSEN: Right. Yep and so it's, you know, we're-- in my neighborhood right now, you know, it's well over \$1 million a quarter would be the going price of land, so it's just-- it's a huge capital investment compared to-- so what is the earnings capacity of the businesses and so--

LINEHAN: So I'm taking that as a no.

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

JOHN HANSEN: Yeah, it gets complicated.

LINEHAN: OK. All right, thank you very much. Other questions? Thank you.

JOHN HANSEN: Thank you very much and good luck and congratulations on your work this week.

LINEHAN: Hello.

JESSICA SHELBURN: Good afternoon.

LINEHAN: Good afternoon.

JESSICA SHELBURN: Jessica Shelburn, J-e-s-s-i-c-a S-h-e-l-b-u-r-n. I am the last person standing between you guys and most of you getting out of here, so I will keep this very short. I'm the state director of Americans for Prosperity. I've been in front of the committee several times. You know my spiel. We would agree with a lot of what the chamber, Platte Institute, what they had to say. While we appreciate everything that the Revenue Committee has attempted to do over the years and the Governor has attempted to do, there is still work that needs to be done. We've taken a, a piecemeal approach for several years and we believe that it's time for that comprehensive, transformative approach. That is an approach that is not easy. You have your work cut out for you, as you've seen for the last several years. We believe that going to a flat income rate with a corporate rate that is in line with that income rate-- personal income tax rate would be ideal, would make us more competitive with our surrounding states. We also believe that we do need to broaden our sales tax. Everything should be on the table, as we've discussed before, but in broadening that sales tax rate, we need-- or broadening the sales tax base, we need to lower that rate, which also means there's less revenue coming in, but we have a ton of money that we've been spending on incentives. We have a ton of money that we have been spending on property tax relief, which, as has been discussed earlier, that's a local issue. That is levied by the locals. While the state has done an amazing job of trying to limit our expenditures and get things more in line, there is still work to be done. The local political subdivisions who are levying taxes need to come into line with the state and realize that there is an importance with that. We would all agree that property taxes is largely driven by education. We would like to see more of a basic funding, a funding follows the student. It's reliable. It's dependable. If we can make the transformative tax reform changes

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee October 1, 2021

Rough Draft

that we've discussed and that several organizations have been proposing today, I think that you would be able to find that sustainable funding so that the state could provide that funding for K-12 education that we are on the hook for and do it in a more equitable manner so that those schools who aren't receiving much funding are now receiving some state funding and it's not solely dependent on their local property taxes. With that, I will wrap up so you guys can get out of here unless you have questions.

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

JESSICA SHELBY: Thank you.

LINEHAN: We have one letter for the record I'm being told-- two. It was the Lincoln Chamber of Commerce and NACO. OK, thank you all for being here and we are adjourned.